



CA FOUNDATION • PAPER 4 • BUSINESS ECONOMICS

Student Notes

Topic by Topic • October 2026 Edition



10 Chapters • 26 Units • 157 Topics • 2495 Classified Questions

CA L1 P4 Scanner Business Economics 2026 October V1

How this book works

For each topic, first read the Study Material paragraphs named in the “Read first” line. Then work down the **attack bands**. Each band names what the examiner has actually made you do on that topic — **RECALL, RECOGNISE, COMPUTE** or **REASON** — carries the points you need for that mode, says how long one such question is worth, and lists the exact Scanner questions to practise at it.

The section that follows the Contents — **How to Use These Notes** — shows what this paper actually rewards, and it is not what most candidates prepare for. Read it once before you begin.

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BEFORE YOU START

How to Use These Notes

Every question in the Scanner has been read and classified — **2495 of them in this paper** — not by topic alone but by **what you have to do to answer it**. Ten minutes here will change how you use the rest of the book, because what this paper rewards is not what most candidates prepare for.

1. How a topic is laid out

Read it like this	
Read first	The exact Study Material paragraphs the topic rests on. Open the Study Material and read them before the notes — the notes assume you have.
Attack bands	One band for each mode the examiner has actually used on that topic — with the points you need for that mode, and the exact Scanner questions to practise. Work down the bands in the order printed: fastest mode first.
Notes	Points the topic needs that no band has yet claimed, because the examiner has not yet asked at that mode. Examinable all the same.
Concept base	A topic the examiner has not yet reached. It is not optional — it has simply not been asked, and it is examinable. This paper carries 7 of them .

2. Reading a question line

Q 4 · PYQ 2025-Sep · Pg 411

COMPUTE
75 sec

Medium

Part of the line	What it tells you
Q 4	Its number inside this topic in the Scanner. Paper 4 questions are printed topic by topic, not in paper order, so this is what you look for on the page.
PYQ 2025-Sep	Where it was asked — PYQ a past examination, MTP a mock test paper, RTP a revision test paper — and the sitting. Mock papers name their series as well: MTP 2026-Apr S1 .
Pg 411	The page of the Scanner where the question and its worked answer are printed.
COMPUTE 75 sec	The attack mode, and what one question of that mode is worth in time. Section 3.
asked 3×	The same question has been set that many times across past papers, mock tests and revision tests. Treat these as the highest priority in the topic — the paper repeats itself heavily, and 291 questions in this book have been set more than

Part of the line	What it tells you
	once.
Medium	How demanding the question is, judged from how many separate steps it needs before an option can be eliminated.

Every question on this paper is a one-mark MCQ, so the notes do not print marks or a question type on each line — they would say the same thing 2495 times. What varies, and what is worth knowing before you start a question, is the **mode** and the **difficulty**.

3. The four attack modes

ICAI publishes a **Skill Assessment Specification Grid** describing the skills it assesses, and every question in this book is keyed to it. But a heading that reads **Remembering** tells you nothing you can act on with the paper in front of you. So each band is headed by what you actually **do** — and the ICAI skill and level are printed beside it, so the classification stays checkable against the Prospectus. These are the same four modes used in the Paper 3 notes; only the Analysis band is renamed, from **SET UP** to **REASON**, because on this paper the work is following a consequence rather than writing an equation.

MODE	ICAI skill	What the question wants	Worth	Share	Marks
RECALL	Remembering · Level I	A definition, a name, a figure. You know it or you do not.	30 sec	72.0%	≈ 72 marks
RECOGNISE	Understanding · Level I	Decide which concept is in play, and which option is the near- miss.	45 sec	13.4%	≈ 13 marks
COMPUTE	Application · Level II	One formula — elasticity, a multiplier, an aggregate — substituted and solved.	75 sec	11.5%	≈ 12 marks
REASON	Analysis · Level II	Trace the chain: what moves, which way, and where it settles.	150 sec	3.1%	≈ 3 marks

Share is measured on **past examination questions only** — 1430 of them — because mock and revision papers are practice material, not the assessed paper. Every question carries one mark, so a share of the questions and a share of the marks are the same number, and the Marks column is what that mode is worth in a 100-mark paper.

4. This paper is not short of time

Give every question the time its mode actually needs and Paper 4 asks for **68 minutes**. You have **120**. There are about **52 spare minutes** in this paper — and that single fact should change how you prepare for it.

MODE	In a 100-mark paper	× time per question	= minutes
RECALL	≈ 72 questions	30 sec	36.0 min
RECOGNISE	≈ 13 questions	45 sec	10.0 min
COMPUTE	≈ 12 questions	75 sec	14.4 min
REASON	≈ 3 questions	150 sec	7.7 min
TOTAL	100 questions		68.1 min • against 120

Compare that with Paper 3, which on the same arithmetic asks for about **130 minutes** of a 120-minute paper. The two objective papers of this course are opposite problems, and the strategy that rescues Paper 3 does nothing here:

- **There is no pass to skip and no question worth abandoning.** On Paper 3 you triage because you cannot finish. Here you can finish and still have 52 minutes over. A candidate who leaves questions out on this paper is not managing time — they are simply not answering.
- **What you cannot buy with time, you buy with coverage.** 85.4% of this paper is answered by recall or recognition. There is no working to fall back on: either the fact is in your head or the mark is gone. The scarce resource on Paper 4 is what you have read, not the minutes you have left.
- **Use the spare time on the 15 marks that can be worked out.** COMPUTE and REASON together are only 14.6% of the paper, but they are the only questions where sitting longer with a pen actually produces the answer. Budget generously there and move fast everywhere else.

5. Four chapters carry almost all the computation

Business Economics reads like a theory paper and mostly is one. But the 14.6% of it that has to be worked out is not spread evenly — it sits in a handful of chapters, and knowing which ones tells you where a formula sheet is worth making and where it is wasted effort.

CHAPTER	MARKS / PAPER	RECALL + RECOGNISE	COMPUTE + REASON	
5. Determination of National Income	15.0	66.1%	33.9%	work it with a pen
8. Money Market	9.9	67.1%	32.9%	work it with a pen

CHAPTER	MARKS / PAPER	RECALL + RECOGNISE	COMPUTE + REASON	
2. Theory of Demand and Supply	10.1	70.0%	30.0%	work it with a pen
3. Theory of Production and Cost	10.9	82.9%	17.1%	work it with a pen
4. Price Determination in Different Markets	13.9	90.2%	9.8%	read it, do not solve it
9. International Trade	10.0	92.5%	7.5%	read it, do not solve it
10. Indian Economy	10.0	98.8%	1.2%	read it, do not solve it
7. Public Finance	9.4	92.1%	7.9%	read it, do not solve it
1. Nature and Scope of Business Economics	5.4	99.3%	0.7%	read it, do not solve it
6. Business Cycles	4.9	100.0%	0.0%	read it, do not solve it

Where the formulas live. Chapters 2, 3, 5 and 8 carry 46.2% of the marks but nearly all of the questions that need arithmetic — elasticity, cost and revenue curves, the national income aggregates, the investment multiplier, the money multiplier. One page of formulas covering those chapters is worth more than a formula sheet for the whole paper.

Where they do not. Everything else on this paper is read, recognised and recalled. Business Cycles, Public Finance, International Trade and Indian Economy between them have set almost no computation at all in the eight sittings of the current syllabus. Preparing them by working problems is preparing them the wrong way.

6. Negative marking — and why a blank is worse here than anywhere

Paper 4 deducts a **quarter mark** for a wrong answer. Most candidates read that as a reason to leave hard questions blank. The arithmetic says the opposite, and it says it more loudly on this paper than on Paper 3.

What you can do	Expected marks per guess	So
Nothing — pure guess, 1 in 4	+0.06	Still better than a blank. A blank scores exactly zero; a guess does not.

What you can do	Expected marks per guess	So
Eliminate one option — 1 in 3	+0.17	Worth making every time.
Eliminate two — 1 in 2	+0.38	Worth more than a third of a correct answer.
Leave it blank	0.00	The only choice on this paper with no upside at all.

On Paper 3 a blank is at least a decision about time. Here it is not: you have **52 minutes** in hand, so nothing forces you to leave anything. Read every question, eliminate what you can, and answer all 100. On the recall questions the elimination is usually of the “that is not even an economics term” kind, and it still moves you from **+0.06** to **+0.17** a question — worth about **7.9 marks** across the RECALL band alone.

7. Two guides at the front of the book

What it is for	
Study Priority Guide	Two tables. The first ranks all 26 units by the marks ICAI has actually awarded them in the 8 sittings of the current syllabus — the hardest signal in the book. The second ranks every examined topic by its share of the 2495 classified Scanner questions, and grades it A, B or C on cumulative coverage.
Importance grade	The A–D grade printed against each chapter and unit. This is ICAI’s syllabus weightage signal as the Scanner publishes it, and it is separate from both tables. Where they disagree, prepare to the higher of the two.

One caution about the classification. Every question on this paper has been keyed here from a single stated convention, applied to all 2495 of them and measured on blind samples before it was frozen. It is a reading of what the examiner asks for, not a pronouncement: a question that turns on one word can move a band. Use the modes to decide **how to practise** a topic, not to decide what to skip.

STUDY PRIORITY GUIDE

Marks, Units and Topics

Read first: Two rankings follow, and they measure different things. The **unit table** is ICAI's own: the marks each unit has actually carried in the 8 sittings from 2024-Jun to 2026-Sep, which is the whole life of the present syllabus. The **topic table** is the Scanner's: the share of the 2495 classified questions that fall on each topic, graded A, B or C on cumulative coverage. Prepare by the first; revise by the second. Where a unit's marks and its question share disagree, the marks are the harder fact.

Units ranked by marks awarded — 2024-Jun to 2026-Sep

#	IMP	UNIT	TITLE	MARKS / PAPER	SHARE	CUM.	PG.
1	A	10	Indian Economy	10.0	10.1%	10.1%	—
2	B	5.1	National Income Accounting	8.8	8.8%	18.9%	112
3	A	4.3	Price Output Determination Under Different Market Forms	8.3	8.3%	27.2%	97
4	B	2.1	Law of Demand and Elasticity of Demand	6.3	6.3%	33.5%	37
5	C	5.2	The Keynesian Theory of Determination of National Income	6.3	6.3%	39.7%	123
6	B	3.1	Theory of Production	6.1	6.2%	45.9%	68
7	B	6	Business Cycles	4.9	4.9%	50.8%	—
8	B	3.2	Theory of Cost	4.8	4.8%	55.6%	76
9	C	8.2	The Concept of Money Supply	4.4	4.4%	60.0%	180
10	C	9.2	The Instruments of Trade Policy	3.6	3.6%	63.6%	196
11	B	4.1	Meaning and Types of Markets	3.5	3.5%	67.2%	86
12	C	7.3	The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public Debt	3.4	3.4%	70.6%	161
13	C	1.2	Basic Problems of an Economy and Role of Price Mechanism	2.9	2.9%	73.5%	29

#	IMP	UNIT	TITLE	MARKS / PAPER	SHARE	CUM.	PG.
14	C	7.1	Fiscal Functions: An Overview, Centre and State Finance	2.9	2.9%	76.4%	146
15	C	8.1	The Concept of Money Demand: Important Theories	2.8	2.8%	79.1%	174
16	C	8.3	Monetary Policy	2.8	2.8%	81.9%	188
17	B	2.2	Theory of Consumer Behaviour	2.6	2.6%	84.5%	53
18	B	1.1	Introduction	2.5	2.5%	87.0%	22
19	C	4.2	Determination of Prices	2.1	2.1%	89.2%	93
20	C	9.3	Trade Negotiations	1.9	1.9%	91.1%	201
21	C	9.4	Exchange Rate and Its Economic Effects	1.8	1.8%	92.8%	207
22	C	7.2	Market Failure / Government Intervention to Minimize Market Failure	1.6	1.6%	94.5%	151
23	C	7.4	Fiscal Policy	1.5	1.5%	96.0%	168
24	C	9.5	International Capital Movements	1.5	1.5%	97.5%	215
25	C	2.3	Supply	1.3	1.3%	98.7%	62
26	C	9.1	Theories of International Trade	1.3	1.3%	100.0%	194

The top **10 units** of 26 carry 60% of the marks on this paper, and the top **16** carry 80%. Marks / paper is the unit's own total over the 8 sittings divided by 8; the columns sum to about 100 because the paper is 100 one-mark questions.

STUDY PRIORITY GUIDE

Topics ranked by question share

Every topic the examiner has actually asked, ranked by its share of the 2495 classified Scanner questions across all 10 chapters, and graded on cumulative coverage. **Category A (ranks 1–30)** covers the first 60% of all classified questions. **Category B (ranks 31–50)** adds the next 15%. **Category C** is the remaining 25%: a long tail, much of which gets covered while preparing A and B. The **Pg.** column cross-references the page on which that topic's notes begin.

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
1	A	6	Business Cycles	Phase of Business Cycle	4.4%	4.4%	135
2	A	5.1	Determination of National Income	Different Concepts of National Income	3.4%	7.9%	113
3	A	4.3	Price Determination in Different Markets	Oligopoly	3.3%	11.2%	106
4	A	2.1	Theory of Demand and Supply	Elasticity of Demand	2.7%	13.9%	45
5	A	10	Indian Economy	The Economic Reforms of 1991	2.7%	16.6%	226
6	A	4.3	Price Determination in Different Markets	Monopoly	2.6%	19.2%	100
7	A	3.1	Theory of Production and Cost	Production Function	2.6%	21.8%	71
8	A	4.3	Price Determination in Different Markets	Perfect Competition	2.6%	24.4%	97
9	A	3.2	Theory of Production and Cost	Short Run Total Cost	2.4%	26.8%	79
10	A	4.1	Price Determination in Different Markets	Concepts of Total Revenue, Average Revenue and Marginal Revenue	2.4%	29.2%	89
11	A	10	Indian Economy	The current state of the Indian Economy: A brief overview	2.3%	31.5%	232
12	A	1.1	Nature and Scope of	Nature of Business Economics	2.0%	33.5%	24

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
Business Economics							
13	A	5.1	Determination of National Income	Measurement of National Income in India	1.9%	35.4%	118
14	A	8.3	Money Market	The Monetary Policy Framework	1.8%	37.2%	189
15	A	2.2	Theory of Demand and Supply	Indifference Curve Analysis	1.7%	38.9%	59
16	A	8.1	Money Market	Theories of Demand for money	1.7%	40.6%	175
17	A	3.1	Theory of Production and Cost	Factors of Production	1.6%	42.3%	69
18	A	7.3	Public Finance	Public Expenditure Management	1.6%	43.8%	164
19	A	9.3	International Trade	The World Trade Organisation (WTO)	1.6%	45.4%	204
20	A	6	Business Cycles	Causes of Business Cycles	1.5%	46.9%	142
21	A	5.2	Determination of National Income	Basic Concepts and Functions	1.4%	48.4%	125
22	A	2.1	Theory of Demand and Supply	Law of Demand	1.4%	49.7%	42
23	A	4.1	Price Determination in Different Markets	Meaning of Market	1.4%	51.1%	86
24	A	2.1	Theory of Demand and Supply	What Determines Demand	1.3%	52.4%	38
25	A	3.2	Theory of Production and Cost	Cost Concepts	1.2%	53.6%	76
26	A	7.1	Public Finance	Stabilization Function	1.2%	54.9%	149
27	A	4.3	Price Determination in Different Markets	Imperfect Competition- Monopolistic Competition	1.2%	56.1%	104
28	A	1.2	Nature and Scope of Business Economics	Capitalist Economy	1.1%	57.2%	30
29	A	1.2	Nature and Scope of Business Economics	Socialist Economy	1.1%	58.3%	32

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
30	A	7.3	Public Finance	Public Debt Management	1.0%	59.3%	166
31	B	2.3	Theory of Demand and Supply	Elasticity of Supply	1.0%	60.3%	65
32	B	5.2	Determination of National Income	The Investment Multiplier	1.0%	61.2%	129
33	B	6	Business Cycles	Features of Business Cycle	0.9%	62.2%	140
34	B	4.2	Price Determination in Different Markets	Changes in Demand and Supply	0.9%	63.0%	94
35	B	9.2	International Trade	Tariffs	0.9%	63.9%	197
36	B	8.2	Money Market	Determinants of Money Supply	0.8%	64.8%	184
37	B	9.1	International Trade	Important Theories of International Trade	0.8%	65.6%	195
38	B	7.3	Public Finance	Introduction	0.8%	66.4%	161
39	B	2.1	Theory of Demand and Supply	Cross-Price Elasticity of demand	0.8%	67.2%	51
40	B	7.4	Public Finance	The Instruments of Fiscal Policy	0.8%	67.9%	172
41	B	8.1	Money Market	Post-Keynesian Developments in the Theory of Demand for Money	0.8%	68.7%	178
42	B	10	Indian Economy	NITI Aayog: A Bold Step for Transforming India	0.7%	69.4%	231
43	B	1.1	Nature and Scope of Business Economics	Introduction	0.7%	70.1%	22
44	B	2.2	Theory of Demand and Supply	Law of Diminishing Marginal Utility	0.7%	70.8%	56
45	B	3.2	Theory of Production and Cost	Economies & Diseconomies of Scale	0.7%	71.5%	84
46	B	5.2	Determination of National Income	The Two-Sector Model of Nation Income Determination	0.7%	72.1%	127
47	B	7.2	Public Finance	Incomplete Information	0.7%	72.8%	155

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
48	B	9.2	International Trade	Non-Tariff Measures (NTMs)	0.7%	73.5%	199
49	B	1.2	Nature and Scope of Business Economics	Basic Problems of an Economy	0.6%	74.1%	29
50	B	2.2	Theory of Demand and Supply	Consumer Surplus	0.6%	74.8%	57
51	C	9.4	International Trade	The Exchange Rate Regimes	0.6%	75.4%	208
52	C	9.4	International Trade	Impacts of Exchange Rate Fluctuation on Domestic Economy	0.6%	76.1%	214
53	C	2.1	Theory of Demand and Supply	Income Elasticity of Demand	0.6%	76.7%	49
54	C	7.4	Public Finance	Introduction	0.6%	77.3%	168
55	C	10	Indian Economy	Indian Economy: Post Independence (1947-1991)	0.6%	77.9%	225
56	C	1.2	Nature and Scope of Business Economics	The Mixed Economy	0.6%	78.4%	34
57	C	2.1	Theory of Demand and Supply	The Demand Function	0.6%	79.0%	40
58	C	8.2	Money Market	Measurement of Money Supply	0.6%	79.6%	182
59	C	2.1	Theory of Demand and Supply	Expansion and Contraction of Demand	0.5%	80.0%	44
60	C	2.2	Theory of Demand and Supply	Relationship between TU & MU	0.5%	80.5%	55
61	C	3.1	Theory of Production and Cost	Production Optimisation	0.5%	81.0%	75
62	C	5.2	Determination of National Income	Determination of Equilibrium Income: Four Sector Model	0.4%	81.4%	132
63	C	7.1	Public Finance	The Redistribution Function	0.4%	81.9%	148
64	C	5.2	Determination of National Income	Introduction	0.4%	82.3%	123
65	C	6	Business Cycles	Introduction	0.4%	82.7%	134

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
66	C	6	Business Cycles	Relevance of Business Cycles in Business Decision Making	0.4%	83.1%	144
67	C	9.3	International Trade	The Uruguay Round and the Establishment of WTO	0.4%	83.5%	203
68	C	9.4	International Trade	Determination of Nominal Exchange Rate	0.4%	83.9%	211
69	C	9.5	International Trade	Foreign Portfolio Investment (FPI)	0.4%	84.3%	217
70	C	1.1	Nature and Scope of Business Economics	Scope of Business Economics	0.4%	84.6%	27
71	C	3.2	Theory of Production and Cost	Long Run Average Cost Curve	0.4%	85.0%	83
72	C	5.2	Determination of National Income	Determination of Equilibrium Income: Three Sector Model	0.4%	85.4%	131
73	C	7.2	Public Finance	Public Goods	0.4%	85.7%	154
74	C	7.3	Public Finance	The Process of Budget Making	0.4%	86.1%	162
75	C	7.4	Public Finance	Objectives of Fiscal Policy	0.4%	86.5%	170
76	C	9.5	International Trade	Foreign Direct Investment in India (FDI)	0.4%	86.8%	221
77	C	2.3	Theory of Demand and Supply	Shifts in Supply Curve- increase or decrease in supply	0.3%	87.1%	64
78	C	3.2	Theory of Production and Cost	Cost Function	0.3%	87.5%	79
79	C	5.2	Determination of National Income	Circular flow in a Simple Two-Sector Model	0.3%	87.8%	124
80	C	7.2	Public Finance	Why Do Market Fail	0.3%	88.1%	153
81	C	8.2	Money Market	The Sources of Money Supply	0.3%	88.4%	181
82	C	9.5	International Trade	Modes of Foreign Direct Investment (FDI)	0.3%	88.7%	219
83	C	2.1	Theory of Demand and Supply	Meaning of Demand	0.3%	89.0%	37
84	C	2.1	Theory of Demand and	Advertisement Elasticity	0.3%	89.3%	52

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
Supply							
85	C	4.1	Price Determination in Different Markets	Types of Market Structures	0.3%	89.6%	88
86	C	7.1	Public Finance	The Role of Government in an Economic System	0.3%	89.9%	146
87	C	7.4	Public Finance	Types of Fiscal Policy	0.3%	90.1%	171
88	C	8.2	Money Market	The Money multiplier Approach to Supply of Money	0.3%	90.4%	186
89	C	8.3	Money Market	The Organisational Structure for Monetary Policy Decisions	0.3%	90.7%	192
90	C	9.4	International Trade	The Foreign Exchange Market	0.3%	91.0%	211
91	C	9.5	International Trade	Foreign Direct Investment (FDI)	0.3%	91.3%	216
92	C	9.5	International Trade	Reason for Foreign Direct Investment	0.3%	91.5%	218
93	C	10	Indian Economy	Status of Indian Economy: Pre Independence Period (1850-1947)	0.3%	91.8%	224
94	C	10	Indian Economy	GDP Growth Rates Post 1991 Reforms	0.3%	92.1%	230
95	C	10	Indian Economy	Conclusion	0.3%	92.4%	236
96	C	1.1	Nature and Scope of Business Economics	Definition of Business Economics	0.2%	92.6%	23
97	C	4.2	Price Determination in Different Markets	Introduction	0.2%	92.9%	93
98	C	7.1	Public Finance	The Allocation Function	0.2%	93.1%	147
99	C	7.2	Public Finance	Government Intervention to Correct Externalities	0.2%	93.3%	157
100	C	7.3	Public Finance	Sources of Revenue	0.2%	93.6%	163
101	C	9.3	International Trade	Taxonomy of Regional Trade Agreements (RTAs)	0.2%	93.8%	201
102	C	9.4	International Trade	Nominal verses Real	0.2%	94.1%	210

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
Exchange Rates							
103	C	9.5	International Trade	Type of Foreign Capital	0.2%	94.3%	216
104	C	9.5	International Trade	Potential Problems Associated with Foreign Direct Investment	0.2%	94.5%	221
105	C	2.3	Theory of Demand and Supply	Equilibrium Price	0.2%	94.7%	67
106	C	3.1	Theory of Production and Cost	Meaning of Production	0.2%	94.9%	68
107	C	5.1	Determination of National Income	GDP and Welfare	0.2%	95.2%	121
108	C	5.1	Determination of National Income	Limitations and Challenges of National Income Computation	0.2%	95.4%	122
109	C	7.2	Public Finance	Introduction	0.2%	95.6%	151
110	C	7.2	Public Finance	The Concept of Market Failure	0.2%	95.8%	152
111	C	8.1	Money Market	Introduction	0.2%	96.0%	174
112	C	8.2	Money Market	Introduction	0.2%	96.2%	180
113	C	8.2	Money Market	Rationale of Measuring Money Supply	0.2%	96.4%	181
114	C	9.4	International Trade	Devaluation Vs Depreciation	0.2%	96.6%	213
115	C	9.5	International Trade	Overseas Direct Investment by Indian Companies	0.2%	96.8%	222
116	C	2.2	Theory of Demand and Supply	Classification of Wants	0.2%	96.9%	54
117	C	2.3	Theory of Demand and Supply	Law of Supply	0.2%	97.1%	63
118	C	5.1	Determination of National Income	Usefulness and Significance of National Income Estimates	0.2%	97.2%	113
119	C	5.1	Determination of National Income	The System of Regional Accounts in India	0.2%	97.4%	121
120	C	8.1	Money Market	The Demand for Money	0.2%	97.6%	175

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
121	C	8.2	Money Market	The concept of Money Multiplier	0.2%	97.7%	185
122	C	8.3	Money Market	Conclusion	0.2%	97.9%	193
123	C	7.2	Public Finance	Government Intervention in The Case of Merit Goods	0.1%	98.0%	158
124	C	8.3	Money Market	Monetary Policy Defined	0.1%	98.1%	189
125	C	9.1	International Trade	Introduction	0.1%	98.2%	194
126	C	9.2	International Trade	Introduction	0.1%	98.4%	197
127	C	9.3	International Trade	The Doha Round	0.1%	98.5%	206
128	C	9.4	International Trade	Introduction	0.1%	98.6%	207
129	C	9.4	International Trade	Changes in Exchange Rates	0.1%	98.7%	212
130	C	2.3	Theory of Demand and Supply	Introduction	0.1%	98.8%	62
131	C	4.2	Price Determination in Different Markets	Determination of Prices - A General View	0.1%	98.9%	94
132	C	4.2	Price Determination in Different Markets	Simultaneous Changes in Demand and Supply	0.1%	99.0%	96
133	C	5.2	Determination of National Income	Conclusion	0.1%	99.0%	133
134	C	8.1	Money Market	Conclusion	0.1%	99.1%	180
135	C	8.2	Money Market	Monetary Policy and Money Supply	0.1%	99.2%	187
136	C	8.2	Money Market	Effect of Government Expenditure on Money Supply	0.1%	99.3%	188
137	C	8.3	Money Market	Introduction	0.1%	99.4%	188
138	C	9.2	International Trade	Export-Related Measures	0.1%	99.4%	200
139	C	9.3	International Trade	The General Agreement on Tariffs and Trade (GATT)	0.1%	99.5%	202
140	C	9.5	International Trade	Benefits of Foreign Direct Investment	0.1%	99.6%	220

#	CAT.	UNIT	CHAPTER	TOPIC	SHARE	CUM.	PG.
141	C	1.1	Nature and Scope of Business Economics	Difference between Economics & Business Economics	0.0%	99.6%	28
142	C	2.2	Theory of Demand and Supply	Nature of Human Wants	0.0%	99.7%	53
143	C	2.3	Theory of Demand and Supply	Determinants of Supply	0.0%	99.7%	62
144	C	2.3	Theory of Demand and Supply	Movements on Supply Curve- increase or decrease in the quantity supplied	0.0%	99.8%	63
145	C	5.1	Determination of National Income	National Income Accounting	0.0%	99.8%	112
146	C	7.2	Public Finance	Government Intervention to Minimize Market Power	0.0%	99.8%	156
147	C	7.2	Public Finance	Government Intervention for Correcting Information Failure	0.0%	99.9%	160
148	C	9.3	International Trade	Introduction	0.0%	99.9%	201
149	C	9.3	International Trade	G 20 Economies: Facilitating Trade	0.0%	100.0%	207
150	C	9.4	International Trade	The Exchange Rate	0.0%	100.0%	208

Share % is a question-frequency signal drawn from the Scanner — what has actually been asked, across past papers, mock tests and revision tests alike. The **Importance grade (A-D)** printed against each Chapter and Unit is ICAI's own weightage signal as published in the Scanner's front matter, and the unit table before this one is ICAI's marks record. The three measure different things; where they diverge, prepare to the highest of them. A further **7 topics** are declared in the Scanner's frequency tables but carry no question yet; they are badged **CONCEPT BASE** in the notes and are not ranked here.

CHAPTER 1

Nature and Scope of Business Economics

2 Units · 9 Topics · 170 Classified Questions · 5.4 marks a paper · Importance: B

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 32 sec a question on average — **pure recall — read it, do not solve it**

RECALL Remembering	88.8%	30 sec	119 of 134 past-exam questions
RECOGNISE Understanding	10.4%	45 sec	14 of 134 past-exam questions
REASON Analysis	0.7%	150 sec	1 of 134 past-exam questions

Unit 1.1: Introduction

P4-C1-U1 · Importance B · 2.5 marks a paper · Rank 2 in chapter · Category A · 49.4% of chapter questions · 84 questions

Topic 1: Introduction

P4-C1-U1-T00

Read first Read Sections 1.0.0--1.0.2 of Unit 1 (Nature and Scope of Business Economics): what business and economic activity are, the origin and meaning of Economics, scarcity, and the two fundamental facts behind every economy.

RECALL 30 sec know it or move on · 16 questions · Remembering · Level I

- Economics comes from Greek 'Oikonomia' = household; till the 19th century it was called 'Political Economy'.
- Adam Smith's 'An Inquiry into the Nature and Causes of the Wealth of Nations' (1776) is the first modern work of Economics.
- Two fundamental facts: human wants are unlimited; the means (resources) to satisfy them are relatively scarce — scarcity of resources causes all economic problems.
- Economics studies how relatively scarce resources are allocated to satisfy competing unlimited wants.

Q 1 · PYQ 2018-May · Pg 2	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 3	RECALL 30 sec	Easy
Q 3 · PYQ 2019-May · Pg 3	RECALL 30 sec	Easy

Q 4 · PYQ 2019-Nov · Pg 3	RECALL 30 sec	Easy
Q 5 · PYQ 2020-Nov · Pg 3	RECALL 30 sec	Easy
Q 8 · PYQ 2023-Dec · Pg 4	RECALL 30 sec	Easy
Q 9 · PYQ 2022-Dec · Pg 4 asked 2×	RECALL 30 sec	Easy
Q 10 · MTP 2025-Jan S2 · Pg 4	RECALL 30 sec	Easy
Q 11 · MTP 2025-Apr S1 · Pg 4 asked 2×	RECALL 30 sec	Easy
Q 12 · MTP 2025-Aug S1 · Pg 5	RECALL 30 sec	Easy
Q 13 · MTP 2025-Aug S2 · Pg 5	RECALL 30 sec	Easy
Q 14 · MTP 2026-Apr S1 · Pg 5	RECALL 30 sec	Easy
Q 15 · MTP 2026-Apr S2 · Pg 5	RECALL 30 sec	Easy
Q 17 · MTP 2025-Aug S1 · Pg 6 asked 2×	RECALL 30 sec	Easy
Q 6 · PYQ 2021-Jan · Pg 3	RECALL 30 sec	Medium
Q 7 · PYQ 2021-Jan · Pg 4 asked 4×	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Scarcity in economics is **RELATIVE** scarcity — resources are scarce in relation to society's wants, not absolute lack of resources in poor countries.
- Economic goods are scarce because their quantity is inadequate to satisfy society's needs; resources also have alternative uses, forcing choice.
- Business Economics = application of economic theory and decision-science tools to examine how an organisation achieves its aims efficiently.

Q 16 · MTP 2026-Apr S2 · Pg 6	RECOGNISE 45 sec	Easy
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Topic 1.1: Definition of Business Economics

P4-C1-U1-T01

Read first Study Section 1.1 'Definitions of Business Economics': Joel Dean's definition, Business Economics as Applied/Managerial Economics, and the quantitative techniques it uses.

RECALL 30 sec know it or move on · 5 questions · Remembering · Level I

- The concept of Business Economics was given by Joel Dean — he defined it as the use of economic analysis in formulating business policies.
- Business Economics is also known as Managerial Economics; it is essentially a component of Applied Economics.
- Applied techniques included: linear programming, regression analysis, capital budgeting, break-even analysis and cost analysis.
- An economy exists because of two basic facts: human wants are unlimited and resources to satisfy them are scarce/limited.

Q 1 · PYQ 2018-May · Pg 6	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 6	RECALL 30 sec	Easy
Q 5 · PYQ 2024-Sep · Pg 7	RECALL 30 sec	Easy
Q 6 · PYQ 2025-May · Pg 7	RECALL 30 sec	Easy
Q 3 · PYQ 2019-May · Pg 6	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question · Understanding · Level I

Q 4 · PYQ 2021-Jan · Pg 7	RECOGNISE 45 sec	Easy
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Topic 1.2: Nature of Business Economics

P4-C1-U1-T02

Read first Master Section 1.2 'Nature of Business Economics': micro vs macro economics (with the standard lists of areas under each), positive vs normative economics, and the eight nature points (science, art, micro-based, macro elements, pragmatic, interdisciplinary, normative, theory of markets).

NOTES

Scenario tagging: one firm/consumer/product decision (staffing, pricing, consumer behaviour) → micro; economy-wide variable (corporate tax rate vs national unemployment, COVID impact on Indian economy) → macro.

Conversation MCQs: classify each speaker's statement as positive (fact/cause- effect) or normative (opinion/'should') before matching options.

RECALL 30 sec know it or move on · 43 questions Remembering · Level I

- Micro economics (price theory) = behaviour of individual units — product pricing, consumer behaviour, factor pricing, firms, location of industry. Macro (aggregate economics) = the economy as a whole.
- Nature of Business Economics: a Science, an Art, based on Micro Economics, incorporates elements of Macro analysis, pragmatic, interdisciplinary, normative (prescriptive), uses theory of markets and private enterprise.
- Positive economics states 'what is' (cause-effect, no value judgement); normative states 'what should/ought to be' (value judgements, welfare propositions).

Q 1 · PYQ 2018-Nov · Pg 7	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 8	RECALL 30 sec	Easy
Q 4 · PYQ 2019-May · Pg 8 asked 2×	RECALL 30 sec	Easy
Q 8 · PYQ 2020-Nov · Pg 9	RECALL 30 sec	Easy
Q 9 · PYQ 2020-Nov · Pg 9	RECALL 30 sec	Easy
Q 10 · PYQ 2020-Nov · Pg 9	RECALL 30 sec	Easy
Q 11 · PYQ 2021-Jan · Pg 10	RECALL 30 sec	Easy
Q 12 · PYQ 2021-Jul · Pg 10	RECALL 30 sec	Easy
Q 15 · PYQ 2021-Jul · Pg 11	RECALL 30 sec	Easy
Q 21 · PYQ 2022-Jun · Pg 12	RECALL 30 sec	Easy
Q 22 · PYQ 2022-Jun · Pg 12	RECALL 30 sec	Easy
Q 23 · PYQ 2022-Dec · Pg 12	RECALL 30 sec	Easy
Q 24 · PYQ 2023-Jun · Pg 13	RECALL 30 sec	Easy
Q 25 · PYQ 2023-Jun · Pg 13	RECALL 30 sec	Easy
Q 26 · PYQ 2020-Nov · Pg 13 asked 2×	RECALL 30 sec	Easy
Q 36 · PYQ 2021-Dec · Pg 16 asked 2×	RECALL 30 sec	Easy
Q 40 · PYQ 2025-Sep · Pg 17	RECALL 30 sec	Easy
Q 41 · PYQ 2021-Dec · Pg 18 asked 2×	RECALL 30 sec	Easy

Q 43 · PYQ 2026-May · Pg 18	RECALL 30 sec	Easy
Q 44 · MTP 2025-May S2 · Pg 18	RECALL 30 sec	Easy
Q 45 · MTP 2025-Aug S1 · Pg 19	RECALL 30 sec	Easy
Q 46 · MTP 2025-Aug S2 · Pg 19	RECALL 30 sec	Easy
Q 47 · RTP 2025-Sep · Pg 19	RECALL 30 sec	Easy
Q 48 · MTP 2025-Dec S1 · Pg 19	RECALL 30 sec	Easy
Q 49 · RTP 2026-Jan · Pg 20	RECALL 30 sec	Easy
Q 51 · MTP 2026-Apr S2 · Pg 20	RECALL 30 sec	Easy
Q 7 · PYQ 2019-Nov · Pg 9	RECALL 30 sec	Medium
Q 13 · PYQ 2021-Jul · Pg 10	RECALL 30 sec	Medium
Q 14 · PYQ 2019-May · Pg 10 asked 4×	RECALL 30 sec	Medium
Q 16 · PYQ 2021-Dec · Pg 11	RECALL 30 sec	Medium
Q 17 · PYQ 2021-Dec · Pg 11	RECALL 30 sec	Medium
Q 18 · PYQ 2021-Dec · Pg 11	RECALL 30 sec	Medium
Q 19 · PYQ 2021-Dec · Pg 12 asked 2×	RECALL 30 sec	Medium
Q 20 · PYQ 2021-Jan · Pg 12 asked 2×	RECALL 30 sec	Medium
Q 28 · PYQ 2024-Jun · Pg 14	RECALL 30 sec	Medium
Q 29 · PYQ 2024-Jun · Pg 14	RECALL 30 sec	Medium
Q 30 · PYQ 2024-Jun · Pg 14	RECALL 30 sec	Medium
Q 31 · MTP 2024-Aug S2 · Pg 15 asked 2×	RECALL 30 sec	Medium
Q 33 · MTP 2024-Aug · Pg 15	RECALL 30 sec	Medium
Q 34 · PYQ 2025-Jan · Pg 15	RECALL 30 sec	Medium
Q 37 · PYQ 2025-May · Pg 16	RECALL 30 sec	Medium

Q 39 · PYQ 2024-Sep · Pg 17 asked 2×	RECALL 30 sec	Medium
Q 42 · PYQ 2021-Jan · Pg 18 asked 3×	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 7 questions Understanding · Level I

- Sort items micro vs macro: firm's demand, wages in one industry, a firm's location = micro; national income, general price level, interest rates, employment, BoP/BoT, exchange rate, overall savings-investment = macro.
- Pragmatic: micro theory is abstract with unrealistic assumptions; Business Economics tackles practical real-world firm problems.
- Business Economics vs Economics: applied branch, only microeconomic, only normative, narrower scope, covers economic and non-economic aspects.
- Spot normative statements by prescription words ('government should...', 'fairness of a tax'); measurable cause-effect statements are positive.

Q 3 · PYQ 2018-Nov · Pg 8 asked 3×	RECOGNISE 45 sec	Easy
Q 5 · PYQ 2019-May · Pg 8	RECOGNISE 45 sec	Easy
Q 27 · PYQ 2024-Jun · Pg 13	RECOGNISE 45 sec	Easy
Q 35 · PYQ 2025-Jan · Pg 16	RECOGNISE 45 sec	Easy
Q 50 · MTP 2026-Apr S1 · Pg 20	RECOGNISE 45 sec	Easy
Q 32 · MTP 2024-Aug · Pg 15 asked 2×	RECOGNISE 45 sec	Medium
Q 38 · PYQ 2024-Jun · Pg 17 asked 2×	RECOGNISE 45 sec	Medium

REASON 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 6 · PYQ 2019-Nov · Pg 9 asked 2×	REASON 150 sec	Medium
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Topic 1.3: Scope of Business Economics

P4-C1-U1-T03

Read first Revise Section 1.3 'Scope of Business Economics': microeconomics applied to internal/operational issues (demand analysis and forecasting, production and cost, inventory, market structure and pricing, resource allocation, capital budgeting, profit, risk analysis) and macroeconomics applied to external/environmental issues.

RECALL 30 sec know it or move on · 9 questions Remembering · Level I

- Scope covers: demand analysis and forecasting, production and cost analysis, inventory management, market structure and pricing policies, resource allocation, capital and investment decisions, profit analysis, risk and uncertainty analysis.
- NOT in scope: accounting standards, cost standards — trap options in 'which is not within the scope' questions; business cycle is an external/macro environmental factor.
- Economics deals with relative scarcity (in relation to wants), not absolute scarcity.
- Quantitative techniques of Business Economics: linear programming, regression analysis, capital budgeting, break-even and cost analysis.

Q 1 · PYQ 2019-Nov · Pg 20 asked 2×	RECALL 30 sec	Easy
Q 2 · PYQ 2019-Nov · Pg 20	RECALL 30 sec	Easy
Q 5 · PYQ 2021-Dec · Pg 21	RECALL 30 sec	Easy
Q 6 · MTP 2025-Dec S1 · Pg 21	RECALL 30 sec	Easy
Q 7 · MTP 2026-Apr S1 · Pg 21	RECALL 30 sec	Easy
Q 8 · PYQ 2026-Sep · Pg 22	RECALL 30 sec	Easy
Q 9 · PYQ 2026-Sep · Pg 22	RECALL 30 sec	Easy
Q 3 · PYQ 2021-Jul · Pg 21	RECALL 30 sec	Medium
Q 4 · PYQ 2021-Jul · Pg 21	RECALL 30 sec	Medium

Topic 1.4: Difference between Economics and Business Economics

P4-C1-U1-T04

Read first Read the short comparison at the end of Section 1.1: Economics is the parent subject and Business Economics is the applied branch that carries its tools into the decisions of a single firm.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- Economics studies the economy as a whole and the behaviour of consumers, firms and governments in general; Business Economics applies that analysis to the decision problems of one particular firm.
- Economics is both positive (what is) and normative (what ought to be); Business Economics is largely normative — it prescribes what the firm should do.
- Economics builds theory; Business Economics is pragmatic — it takes theory as given and uses it, together with quantitative tools, on the firm's actual data.

- Economics covers micro and macro alike; Business Economics is micro in focus, with macro brought in only as the environment the firm operates in.

Q 1 · MTP 2025-Aug S1 · Pg 22

RECALL
30 sec

Easy

Unit 1.2: Basic Problems of an Economy and Role of Price Mechanism

P4-C1-U2 · Importance C · 2.9 marks a paper · Rank 1 in chapter · Category A · 50.6% of chapter questions · 86 questions

Topic 2: Basic Problems of an Economy

P4-C1-U2-T00

Read first Read Section 2.0 'Basic Problems of an Economy': why scarcity plus alternative uses of resources creates the central economic problem, and the four basic problems every economic system must solve.

NOTES

Firm-scenario questions: map the manager's question to the matching basic problem — quantity/product choice → 'what to produce'; technique choice → 'how to produce'; target customers → 'for whom'.

Technique-choice numericals/scenarios: compare relative factor prices — pick labour-intensive where labour is surplus/cheap, capital-intensive where capital is relatively cheaper.

RECALL 30 sec know it or move on · 13 questions · Remembering · Level I

- Central economic problem = allocating scarce resources (with alternative uses) among unlimited wants; it exists in every system — capitalist, socialist or mixed.
- Four basic problems: What to produce (product choice), How to produce (choice of technique), For whom to produce (distribution), What provision for economic growth. 'Where/When to produce' are NOT among them.
- Economic system = sum total of arrangements/devices for production and distribution of goods and services in a society.

Q 2 · PYQ 2021-Jul · Pg 27

RECALL
30 sec

Easy

Q 3 · PYQ 2021-Jul · Pg 27

RECALL
30 sec

Easy

Q 5 · PYQ 2022-Jun · Pg 27 asked 2×

RECALL
30 sec

Easy

Q 6 · PYQ 2019-Nov · Pg 27 asked 3×	RECALL 30 sec	Easy
Q 7 · PYQ 2023-Dec · Pg 28	RECALL 30 sec	Easy
Q 8 · PYQ 2023-Dec · Pg 28	RECALL 30 sec	Easy
Q 9 · PYQ 2024-Sep · Pg 28	RECALL 30 sec	Easy
Q 11 · RTP 2025-Jan · Pg 29	RECALL 30 sec	Easy
Q 12 · PYQ 2026-May · Pg 29	RECALL 30 sec	Easy
Q 15 · MTP 2026-Apr S1 · Pg 30	RECALL 30 sec	Easy
Q 16 · PYQ 2026-Sep · Pg 30	RECALL 30 sec	Easy
Q 4 · PYQ 2022-Dec · Pg 27	RECALL 30 sec	Medium
Q 10 · PYQ 2022-Dec · Pg 29 asked 3×	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 3 questions Understanding · Level I

- What to produce = consumer goods vs capital goods trade-off; producing more capital goods now means higher production (growth) in future.
- How to produce = labour-intensive vs capital-intensive technique, chosen by factor availability and relative factor prices — capital-intensive suits a capital- surplus economy where capital is relatively cheaper.
- For whom = distribution among members based on ability to pay; growth provision = how much current consumption to sacrifice as saving/investment.

Q 13 · MTP 2026-Apr S1 · Pg 29	RECOGNISE 45 sec	Easy
Q 14 · MTP 2026-Apr S1 · Pg 30	RECOGNISE 45 sec	Easy
Q 1 · PYQ 2018-Nov · Pg 26	RECOGNISE 45 sec	Medium

Topic 2.1: Capitalist Economy

P4-C1-U2-T01

Read first Study Section 2.1 'Capitalist Economy': features (private property, freedom of enterprise and choice, profit motive, consumer sovereignty, competition, no government interference), how the price mechanism solves the central problems (2.1.0), and merits/demerits (2.1.1--2.1.2).

RECALL 30 sec know it or move on · 24 questions Remembering · Level I

- Capitalism = means of production owned and controlled by private individuals for profit; also called free market or laissez-faire economy (laissez-faire = minimum government interference).
- Features: right to private property, freedom of enterprise, freedom of economic choice, profit motive (driving force), consumer sovereignty ('buyers ultimately determine which goods and in what quantities'), competition (most important feature), absence of government interference.
- Central problems solved by price mechanism (impersonal market forces of demand and supply — the 'invisible hand'); the system is self-regulating, with no central planning authority.
- Merits: freedom of choice, incentives for efficient business decisions, faster growth, high operative efficiency. Demerits: inequality and exploitation, precedence of property rights over human rights, ignores human welfare, economic instability, monopolies.

Q 6 · PYQ 2018-May · Pg 31 asked 2×	RECALL 30 sec	Easy
Q 7 · PYQ 2019-Nov · Pg 32	RECALL 30 sec	Easy
Q 9 · PYQ 2020-Nov · Pg 32	RECALL 30 sec	Easy
Q 10 · PYQ 2021-Jan · Pg 32	RECALL 30 sec	Easy
Q 11 · PYQ 2021-Jan · Pg 32	RECALL 30 sec	Easy
Q 14 · PYQ 2022-Dec · Pg 33	RECALL 30 sec	Easy
Q 15 · PYQ 2021-Jan · Pg 33 asked 2×	RECALL 30 sec	Easy
Q 17 · PYQ 2023-Jun · Pg 33	RECALL 30 sec	Easy
Q 18 · PYQ 2016-Dec · Pg 34 asked 3×	RECALL 30 sec	Easy
Q 20 · PYQ 2024-Sep · Pg 34	RECALL 30 sec	Easy
Q 22 · PYQ 2025-Sep · Pg 35	RECALL 30 sec	Easy
Q 23 · PYQ 2026-Jan · Pg 35	RECALL 30 sec	Easy
Q 24 · PYQ 2026-Jan · Pg 35	RECALL 30 sec	Easy
Q 25 · PYQ 2026-May · Pg 35	RECALL 30 sec	Easy
Q 26 · MTP 2025-May S2 · Pg 35	RECALL 30 sec	Easy
Q 27 · MTP 2026-Apr S1 · Pg 36	RECALL 30 sec	Easy

Q 1 · PYQ 2018-Nov · Pg 30	RECALL 30 sec	Medium
Q 2 · PYQ 2018-Nov · Pg 31	RECALL 30 sec	Medium
Q 3 · PYQ 2019-May · Pg 31 asked 2×	RECALL 30 sec	Medium
Q 4 · PYQ 2019-May · Pg 31	RECALL 30 sec	Medium
Q 5 · PYQ 2019-May · Pg 31	RECALL 30 sec	Medium
Q 12 · PYQ 2021-Dec · Pg 33	RECALL 30 sec	Medium
Q 13 · PYQ 2021-Dec · Pg 33 asked 2×	RECALL 30 sec	Medium
Q 19 · PYQ 2023-Dec · Pg 34	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- Feature-set MCQs: profit motive and price mechanism belong to capitalism; 'human welfare' and 'central planning authority' do NOT.
- Prices are set by market demand and supply, not by government or big corporates; consumer sovereignty means consumer spending directs resource allocation.

Q 8 · PYQ 2019-Nov · Pg 32	RECOGNISE 45 sec	Easy
Q 21 · PYQ 2025-Jan · Pg 34 asked 2×	RECOGNISE 45 sec	Easy
Q 28 · PYQ 2026-Sep · Pg 36	RECOGNISE 45 sec	Easy
Q 16 · PYQ 2022-Dec · Pg 33	RECOGNISE 45 sec	Medium

Topic 2.2: Socialist Economy

P4-C1-U2-T02

Read first Study Section 2.2 'Socialist Economy': Karl Marx and Frederic Engels ('The Communist Manifesto', 1848), features (collective ownership, central planning, administered prices, limited consumer choice, relative income equality), merits (2.2.0) and demerits (2.2.1).

NOTES

Two-statement questions: test each independently against SM facts — e.g. socialism has RELATIVE equality (not inequality) of income; price mechanism plays only a secondary role with administered prices.

For matching sets, pair: capitalist--price mechanism/operative efficiency;
socialist--command/central planning; mixed--coexistence of sectors.

RECALL 30 sec know it or move on · 26 questions Remembering · Level I

- Propounded by Karl Marx and Frederic(k) Engels in 'The Communist Manifesto', published 1848; also called Command Economy or Centrally Planned Economy.
- Means of production owned by the whole community represented by the State; production/distribution aim at maximising welfare of the community as a whole; central problems solved through planning by a Central Planning Authority.
- Merits: equitable distribution, rapid and balanced development, right to work, minimum standard of living, social security. Demerits: predominance of bureaucracy (inefficiency, delays, red-tapism, corruption), no incentive for personal efficiency, administered prices, loss of basic rights.
- Examples: erstwhile USSR (1917--90); today NO country is purely socialist — China, Vietnam, Cuba, North Korea only show features.

Q 1 · PYQ 2018-May · Pg 36	RECALL 30 sec	Easy
Q 2 · PYQ 2019-May · Pg 36	RECALL 30 sec	Easy
Q 3 · PYQ 2019-May · Pg 36	RECALL 30 sec	Easy
Q 4 · PYQ 2020-Nov · Pg 37	RECALL 30 sec	Easy
Q 5 · PYQ 2020-Nov · Pg 37	RECALL 30 sec	Easy
Q 6 · PYQ 2021-Jul · Pg 37	RECALL 30 sec	Easy
Q 7 · PYQ 2021-Jul · Pg 37	RECALL 30 sec	Easy
Q 8 · PYQ 2021-Dec · Pg 37	RECALL 30 sec	Easy
Q 9 · PYQ 2021-Dec · Pg 38	RECALL 30 sec	Easy
Q 10 · PYQ 2022-Jun · Pg 38	RECALL 30 sec	Easy
Q 11 · PYQ 2022-Jun · Pg 38	RECALL 30 sec	Easy
Q 15 · PYQ 2023-Dec · Pg 39	RECALL 30 sec	Easy
Q 16 · MTP 2024-Aug · Pg 39 asked 3×	RECALL 30 sec	Easy
Q 18 · MTP 2025-Jan S2 · Pg 39	RECALL 30 sec	Easy

Q 19 · PYQ 2025-May · Pg 40	RECALL 30 sec	Easy
Q 20 · PYQ 2025-May · Pg 40	RECALL 30 sec	Easy
Q 22 · PYQ 2026-Jan · Pg 41	RECALL 30 sec	Easy
Q 24 · MTP 2026-Apr S1 · Pg 41	RECALL 30 sec	Easy
Q 25 · MTP 2026-Apr S1 · Pg 41	RECALL 30 sec	Easy
Q 26 · MTP 2026-Apr S2 · Pg 42	RECALL 30 sec	Easy
Q 27 · MTP 2026-Apr S2 · Pg 42	RECALL 30 sec	Easy
Q 28 · PYQ 2026-Sep · Pg 42	RECALL 30 sec	Easy
Q 12 · PYQ 2022-Dec · Pg 38	RECALL 30 sec	Medium
Q 13 · PYQ 2022-Dec · Pg 38	RECALL 30 sec	Medium
Q 14 · PYQ 2023-Jun · Pg 39	RECALL 30 sec	Medium
Q 17 · PYQ 2024-Sep · Pg 39	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Consumer sovereignty is restricted: freedom from hunger guaranteed but choice limited by planned production; right to work guaranteed but choice of occupation restricted by the planning authority.
- Merit-vs-demerit traps: 'importance to personal efficiency/productivity' is NOT a merit of socialism; 'collective ownership' is NOT a merit of capitalism.

Q 21 · PYQ 2025-Jan · Pg 40 asked 2×	RECOGNISE 45 sec	Easy
Q 23 · PYQ 2019-May · Pg 41 asked 2×	RECOGNISE 45 sec	Easy

Topic 2.3: The Mixed Economy

P4-C1-U2-T03

Read first Study Section 2.3 'The Mixed Economy': reliance on both markets and government, the three sectors (private, public, combined), merits drawn from both systems and its demerits; note India as the classic mixed economy.

RECALL 30 sec know it or move on · 13 questions Remembering · Level I

- Mixed economy depends on BOTH markets and government for resource allocation; key feature: co-existence of private and public sectors. India is a mixed economy.
- Three sectors of industries: private sector, public sector (state-run, welfare- oriented, not profit-first) and combined/joint sector.
- Uses both price mechanism and central planning (with cost-benefit analysis for public decisions) to answer the fundamental questions.

Q 1 · PYQ 2018-May · Pg 42 asked 2×	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 42	RECALL 30 sec	Easy
Q 5 · PYQ 2021-Jan · Pg 43	RECALL 30 sec	Easy
Q 6 · PYQ 2021-Dec · Pg 43	RECALL 30 sec	Easy
Q 8 · PYQ 2022-Dec · Pg 44	RECALL 30 sec	Easy
Q 11 · PYQ 2025-Sep · Pg 44	RECALL 30 sec	Easy
Q 12 · PYQ 2024-Sep · Pg 45 asked 2×	RECALL 30 sec	Easy
Q 13 · PYQ 2026-May · Pg 45	RECALL 30 sec	Easy
Q 14 · MTP 2025-May S2 · Pg 45	RECALL 30 sec	Easy
Q 3 · PYQ 2020-Nov · Pg 43	RECALL 30 sec	Medium
Q 7 · PYQ 2021-Jul · Pg 43 asked 2×	RECALL 30 sec	Medium
Q 9 · PYQ 2023-Dec · Pg 44	RECALL 30 sec	Medium
Q 10 · MTP 2024-Dec S1 · Pg 44	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- It aims to combine the best of capitalism (incentives, efficiency, consumer sovereignty) with the best of socialism (equality, less exploitation) — so exploitation and inequality are comparatively minimal.
- But it is NOT always a 'golden path' — it can suffer excessive state controls, poor public-sector performance and uncertainty; resources get used through decisions of consumers, firms AND government.
- Matching: capitalist--high operative efficiency; socialist--command economy; mixed--co-existence of public and private sectors.

Q 4 · PYQ 2021-Jan · Pg 43

RECOGNISE
45 sec

Easy

CHAPTER 2

Theory of Demand and Supply

3 Units · 22 Topics · 345 Classified Questions · 10.1 marks a paper · Importance: B

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 53 sec a question on average — **a chapter to work with a pen**

RECALL Remembering	54.0%	30 sec	128 of 237 past-exam questions
RECOGNISE Understanding	16.0%	45 sec	38 of 237 past-exam questions
COMPUTE Application	20.7%	75 sec	49 of 237 past-exam questions
REASON Analysis	9.3%	150 sec	22 of 237 past-exam questions

Unit 2.1: Law of Demand and Elasticity of Demand

P4-C2-U1 · Importance B · 6.3 marks a paper · Rank 1 in chapter · Category A · 60.0% of chapter questions · 207 questions

Topic 1: Meaning of Demand

P4-C2-U1-T00

Read first Read Section 1.0 'Meaning of Demand' in Unit 1 of Theory of Demand and Supply: demand as desire backed by ability and willingness to pay, and the two notes on quantity demanded (at a given price, as a flow per period).

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- Demand = desire backed by (i) means/purchasing power and (ii) willingness to use those means; only effective demand figures in economic analysis.
- Quantity demanded is always expressed at a given price and is a FLOW ('so much per period of time').
- Veblen effect = high-priced goods consumed by status-seeking rich people for conspicuous consumption.
- Firms spend time and effort analysing the DEMAND for their products.

Q 1 · PYQ 2018-May · Pg 50

RECALL
30 sec

Easy

Q 2 · PYQ 2021-Jan · Pg 51

RECALL
30 sec

Easy

Q 3 · PYQ 2021-Dec · Pg 51

RECALL
30 sec

Easy

Q 5 · MTP 2024-Aug · Pg 51 asked 2×

RECALL
30 sec

Easy

Q 6 · MTP 2026-Apr S1 · Pg 51

RECALL
30 sec

Easy

Q 7 · MTP 2026-Apr S1 · Pg 52

RECALL
30 sec

Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- The economist's concept of demand is NOT the same as mere desire, need, choice or preference — without ability and willingness to pay these do not constitute demand.
- Demand depends on price/income/prices of related goods, so it must always be stated with reference to them and to a time period.

Q 4 · MTP 2024-Aug · Pg 51 asked 2×

RECOGNISE
45 sec

Easy

Topic 1.1: What Determines Demand

P4-C2-U1-T01

Read first Study Section 1.1 'What Determines Demand?': own price, prices of related goods (substitutes vs complements), disposable income and nature of goods (normal/inferior/necessities/luxuries), tastes with the four external effects (demonstration, bandwagon, snob, Veblen), expectations and other factors (population, age distribution, national income, credit, government policy).

NOTES

Classify related goods from a scenario: price of A falls and demand of B falls → substitutes (tea-coffee, petrol-diesel); price of A rises and demand of B falls → complements (petrol-automobiles).

Rival rejecting a dress because others wear it → snob effect; copying share- market investing → bandwagon/demonstration effect.

Firm B's price rise increases firm A's sales → the two products are substitutes.

RECALL 30 sec know it or move on · 19 questions Remembering · Level I

- Demonstration effect (term coined by James Duesenberry) = desire to emulate others' consumption; Veblen effect (Thorstein Veblen) = conspicuous consumption of high-priced goods.
- Shifts in demand are caused by NON-price factors; the good's own price causes movement along the curve. Slope of demand curve = $\Delta P / \Delta Q$.
- 'Ceteris paribus' = other things being equal/constant.

Q 25 · PYQ 2025-Sep · Pg 58

RECALL

Easy

	30 sec	
Q 1 · PYQ 2019-May · Pg 52 asked 2×	RECALL 30 sec	Medium
Q 2 · PYQ 2019-May · Pg 52	RECALL 30 sec	Medium
Q 7 · PYQ 2021-Jul · Pg 54	RECALL 30 sec	Medium
Q 8 · PYQ 2021-Dec · Pg 54	RECALL 30 sec	Medium
Q 9 · MTP 2024-Aug · Pg 54	RECALL 30 sec	Medium
Q 10 · PYQ 2021-Jul · Pg 54 asked 2×	RECALL 30 sec	Medium
Q 11 · MTP 2024-Dec S1 · Pg 55	RECALL 30 sec	Medium
Q 12 · MTP 2024-Dec S1 · Pg 55	RECALL 30 sec	Medium
Q 13 · MTP 2024-Dec S1 · Pg 55	RECALL 30 sec	Medium
Q 14 · MTP 2024-Dec S1 · Pg 55	RECALL 30 sec	Medium
Q 17 · PYQ 2025-Jan · Pg 56	RECALL 30 sec	Medium
Q 18 · MTP 2025-Jan S2 · Pg 56	RECALL 30 sec	Medium
Q 21 · RTP 2025-Jan · Pg 57 asked 2×	RECALL 30 sec	Medium
Q 22 · PYQ 2025-May · Pg 57	RECALL 30 sec	Medium
Q 23 · PYQ 2021-Jul · Pg 58 asked 2×	RECALL 30 sec	Medium
Q 29 · MTP 2025-May S2 · Pg 59	RECALL 30 sec	Medium
Q 30 · MTP 2025-Aug S2 · Pg 59	RECALL 30 sec	Medium
Q 31 · MTP 2025-Dec S1 · Pg 59	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- Snob effect = desire to be exclusive, a function of others' CONSUMPTION (demand falls when a good becomes common); Veblen effect is a function of PRICE; bandwagon/network effect = value rises as more people use it.
- Substitutes: price of Y and demand of X move together (positive relation); complements: price of Y and demand of X move inversely.
- Inferior goods: quantity demanded rises only up to a certain income level, then falls as income rises; normal goods: demand rises with income.

- Cost of production is NOT a determinant of demand; ageing population raises demand for spectacles/geriatric care and lowers demand for children's goods.

Q 6 · PYQ 2021-Jul · Pg 53	RECOGNISE 45 sec	Medium
Q 15 · PYQ 2025-Jan · Pg 56	RECOGNISE 45 sec	Medium
Q 28 · MTP 2025-May S2 · Pg 59	RECOGNISE 45 sec	Medium
Q 32 · PYQ 2026-Sep · Pg 60	RECOGNISE 45 sec	Medium

REASON 150 sec trace the chain before you answer · 9 questions · Analysis · Level II

- Multi-step scenarios: first identify the relationship (substitute/complement), then apply the direction rule, then pick the option; check whether the change is in own price (movement) or another factor (shift).
- Behavioural-effect stories: ask what drives the buyer — price prestige (Veblen), exclusivity vs others' consumption (snob), imitation of the crowd (bandwagon/demonstration) — before matching the named effect.

Q 26 · PYQ 2025-Sep · Pg 58	REASON 150 sec	Easy
Q 3 · PYQ 2019-May · Pg 52	REASON 150 sec	Medium
Q 4 · PYQ 2020-Nov · Pg 53	REASON 150 sec	Medium
Q 5 · PYQ 2021-Jul · Pg 53	REASON 150 sec	Medium
Q 16 · PYQ 2025-Jan · Pg 56	REASON 150 sec	Medium
Q 19 · MTP 2025-Jan S2 · Pg 56	REASON 150 sec	Medium
Q 20 · MTP 2025-Jan S2 · Pg 57	REASON 150 sec	Medium
Q 24 · PYQ 2025-May · Pg 58	REASON 150 sec	Medium
Q 27 · PYQ 2026-Jan · Pg 59	REASON 150 sec	Medium

Topic 1.2: The Demand Function

P4-C2-U1-T02

Read first Study Section 1.2 'The Demand Function' — $Q_x = f(P_x, Y, P_r)$ — together with the rationale of the downward slope (Section 1.3.4) and the external effects; some Scanner questions here also touch arc elasticity (Section 1.5.4).

RECALL 30 sec know it or move on · 9 questions · Remembering · Level I

- Demand function states the relation between quantity demanded (dependent variable) and its determinants: $Q_x = f(P_x, Y, P_r)$.
- Demonstration effect coined by James Duesenberry; snob effect = demand decreased because others consume the same commodity.
- Exceptions to the law of demand include conspicuous (Veblen/prestige) goods and Giffen goods; arc elasticity measures responsiveness BETWEEN TWO POINTS on the demand curve (not at one point).

Q 2 · PYQ 2021-Jan · Pg 60	RECALL 30 sec	Easy
Q 3 · PYQ 2021-Jan · Pg 60	RECALL 30 sec	Easy
Q 4 · PYQ 2022-Dec · Pg 61	RECALL 30 sec	Easy
Q 5 · PYQ 2023-Jun · Pg 61	RECALL 30 sec	Medium
Q 7 · MTP 2024-Dec S1 · Pg 61	RECALL 30 sec	Medium
Q 8 · MTP 2024-Dec S1 · Pg 62	RECALL 30 sec	Medium
Q 9 · MTP 2024-Dec S1 · Pg 62	RECALL 30 sec	Medium
Q 12 · MTP 2025-May S2 · Pg 63	RECALL 30 sec	Medium
Q 13 · MTP 2025-May S2 · Pg 63	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 3 questions · Understanding · Level I

- Demand curve slopes downward because of substitution and income effects, diminishing marginal utility, arrival of new consumers and multiple uses of the commodity.
- The same good can have different elasticities in different markets — e.g. demand for labour vs the wage rate is different from derived demand responses; determinants not in the function are held constant.

Q 1 · PYQ 2021-Jan · Pg 60	RECOGNISE 45 sec	Easy
Q 11 · MTP 2025-Jan S2 · Pg 62	RECOGNISE 45 sec	Easy
Q 6 · MTP 2024-Aug · Pg 61 asked 2x	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 1 question · Application · Level II

- If expenditure on a good rises when price falls, demand is elastic ($E_p > 1$) — apply the total-outlay logic to discount-fare type questions.

- For $Q = a - bP$ forms, compute elasticity at a price using $E_p = (dQ/dP) \times P/Q$; for substitutes, a rise in A's price raises B's demand — quantify with cross elasticity.

Q 10 · PYQ 2025-Jan · Pg 62

COMPUTE
75 sec**Medium****REASON** 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 14 · MTP 2025-May S2 · Pg 63

REASON
150 sec**Medium**

Topic 1.3: Law of Demand

P4-C2-U1-T03

Read first Master Section 1.3 'The Law of Demand': Marshall's statement, demand schedule/curve, rationale (income and substitution effects — Section 1.3.4) and all seven exceptions (Section 1.3.5): conspicuous goods, Giffen goods, conspicuous necessities, future price expectations, incomplete information/irrationality, necessities, speculative goods.

RECALL 30 sec know it or move on · 23 questions Remembering · Level I

- Law of demand (Marshall): other things being equal, quantity demanded varies inversely with price; it relates price AND quantity demanded.
- Price effect = substitution effect + income effect (Hicks and Allen).
- Giffen goods: inferior goods with no close substitutes occupying a substantial share of the consumer's budget (e.g. bajra, coarse grains); their demand curve slopes UPWARD (positively). Veblen/conspicuous goods also have upward-sloping demand.
- Exceptions list: conspicuous (prestige/snob-appeal) goods, Giffen goods, conspicuous necessities, price expectations, ignorance/irrationality, necessities, speculative goods. Normal and necessity goods are NOT exceptions.

Q 6 · PYQ 2019-Nov · Pg 65

RECALL
30 sec**Easy**

Q 10 · PYQ 2022-Jun · Pg 66

RECALL
30 sec**Easy**

Q 11 · PYQ 2022-Jun · Pg 66

RECALL
30 sec**Easy**

Q 12 · PYQ 2022-Jun · Pg 66

RECALL
30 sec**Easy**

Q 14 · PYQ 2023-Jun · Pg 66

RECALL
30 sec**Easy**

Q 15 · PYQ 2023-Jun · Pg 67

RECALL
30 sec**Easy**

Q 16 · PYQ 2023-Dec · Pg 67	RECALL 30 sec	Easy
Q 3 · PYQ 2018-Nov · Pg 64	RECALL 30 sec	Medium
Q 9 · PYQ 2021-Dec · Pg 66 asked 2×	RECALL 30 sec	Medium
Q 18 · PYQ 2024-Jun · Pg 67	RECALL 30 sec	Medium
Q 19 · MTP 2024-Aug · Pg 67	RECALL 30 sec	Medium
Q 20 · MTP 2024-Aug · Pg 68	RECALL 30 sec	Medium
Q 21 · MTP 2024-Aug · Pg 68	RECALL 30 sec	Medium
Q 23 · RTP 2025-Jan · Pg 68	RECALL 30 sec	Medium
Q 25 · PYQ 2026-May · Pg 69	RECALL 30 sec	Medium
Q 26 · PYQ 2026-May · Pg 69	RECALL 30 sec	Medium
Q 27 · MTP 2025-Apr S1 · Pg 70	RECALL 30 sec	Medium
Q 28 · MTP 2025-Aug S1 · Pg 70	RECALL 30 sec	Medium
Q 30 · MTP 2025-Aug S2 · Pg 70	RECALL 30 sec	Medium
Q 31 · RTP 2025-Sep · Pg 70	RECALL 30 sec	Medium
Q 32 · MTP 2025-Dec S1 · Pg 71	RECALL 30 sec	Medium
Q 33 · MTP 2025-Dec S1 · Pg 71	RECALL 30 sec	Medium
Q 34 · MTP 2025-Dec S1 · Pg 71	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 7 questions Understanding · Level I

- All Giffen goods are inferior, but all inferior goods are not Giffen; for inferior goods demand rises with a price fall only if the substitution effect outweighs the (negative) income effect.
- Substitution effect: a price fall makes the good relatively cheaper, so consumers substitute towards it — always positive; stronger when goods are closer substitutes and switching cost/inconvenience is lower.
- Income effect: a price fall raises real income/purchasing power, raising demand for normal goods.
- AR curve of a firm is its demand curve; under perfect competition the firm's demand curve is horizontal (perfectly elastic) at the market price.

Q 7 · PYQ 2021-Jul · Pg 65	RECOGNISE 45 sec	Easy
Q 17 · PYQ 2023-Dec · Pg 67 asked 2×	RECOGNISE 45 sec	Easy
Q 22 · RTP 2024-Sep · Pg 68 asked 5×	RECOGNISE 45 sec	Easy
Q 5 · PYQ 2019-May · Pg 64	RECOGNISE 45 sec	Medium
Q 8 · PYQ 2021-Dec · Pg 65	RECOGNISE 45 sec	Medium
Q 24 · PYQ 2025-Sep · Pg 69	RECOGNISE 45 sec	Medium
Q 29 · MTP 2025-Aug S1 · Pg 70	RECOGNISE 45 sec	Medium

REASON 150 sec trace the chain before you answer · 4 questions Analysis · Level II

Q 13 · PYQ 2023-Jun · Pg 66	REASON 150 sec	Easy
Q 1 · PYQ 2018-May · Pg 63	REASON 150 sec	Medium
Q 2 · PYQ 2018-Nov · Pg 64	REASON 150 sec	Medium
Q 4 · PYQ 2018-Nov · Pg 64	REASON 150 sec	Medium

Topic 1.4: Expansion and Contraction of Demand

P4-C2-U1-T04

Read first Study Section 1.4 'Expansion and Contraction of Demand' and 1.4.1-- 1.4.2 'Increase and Decrease in Demand' vs movements along the curve: price changes cause movement along the same curve; non-price determinants shift the whole curve.

RECALL 30 sec know it or move on · 8 questions Remembering · Level I

- Price falls → expansion of demand (downward movement along same curve); price rises → contraction (upward movement along same curve) = change in QUANTITY demanded.
- Non-price factors (income, tastes, prices of related goods etc.) shift the curve: rightward shift = increase in demand; leftward shift = decrease in demand = change in DEMAND.
- Income effect = change in demand due to change in real income of the consumer.

Q 3 · PYQ 2022-Dec · Pg 72	RECALL 30 sec	Easy
Q 4 · PYQ 2023-Jun · Pg 72	RECALL 30 sec	Easy

Q 5 · PYQ 2023-Jun · Pg 72	RECALL 30 sec	Easy
Q 8 · MTP 2025-Apr S1 · Pg 73	RECALL 30 sec	Easy
Q 9 · MTP 2025-Apr S1 · Pg 73	RECALL 30 sec	Easy
Q 11 · MTP 2025-Aug S2 · Pg 73	RECALL 30 sec	Easy
Q 12 · MTP 2026-Apr S1 · Pg 73	RECALL 30 sec	Easy
Q 7 · PYQ 2026-Jan · Pg 72	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- A fall in income (supply unchanged) shifts the demand curve leftward — it does not cause a movement along the curve.
- Leftward-shift causes: fall in price of a substitute, rise in price of a complement, fall in income (for normal goods), unfavourable change in tastes.

Q 10 · MTP 2025-Apr S1 · Pg 73	RECOGNISE 45 sec	Easy
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REASON 150 sec trace the chain before you answer · 3 questions Analysis · Level II

Q 1 · PYQ 2018-Nov · Pg 71	REASON 150 sec	Easy
Q 2 · PYQ 2022-Jun · Pg 71 asked 3×	REASON 150 sec	Easy
Q 6 · PYQ 2025-Sep · Pg 72	REASON 150 sec	Easy

Topic 1.5: Elasticity of Demand

P4-C2-U1-T05

Read first This is the heaviest-tested topic: Sections 1.5--1.5.8 — definition of elasticity, E_p formula, point elasticity (geometric method on a straight-line curve), arc elasticity (midpoint formula), the five numerical categories, total outlay/total revenue method, and the nine determinants of price elasticity.

RECALL 30 sec know it or move on · 29 questions Remembering · Level I

- $E_p = \% \Delta Q / \% \Delta P = (\Delta Q / \Delta P) \times (P/Q)$; value ranges from 0 to infinity (sign ignored, absolute value used). Point elasticity on a straight-line demand curve = lower segment / upper segment; at midpoint $E_p = 1$, at price-axis end $E_p = \text{infinity}$, at quantity-axis end $E_p = 0$.
- Arc (midpoint) elasticity between two points: $E_p = (Q_2 - Q_1) / (Q_2 + Q_1) \times (P_2 + P_1) / (P_2 - P_1)$ — used when price/quantity changes are large; point elasticity uses one point (infinitesimal change).

- Categories: $E_p = 0$ perfectly inelastic (vertical curve; e.g. life-saving medicines, habitual goods ~ inelastic); $E_p < 1$ inelastic (salt, necessities); $E_p = 1$ unitary (rectangular hyperbola); $E_p > 1$ elastic (luxuries, jewellery); $E_p = \text{infinity}$ perfectly elastic (horizontal curve, perfect competition).
- Determinants: availability/closeness of substitutes (more substitutes $\rightarrow$ more elastic), share in consumer's budget, necessity vs luxury, number of uses, time period, habits (inelastic), tied demand, price range.

Q 8 · PYQ 2019-Nov · Pg 76	RECALL 30 sec	Easy
Q 16 · PYQ 2021-Jul · Pg 79	RECALL 30 sec	Easy
Q 46 · PYQ 2023-Dec · Pg 90 asked 3×	RECALL 30 sec	Easy
Q 48 · PYQ 2025-Sep · Pg 90	RECALL 30 sec	Easy
Q 1 · PYQ 2018-May · Pg 74	RECALL 30 sec	Medium
Q 2 · PYQ 2018-May · Pg 75	RECALL 30 sec	Medium
Q 3 · PYQ 2018-May · Pg 75	RECALL 30 sec	Medium
Q 5 · PYQ 2019-May · Pg 75	RECALL 30 sec	Medium
Q 6 · PYQ 2019-May · Pg 76	RECALL 30 sec	Medium
Q 7 · PYQ 2019-May · Pg 76	RECALL 30 sec	Medium
Q 9 · PYQ 2020-Nov · Pg 77	RECALL 30 sec	Medium
Q 10 · PYQ 2020-Nov · Pg 77	RECALL 30 sec	Medium
Q 13 · PYQ 2021-Jan · Pg 78	RECALL 30 sec	Medium
Q 17 · PYQ 2021-Dec · Pg 79	RECALL 30 sec	Medium
Q 18 · PYQ 2021-Dec · Pg 79	RECALL 30 sec	Medium
Q 22 · PYQ 2022-Dec · Pg 81	RECALL 30 sec	Medium
Q 31 · MTP 2024-Aug · Pg 84 asked 2×	RECALL 30 sec	Medium
Q 32 · MTP 2024-Aug · Pg 85	RECALL 30 sec	Medium
Q 33 · MTP 2024-Aug · Pg 85 asked 2×	RECALL 30 sec	Medium

Q 41 · PYQ 2024-Sep · Pg 87 asked 2×	RECALL 30 sec	Medium
Q 54 · PYQ 2026-May · Pg 92	RECALL 30 sec	Medium
Q 57 · RTP 2025-May · Pg 93	RECALL 30 sec	Medium
Q 58 · MTP 2025-Aug S1 · Pg 93	RECALL 30 sec	Medium
Q 59 · MTP 2025-Aug S1 · Pg 93	RECALL 30 sec	Medium
Q 61 · MTP 2025-Aug S2 · Pg 94	RECALL 30 sec	Medium
Q 64 · PYQ 2026-Sep · Pg 95	RECALL 30 sec	Medium
Q 49 · PYQ 2026-Jan · Pg 91	RECALL 30 sec	Hard
Q 50 · PYQ 2026-Jan · Pg 91	RECALL 30 sec	Hard
Q 51 · PYQ 2026-Jan · Pg 91	RECALL 30 sec	Hard

RECOGNISE 45 sec decide which idea applies · 12 questions Understanding · Level I

- Total outlay/revenue rule: price rise → TR falls if elastic, unchanged if unitary, rises if inelastic (and vice versa for price fall) — memorise the 2x3 table.
- On a linear demand curve elasticity FALLS as you move down (upper segment elastic, midpoint unitary, lower segment inelastic).
- $E_p = -3$ means a 1% price fall raises demand 3%; area OP1RQ1 under a point on the demand curve = total expenditure/revenue ($P \times Q$).
- A few Scanner questions here stray into consumer theory: cardinal approach → marginal/equi-marginal utility analysis; indifference curves slope down, are convex, cannot intersect.

Q 20 · PYQ 2022-Jun · Pg 80	RECOGNISE 45 sec	Easy
Q 21 · PYQ 2022-Jun · Pg 80	RECOGNISE 45 sec	Easy
Q 12 · PYQ 2021-Jan · Pg 77 asked 3×	RECOGNISE 45 sec	Medium
Q 19 · PYQ 2021-Dec · Pg 80	RECOGNISE 45 sec	Medium
Q 34 · MTP 2024-Aug · Pg 85 asked 2×	RECOGNISE 45 sec	Medium
Q 37 · MTP 2024-Aug · Pg 86	RECOGNISE 45 sec	Medium
Q 39 · MTP 2024-Aug · Pg 86 asked 2×	RECOGNISE 45 sec	Medium

Q 40 · MTP 2024-Aug · Pg 87	RECOGNISE 45 sec	Medium
Q 47 · PYQ 2025-May · Pg 90	RECOGNISE 45 sec	Medium
Q 60 · MTP 2025-Aug S2 · Pg 93	RECOGNISE 45 sec	Medium
Q 63 · MTP 2026-Apr S2 · Pg 94	RECOGNISE 45 sec	Medium
Q 66 · PYQ 2026-Sep · Pg 95	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 23 questions Application · Level II

- Percentage method drills: $E_p = \frac{\% \Delta Q}{\% \Delta P}$ (e.g. 25%/22% → elastic); given E_p and one % change, find the other ($\% \Delta Q = E_p \times \% \Delta P$) and the new quantity or price.
- Midpoint-method drills: apply the arc formula when both P and Q figures are given (e.g. P 15→20, Q 50→75 gives $E_a = 1.4$).
- Expenditure questions: with $E_p < 1$ a price rise RAISES total spending; with $E_p > 1$ it lowers spending — compute direction before magnitude.
- Demand-function questions: $Q = 1000 - 50P$ → at given P, $E_p = 50P/Q$; stray multiplier question: $k = 1/(1 - MPC)$, so $C = 10 + 0.6Y$ and $\Delta I = ₹100 \text{ crore} \rightarrow \Delta Y = ₹250 \text{ crore}$.

Q 15 · PYQ 2021-Jul · Pg 79	COMPUTE 75 sec	Easy
Q 27 · PYQ 2023-Dec · Pg 82	COMPUTE 75 sec	Easy
Q 28 · PYQ 2023-Dec · Pg 83	COMPUTE 75 sec	Easy
Q 4 · PYQ 2019-May · Pg 75	COMPUTE 75 sec	Medium
Q 11 · PYQ 2020-Nov · Pg 77	COMPUTE 75 sec	Medium
Q 14 · PYQ 2021-Jan · Pg 78 asked 2×	COMPUTE 75 sec	Medium
Q 23 · PYQ 2023-Jun · Pg 81	COMPUTE 75 sec	Medium
Q 24 · PYQ 2023-Jun · Pg 81	COMPUTE 75 sec	Medium
Q 25 · PYQ 2023-Jun · Pg 82 asked 2×	COMPUTE 75 sec	Medium
Q 29 · PYQ 2024-Jun · Pg 83	COMPUTE 75 sec	Medium
Q 30 · PYQ 2024-Jun · Pg 84	COMPUTE 75 sec	Medium
Q 35 · MTP 2024-Aug · Pg 85	COMPUTE 75 sec	Medium

Q 36 · MTP 2024-Aug · Pg 86 asked 2×	COMPUTE 75 sec	Medium
Q 42 · PYQ 2024-Sep · Pg 87	COMPUTE 75 sec	Medium
Q 43 · PYQ 2024-Sep · Pg 88	COMPUTE 75 sec	Medium
Q 45 · PYQ 2025-May · Pg 89 asked 2×	COMPUTE 75 sec	Medium
Q 53 · PYQ 2026-May · Pg 92	COMPUTE 75 sec	Medium
Q 55 · PYQ 2026-May · Pg 92	COMPUTE 75 sec	Medium
Q 56 · PYQ 2026-May · Pg 93	COMPUTE 75 sec	Medium
Q 62 · MTP 2026-Apr S1 · Pg 94	COMPUTE 75 sec	Medium
Q 65 · PYQ 2026-Sep · Pg 95	COMPUTE 75 sec	Medium
Q 67 · PYQ 2026-Sep · Pg 96	COMPUTE 75 sec	Medium
Q 52 · PYQ 2026-Jan · Pg 92	COMPUTE 75 sec	Hard

REASON 150 sec trace the chain before you answer · 3 questions Analysis · Level II

- Story numericals (COVID vegetable prices, movie tickets, LED TVs): extract P1, P2, Q1, Q2 or the % changes, decide percentage vs midpoint method from data size/wording, compute E_p , then interpret elastic/inelastic and the revenue consequence.
- Pricing-decision scenarios: link the computed elasticity to strategy — elastic demand punishes price rises (TR falls), inelastic demand rewards them; verify against the total-outlay table before choosing.

Q 26 · PYQ 2022-Dec · Pg 82 asked 2×	REASON 150 sec	Medium
Q 38 · MTP 2024-Aug · Pg 86	REASON 150 sec	Medium
Q 44 · PYQ 2025-May · Pg 89	REASON 150 sec	Medium

Topic 1.6: Income Elasticity of Demand

P4-C2-U1-T06

Read first Study Section 1.6 'Income Elasticity of Demand': the E_i formula, sign- based classification of goods (normal, luxury, necessity, inferior) and the three propositions linking E_i to the proportion of income spent.

RECALL 30 sec know it or move on · 9 questions Remembering · Level I

- $E_i = \% \Delta \text{ quantity demanded} / \% \Delta \text{ income} = (\Delta Q / \Delta Y) \times (Y / Q)$ — measures responsiveness of demand to income changes.
- Signs: normal goods $E_i > 0$; luxuries $E_i > 1$; necessities $0 < E_i < 1$; inferior goods E_i negative (inverse income-demand relation); $E_i = 0 \rightarrow$ demand unresponsive to income.
- Proportion-of-income rule: share spent constant $\rightarrow E_i = 1$; share rises with income $\rightarrow E_i > 1$; share falls $\rightarrow E_i < 1$.

Q 1 · PYQ 2018-May · Pg 96	RECALL 30 sec	Easy
Q 3 · PYQ 2019-Nov · Pg 96	RECALL 30 sec	Easy
Q 5 · PYQ 2021-Jul · Pg 97	RECALL 30 sec	Easy
Q 12 · MTP 2024-Aug · Pg 98	RECALL 30 sec	Easy
Q 13 · PYQ 2026-May · Pg 99	RECALL 30 sec	Easy
Q 14 · MTP 2025-Aug S2 · Pg 99	RECALL 30 sec	Easy
Q 15 · MTP 2026-Apr S1 · Pg 99	RECALL 30 sec	Easy
Q 7 · PYQ 2022-Dec · Pg 97	RECALL 30 sec	Medium
Q 9 · PYQ 2023-Jun · Pg 98	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 3 questions Understanding · Level I

- Interpret given coefficients: wheat $E_i = -0.4$ or oranges $-0.58 \rightarrow$ inferior good; AC $E_i = +1.8 \rightarrow$ luxury/growth good; $E_i = 0.5 \rightarrow$ normal necessity growing slower than income.
- Only the SIGN of E_i classifies the good (negative = inferior, positive = normal); the size then separates necessity (< 1) from luxury (> 1).

Q 2 · PYQ 2019-May · Pg 96	RECOGNISE 45 sec	Easy
Q 4 · PYQ 2021-Jan · Pg 96	RECOGNISE 45 sec	Easy
Q 11 · MTP 2024-Aug · Pg 98	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 3 questions Application · Level II

- Compute $E_i = \% \Delta Q / \% \Delta Y$: income +20%, TV demand +30% $\rightarrow E_i = 1.5$; income +15%, demand +30% $\rightarrow E_i = 2$.

- With absolute figures use $E_i = (\Delta Q / \Delta Y) \times (Y / Q)$, e.g. income ₹3,000 → ₹3,600 with purchases rising — take original income and quantity as base.

Q 6 · PYQ 2022-Dec · Pg 97	COMPUTE 75 sec	Medium
Q 8 · PYQ 2023-Jun · Pg 97	COMPUTE 75 sec	Medium
Q 10 · PYQ 2023-Dec · Pg 98	COMPUTE 75 sec	Medium

Topic 1.7: Cross-Price Elasticity of demand

P4-C2-U1-T07

Read first Study Section 1.7 'Cross-Price Elasticity of Demand': cross demand for substitutes vs complements, the E_c formula and interpretation of its sign and size.

RECALL 30 sec know it or move on · 9 questions Remembering · Level I

- $E_c = \% \Delta$ quantity demanded of good X / $\% \Delta$ price of good Y.
- Sign rule: substitutes → positive E_c (perfect substitutes → infinity); complements → negative E_c ; unrelated goods → $E_c = 0$.

Q 1 · PYQ 2018-May · Pg 100	RECALL 30 sec	Easy
Q 6 · PYQ 2023-Jun · Pg 102	RECALL 30 sec	Easy
Q 8 · PYQ 2023-Jun · Pg 102	RECALL 30 sec	Easy
Q 12 · PYQ 2026-Jan · Pg 103	RECALL 30 sec	Medium
Q 14 · PYQ 2026-May · Pg 104	RECALL 30 sec	Medium
Q 15 · MTP 2025-Aug S1 · Pg 104	RECALL 30 sec	Medium
Q 16 · MTP 2025-Aug S2 · Pg 104	RECALL 30 sec	Medium
Q 18 · MTP 2026-Apr S1 · Pg 105	RECALL 30 sec	Medium
Q 19 · MTP 2026-Apr S2 · Pg 105	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- From direction of change: price of X up and demand of Y up → substitutes (pulses and green vegetables); price of X up and demand of Y down → complements (car- petrol, bread-jam, electricity-gadgets).

- Higher positive E_c means closer substitutes; the cross-demand curve for substitutes slopes upward.

Q 7 · PYQ 2023-Jun · Pg 102	RECOGNISE 45 sec	Easy
Q 11 · PYQ 2025-May · Pg 103 asked 2×	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 6 questions Application · Level II

- Drill $E_c = \% \Delta Q_x / \% \Delta P_y$: coffee +2% when tea price +8% $\rightarrow E_c = 0.25$; mutton +5% when chicken price +25% $\rightarrow 0.2$; then state the relationship from the sign.
- When absolute data are given (sugar-coffee type), compute % changes first, keep the minus sign if demand falls when the other price falls — negative E_c confirms complements.

Q 2 · PYQ 2021-Jul · Pg 100	COMPUTE 75 sec	Medium
Q 3 · PYQ 2022-Jun · Pg 100 asked 2×	COMPUTE 75 sec	Medium
Q 4 · PYQ 2022-Dec · Pg 101	COMPUTE 75 sec	Medium
Q 9 · PYQ 2024-Jun · Pg 102	COMPUTE 75 sec	Medium
Q 10 · MTP 2025-Jan S2 · Pg 103 asked 2×	COMPUTE 75 sec	Medium
Q 13 · PYQ 2026-May · Pg 103	COMPUTE 75 sec	Medium

REASON 150 sec trace the chain before you answer · 2 questions Analysis · Level II

Q 5 · PYQ 2022-Dec · Pg 101	REASON 150 sec	Medium
Q 17 · MTP 2025-Dec S1 · Pg 104	REASON 150 sec	Medium

Topic 1.8: Advertisement Elasticity

P4-C2-U1-T08

Read first Study Section 1.8 'Advertisement Elasticity': the E_a formula, its normal positive sign and range (0 to infinity), and the interpretation table ($E_a = 0, 0--1, = 1, > 1$).

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- $E_a = \% \Delta \text{ quantity demanded} / \% \Delta \text{ advertisement expenditure}$; it is typically POSITIVE and varies between zero and infinity.

- Interpretation: $E_a = 0$ no response; $0 < E_a < 1$ less than proportionate; $E_a = 1$ proportionate; $E_a > 1$ more than proportionate — a measure of advertising effectiveness.

Q 1 · PYQ 2022-Jun · Pg 105	RECALL 30 sec	Medium
Q 3 · PYQ 2022-Dec · Pg 105	RECALL 30 sec	Medium
Q 6 · MTP 2026-Apr S1 · Pg 107	RECALL 30 sec	Medium

COMPUTE 75 sec one formula, straight through · 4 questions Application · Level II

- Compute $E_a = \frac{\% \Delta Q}{\% \Delta A}$: ad spend +25%, demand +5% $\rightarrow E_a = 0.2$; ΔQ 60% / ΔA 20% $\rightarrow 3$; spend +20%, demand +40% $\rightarrow 2$.
- If absolute spending and sales figures are given, convert to percentages over the original values first, then divide.

Q 2 · PYQ 2022-Jun · Pg 105	COMPUTE 75 sec	Medium
Q 4 · PYQ 2024-Sep · Pg 106	COMPUTE 75 sec	Medium
Q 5 · PYQ 2025-Sep · Pg 106	COMPUTE 75 sec	Medium
Q 7 · PYQ 2026-Sep · Pg 107	COMPUTE 75 sec	Medium

Unit 2.2: Theory of Consumer Behaviour

P4-C2-U2 · Importance B · 2.6 marks a paper · Rank 2 in chapter · Category B · 27.0% of chapter questions · 93 questions

Topic 2: Nature of Human Wants

P4-C2-U2-T00

Read first Read Section 2.0 'Nature of Human Wants' of Unit 2 (Theory of Consumer Behaviour): characteristics of wants and the economic meaning of utility, plus the TU and MU definitions given there.

NOTES

Utility = want-satisfying power of a commodity; it is subjective and relative, not absolute or objective - it varies with person, time and place.

Utility is a psychological concept, different from usefulness, and has no concern with moral or

ethical values.

Wants are unlimited, differ in intensity, are satiable individually, competitive, complementary, and shaped by income, taste, fashion and customs.

TU = sum of utilities from all units consumed (TU = sum of MU); MU = addition to TU from one extra unit.

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

Q 1 · MTP 2024-Aug · Pg 110

RECOGNISE
45 sec

Easy

Topic 2.1: Classification of Wants

P4-C2-U2-T01

Read first Read Section 2.1 'Classification of Wants' (necessaries, comforts, luxuries) along with the TU-MU definitions in Section 2.0, since table-based MU numericals are asked here.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- Three classes of wants: necessities (further split into necessities for life/existence, for efficiency, and conventional necessities), comforts and luxuries.
- Utility is the want-satisfying power of goods and services - relative, subjective, depends on the mental attitude of people.

Q 3 · PYQ 2025-Jan · Pg 112

RECALL
30 sec

Easy

Q 4 · MTP 2025-Aug S1 · Pg 112

RECALL
30 sec

Easy

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- From a TU table, MU of the nth unit = $TU_n - TU_{n-1}$; e.g. MU of the 5th unit = $TU(5) - TU(4)$.
- Work row by row: always subtract the previous cumulative TU, never divide TU by units (that gives AP-style average utility).

Q 1 · PYQ 2021-Jul · Pg 111

COMPUTE
75 sec

Easy

Q 2 · PYQ 2021-Jul · Pg 111

COMPUTE
75 sec

Easy

Topic 2.2: Relationship between TU & MU

P4-C2-U2-T02

Read first Study the TU-MU relationship in Sections 2.2-2.3 (tea-cups table) and Marshall's consumer surplus definition in Section 2.4, as CS definition questions also appear here.

NOTES

Assertion-Reason on consumer surplus: check A (CS = potential price - actual price) and R (price and CS move inversely) independently, then decide whether R explains A.

A price fall raises CS both for existing buyers and by adding new buyers - use this chain to judge the 'reason' statement.

RECALL 30 sec know it or move on · 7 questions · Remembering · Level I

- MU is the addition made to total utility; total utility is also called 'aggregate satiety'.
- At the point of satiation TU is maximum and MU is zero.
- Consumer surplus (Marshall) = excess of the price a consumer would be willing to pay rather than go without the good, over what he actually pays.

Q 3 · PYQ 2018-Nov · Pg 113	RECALL 30 sec	Easy
Q 5 · PYQ 2019-Nov · Pg 113	RECALL 30 sec	Easy
Q 7 · PYQ 2023-Dec · Pg 114	RECALL 30 sec	Easy
Q 9 · PYQ 2025-Jan · Pg 115	RECALL 30 sec	Easy
Q 10 · PYQ 2025-May · Pg 115	RECALL 30 sec	Easy
Q 11 · MTP 2025-May S2 · Pg 115	RECALL 30 sec	Easy
Q 4 · PYQ 2019-May · Pg 113	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions · Understanding · Level I

- When MU is positive but falling, TU rises at a diminishing rate; when MU = 0, TU is maximum; when MU is negative, TU falls.
- So 'TU increasing at a decreasing rate' means MU is decreasing but still positive - MCQ options swap these states.

Q 6 · PYQ 2021-Dec · Pg 114	RECOGNISE 45 sec	Easy
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Q 8 · MTP 2024-Dec S1 · Pg 114

RECOGNISE
45 sec

Easy

COMPUTE 75 sec one formula, straight through · 3 questions Application · Level II

- Given MU column, TU at n units = sum of MUs up to n; given TU column, MU of nth unit = $TU_n - TU_{n-1}$.
- Fill the missing cell first, then answer: tables often give mixed TU/MU entries with blanks.

Q 1 · PYQ 2018-Nov · Pg 112

COMPUTE
75 sec

Easy

Q 2 · PYQ 2018-Nov · Pg 113

COMPUTE
75 sec

Easy

Q 12 · MTP 2025-Apr S1 · Pg 115

COMPUTE
75 sec

Easy

Topic 2.3: Law of Diminishing Marginal Utility

P4-C2-U2-T03

Read first Read the law of DMU with the tea-cups illustration and its five assumptions (Section 2.3); also skim consumer surplus (2.4) and consumer equilibrium/budget line (2.5), since a few of those MCQs appear under this heading.

RECALL 30 sec know it or move on · 13 questions Remembering · Level I

- Law: as consumption of identical units continues, MU from each successive unit falls; utility is measured cardinally in 'utils'; MU of nth unit = $TU_n - TU_{n-1}$.
- Assumptions: identical units, standard units, continuous consumption (no time gap), consumer's taste/income unchanged; law may fail for money, gold, hobbies.
- DMU analysis assumes cardinal measurability and rationality - 'ordinal measurability' is NOT its assumption; law of demand and consumer surplus are both derived from DMU.
- For a Giffen good the demand curve is positively sloped.

Q 2 · PYQ 2021-Jan · Pg 116

RECALL
30 sec

Easy

Q 3 · PYQ 2021-Dec · Pg 116

RECALL
30 sec

Easy

Q 4 · PYQ 2021-Dec · Pg 117

RECALL
30 sec

Easy

Q 6 · PYQ 2022-Dec · Pg 117

RECALL
30 sec

Easy

Q 8 · PYQ 2023-Dec · Pg 118

RECALL
30 sec

Easy

Q 9 · PYQ 2024-Sep · Pg 118

RECALL
30 sec

Easy

Q 10 · RTP 2024-Sep · Pg 118	RECALL 30 sec	Easy
Q 13 · PYQ 2025-Jan · Pg 120	RECALL 30 sec	Easy
Q 14 · MTP 2025-Jan S2 · Pg 120	RECALL 30 sec	Easy
Q 16 · MTP 2026-Apr S1 · Pg 121	RECALL 30 sec	Easy
Q 1 · PYQ 2018-Nov · Pg 116	RECALL 30 sec	Medium
Q 11 · MTP 2024-Dec S1 · Pg 119 asked 2×	RECALL 30 sec	Medium
Q 12 · MTP 2024-Dec S1 · Pg 119	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Classic illustration: second glass of lemonade to a thirsty boy gives less satisfaction - identify it as DMU, not law of demand or diminishing returns.
- Consumer surplus increases when price falls (inverse relation).
- Consumer equilibrium in a two-good world needs $MRS = P_x/P_y$ at a tangency; MRS not equal to the price ratio violates equilibrium; budget-line slope = price ratio of the X-axis good to the Y-axis good; a higher IC on an indifference map always shows higher satisfaction.

Q 5 · PYQ 2022-Dec · Pg 117	RECOGNISE 45 sec	Easy
Q 15 · RTP 2026-Jan · Pg 120	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- MU from TU jump: TU rises 100 to 108 when consumption goes from 10 to 11 units, so MU of the 11th unit = 8.
- Method: $MU = \text{change in TU} / \text{change in units consumed}$ - one line subtraction, no averaging.

Q 7 · PYQ 2023-Jun · Pg 118	COMPUTE 75 sec	Easy
Q 17 · PYQ 2026-Sep · Pg 121	COMPUTE 75 sec	Easy

Topic 2.4: Consumer Surplus

P4-C2-U2-T04

Read first Study Section 2.4 'Consumer Surplus' - Marshall's definition, derivation from DMU, diagrammatic measure (area under demand curve above price line) and limitations; a few IC-property questions also appear here, so revise Section 2.5 properties.

RECALL 30 sec know it or move on · 10 questions Remembering · Level I

- Propounded by Alfred Marshall; CS = what a consumer is ready to pay minus what he actually pays; derived from the law of diminishing marginal utility.
- CS is closely related to the demand curve: it is the area below the demand curve and above the price line; higher price means smaller CS.
- For necessities CS is infinite (early units have infinitely large MU); CS cannot be measured precisely (MU of money not constant).
- IC recap asked here: ordinal approach uses indifference curve analysis; ICs are negatively sloped, convex, non-intersecting; perfect substitutes give a straight- line IC.

Q 1 · PYQ 2018-May · Pg 121	RECALL 30 sec	Easy
Q 5 · PYQ 2021-Jul · Pg 122	RECALL 30 sec	Easy
Q 6 · PYQ 2021-Dec · Pg 122	RECALL 30 sec	Easy
Q 7 · PYQ 2022-Jun · Pg 123	RECALL 30 sec	Easy
Q 10 · PYQ 2024-Sep · Pg 123	RECALL 30 sec	Easy
Q 11 · RTP 2024-Sep · Pg 124	RECALL 30 sec	Easy
Q 12 · PYQ 2025-Sep · Pg 124	RECALL 30 sec	Easy
Q 13 · PYQ 2026-Jan · Pg 124	RECALL 30 sec	Easy
Q 14 · RTP 2025-May · Pg 124	RECALL 30 sec	Easy
Q 3 · PYQ 2019-May · Pg 122	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 5 questions Understanding · Level I

- When one price is paid for all units, the consumer gains surplus on every unit before the last, because earlier units carry higher MU than price; only the marginal unit yields zero surplus.
- A rise in price shrinks the CS triangle; a fall enlarges it - link price changes to the area under the demand curve.

Q 2 · PYQ 2018-Nov · Pg 121	RECOGNISE 45 sec	Easy
Q 4 · PYQ 2020-Nov · Pg 122	RECOGNISE 45 sec	Easy

Q 9 · PYQ 2024-Sep · Pg 123

RECOGNISE
45 sec

Easy

Q 15 · MTP 2025-Aug S2 · Pg 124

RECOGNISE
45 sec

Easy

Q 16 · PYQ 2026-Sep · Pg 125

RECOGNISE
45 sec

Easy

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

- CS numerical: willing to pay ₹60,000, actual price ₹55,000, CS = ₹5,000.
- With discounts, first compute the net price actually paid (list price minus percentage and cash discounts), then CS = willingness to pay - net price.

Q 8 · PYQ 2024-Jun · Pg 123

COMPUTE
75 sec

Hard

Topic 2.5: Indifference Curve Analysis

P4-C2-U2-T05

Read first Master Section 2.5 fully: assumptions of ordinal (Hicks-Allen) analysis, indifference curves and map, MRS, the four IC properties, perfect substitutes/complements shapes, budget line and its slope, and consumer equilibrium at tangency.

NOTES

From a budget-line diagram, price of each good = total income / its axis intercept (income ₹750, intercepts 50 and 30 give ₹15 and ₹25).

Check which good sits on which axis before matching the option pair - options usually list both orders.

RECALL 30 sec know it or move on · 33 questions Remembering · Level I

- IC = all combinations of two goods giving equal satisfaction; Hicks-Allen: utility is ordinal; budget line = price line, slope = P_x/P_y .
- Properties: downward sloping, convex to origin (diminishing MRS), never intersect, never touch either axis; higher IC = higher satisfaction.
- Shapes: perfect substitutes - straight-line IC (constant MRS); perfect complements - L-shaped IC.
- MRS_{xy} = rate of exchanging Y for X at constant satisfaction = change in Y / change in X = MU_x/MU_y ; equilibrium where price line is tangent to IC: $MRS_{xy} = P_x/P_y$, i.e. $MU_x/P_x = MU_y/P_y$; inferior goods have negative income effect.

Q 3 · PYQ 2018-Nov · Pg 125

RECALL
30 sec

Easy

Q 4 · PYQ 2018-Nov · Pg 126	RECALL 30 sec	Easy
Q 6 · PYQ 2019-Nov · Pg 126	RECALL 30 sec	Easy
Q 7 · PYQ 2019-Nov · Pg 126 asked 2×	RECALL 30 sec	Easy
Q 10 · PYQ 2021-Jul · Pg 128	RECALL 30 sec	Easy
Q 11 · PYQ 2021-Dec · Pg 128	RECALL 30 sec	Easy
Q 12 · PYQ 2021-Dec · Pg 128 asked 2×	RECALL 30 sec	Easy
Q 13 · PYQ 2021-Dec · Pg 128	RECALL 30 sec	Easy
Q 14 · PYQ 2021-Dec · Pg 128	RECALL 30 sec	Easy
Q 15 · PYQ 2022-Jun · Pg 129	RECALL 30 sec	Easy
Q 16 · PYQ 2022-Jun · Pg 129	RECALL 30 sec	Easy
Q 17 · PYQ 2022-Dec · Pg 129	RECALL 30 sec	Easy
Q 18 · PYQ 2023-Jun · Pg 129	RECALL 30 sec	Easy
Q 24 · PYQ 2019-May · Pg 132 asked 2×	RECALL 30 sec	Easy
Q 26 · MTP 2024-Aug · Pg 133	RECALL 30 sec	Easy
Q 28 · PYQ 2025-May · Pg 133 asked 2×	RECALL 30 sec	Easy
Q 30 · PYQ 2025-Sep · Pg 133	RECALL 30 sec	Easy
Q 31 · PYQ 2025-Sep · Pg 134	RECALL 30 sec	Easy
Q 33 · PYQ 2026-May · Pg 135	RECALL 30 sec	Easy
Q 34 · MTP 2025-Aug S1 · Pg 135	RECALL 30 sec	Easy
Q 35 · MTP 2025-Aug S1 · Pg 135	RECALL 30 sec	Easy
Q 36 · MTP 2025-Aug S1 · Pg 135	RECALL 30 sec	Easy
Q 37 · MTP 2025-Aug S1 · Pg 136	RECALL 30 sec	Easy
Q 38 · MTP 2025-Aug S2 · Pg 136	RECALL 30 sec	Easy

Q 39 · MTP 2025-Dec S1 · Pg 136	RECALL 30 sec	Easy
Q 40 · MTP 2026-Apr S2 · Pg 136	RECALL 30 sec	Easy
Q 42 · MTP 2025-May S2 · Pg 137	RECALL 30 sec	Easy
Q 43 · PYQ 2026-Sep · Pg 137	RECALL 30 sec	Easy
Q 19 · PYQ 2023-Dec · Pg 129	RECALL 30 sec	Medium
Q 20 · PYQ 2023-Dec · Pg 130	RECALL 30 sec	Medium
Q 21 · PYQ 2024-Jun · Pg 131	RECALL 30 sec	Medium
Q 22 · PYQ 2024-Jun · Pg 132	RECALL 30 sec	Medium
Q 32 · PYQ 2026-Jan · Pg 134	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 8 questions · Understanding · Level I

- Budget line shifts with income (parallel) or a price change (pivot: X-good price rise rotates the X-intercept inward).
- Points: on the line = full income spent; inside (K) = underspending; outside (H) = unattainable.
- Monotonic preferences prefer the bundle with more of at least one good; substitution effect of a price fall = movement DOWN a given IC; negative income elasticity (maize at -0.30) marks an inferior good.

Q 1 · PYQ 2018-May · Pg 125	RECOGNISE 45 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 125	RECOGNISE 45 sec	Easy
Q 5 · PYQ 2019-May · Pg 126	RECOGNISE 45 sec	Easy
Q 25 · MTP 2024-Aug · Pg 132 asked 2×	RECOGNISE 45 sec	Easy
Q 27 · MTP 2025-Jan S2 · Pg 133	RECOGNISE 45 sec	Easy
Q 29 · PYQ 2025-Sep · Pg 133	RECOGNISE 45 sec	Easy
Q 41 · MTP 2026-Apr S2 · Pg 136	RECOGNISE 45 sec	Easy
Q 8 · PYQ 2020-Nov · Pg 127	RECOGNISE 45 sec	Medium

REASON 150 sec trace the chain before you answer · 2 questions · Analysis · Level II

Q 23 · MTP 2024-Aug · Pg 132 asked 2×

REASON
150 sec

Easy

Q 9 · PYQ 2020-Nov · Pg 127

REASON
150 sec

Medium

Unit 2.3: Supply

P4-C2-U3 · Importance C · 1.3 marks a paper · Rank 3 in chapter · Category C · 13.0% of chapter questions · 45 questions

Topic 3: Introduction

P4-C2-U3-T00

Read first Read Section 3.0 (Introduction to supply) of Unit 3: the definition of supply and the three points that qualify it.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- Supply = amount of a good/service producers are willing AND able to offer to the market at various prices during a given period of time.
- Supply is a FLOW concept - always measured per unit of time (per day/week/year), never as a stock.
- Supply is what firms offer for sale, not necessarily what they succeed in selling; ability to supply depends chiefly on production cost.
- Sellers constituting the supply side include individuals, firms and governments.

Q 1 · PYQ 2019-Nov · Pg 142

RECALL
30 sec

Easy

Q 2 · PYQ 2018-May · Pg 143 asked 3×

RECALL
30 sec

Easy

Topic 3.1: Determinants of Supply

P4-C2-U3-T01

Read first Read Section 3.1 'Determinants of Supply' - the eight determinants with examples.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- Determinants: own price, prices of related goods, prices of factors of production (costs), state of technology, government policy (taxes, subsidies, quotas), nature of competition and size of industry, expectations of future prices, number of sellers.
- Consumer preferences/tastes determine DEMAND, not supply - the standard 'which does NOT influence supply' trap.

- Also note: natural factors (weather, floods) and man-made factors (strikes, war) affect supply; expected future price rise reduces supply today.

Q 1 · MTP 2024-Aug · Pg 143

RECALL
30 sec

Easy

Topic 3.2: Law of Supply

P4-C2-U3-T02

Read first Study Section 3.2 'The Law of Supply' - its statement, profit rationale, the labour-supply exception, and the supply schedule/curve.

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- Law of supply: other things remaining constant, quantity supplied of a good rises as its OWN price rises and falls as price falls.
- A rightward movement/shift of the supply curve means supply increases; the curve is upward sloping.

Q 2 · PYQ 2018-Nov · Pg 144

RECALL
30 sec

Easy

Q 3 · PYQ 2021-Jan · Pg 144

RECALL
30 sec

Easy

Q 4 · RTP 2024-Sep · Pg 145

RECALL
30 sec

Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Rationale: higher price with given costs means higher profit in the short run, giving producers greater incentive to supply.
- 'Other things held constant' = input prices, technology, weather etc.; the own price of the commodity is NOT held constant - it is the variable on the axis.

Q 1 · PYQ 2018-May · Pg 144

RECOGNISE
45 sec

Easy

Topic 3.3: Movements on Supply Curve-increase or decrease in the quantity supplied

P4-C2-U3-T03

Read first Read Section 3.3 on movements along the supply curve - expansion and contraction of supply caused by the good's own price.

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Expansion (upward movement along the curve) is caused by a rise in the good's OWN price; contraction (downward movement) by a fall in its own price.
- So 'contraction of supply implies' a decrease in the price of the good concerned - not a change in cost, related-good prices or other non-price factors (those shift the curve).
- Keep the vocabulary straight: movement = quantity supplied changes with own price; shift = supply changes with other determinants.

Q 1 · PYQ 2019-May · Pg 145

RECOGNISE
45 sec**Easy****Topic 3.4: Shifts in Supply Curve-increase or decrease in supply**

P4-C2-U3-T04

Read first Read Section 3.4 'Shifts in Supply Curve': increase/decrease in supply versus expansion/contraction; the elasticity formula from Section 3.5 is also tested here numerically.

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

- Rightward shift = increase in supply, leftward shift = decrease in supply; caused by factors OTHER than the good's own price.
- Increase/decrease in supply = shifts of the curve; expansion/contraction = movements along the curve due to own price.

Q 2 · PYQ 2023-Jun · Pg 146

RECALL
30 sec**Easy**

Q 5 · MTP 2026-Apr S1 · Pg 147

RECALL
30 sec**Medium**

Q 6 · MTP 2026-Apr S1 · Pg 148

RECALL
30 sec**Medium**

Q 7 · MTP 2026-Apr S2 · Pg 148

RECALL
30 sec**Medium****RECOGNISE 45 sec** decide which idea applies · 1 question Understanding · Level I

Q 8 · PYQ 2026-Sep · Pg 148

RECOGNISE
45 sec**Medium****COMPUTE 75 sec** one formula, straight through · 2 questions Application · Level II

- $E_s = \frac{\% \text{change in } Q_s}{\% \text{change in } P}$; e.g. price ₹2,000 to ₹2,100 (5%) and quantity 2,500 to 3,000 units (20%) gives $E_s = 4$.
- Reverse problems: given E_s and %change in Q , find required price - %change in $P = \% \text{change in } Q / E_s$, then apply to the old price ($E_s = 1.25$, Q up 20% means P up 16%, ₹10 to ₹11.60).

Q 3 · MTP 2024-Aug · Pg 146

COMPUTE
75 sec**Medium**

Q 4 · PYQ 2024-Sep · Pg 146

COMPUTE
75 sec**Medium****REASON** 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 1 · PYQ 2018-May · Pg 146

REASON
150 sec**Easy**

Topic 3.5: Elasticity of Supply

P4-C2-U3-T05

Read first Master Section 3.5: the Es formula, five types of supply elasticity with curve shapes, point and arc measurement (3.5.1), and determinants of Es (3.5.2).**RECALL** 30 sec know it or move on · 6 questions Remembering · Level I

- Es = percentage change in quantity supplied / percentage change in price.
- Types: Es = 0 perfectly inelastic (vertical, parallel to Y-axis); Es = infinity perfectly elastic (horizontal, parallel to X-axis); Es < 1 relatively inelastic; Es > 1 relatively elastic; Es = 1 unitary.
- Only two measurement methods: point elasticity and arc elasticity.

Q 4 · PYQ 2019-May · Pg 149

RECALL
30 sec**Easy**

Q 5 · PYQ 2019-Nov · Pg 149 asked 2x

RECALL
30 sec**Easy**

Q 22 · PYQ 2026-Jan · Pg 155

RECALL
30 sec**Easy**

Q 2 · PYQ 2018-Nov · Pg 149

RECALL
30 sec**Medium**

Q 8 · PYQ 2022-Jun · Pg 151

RECALL
30 sec**Medium**

Q 16 · PYQ 2025-Jan · Pg 153

RECALL
30 sec**Medium****RECOGNISE** 45 sec decide which idea applies · 7 questions Understanding · Level I

- Perishables (eggs) have inelastic supply - they cannot be stored; total supply of land is perfectly inelastic for the economy, unaffected by demand.
- Large quantity response to a small price change = relatively greater elastic supply (Es > 1).

Q 3 · PYQ 2019-May · Pg 149

RECOGNISE
45 sec**Easy**

Q 10 · PYQ 2019-Nov · Pg 151 asked 4×	RECOGNISE 45 sec	Easy
Q 11 · PYQ 2022-Dec · Pg 151	RECOGNISE 45 sec	Easy
Q 21 · PYQ 2026-Jan · Pg 155	RECOGNISE 45 sec	Easy
Q 19 · MTP 2025-Jan S2 · Pg 154	RECOGNISE 45 sec	Medium
Q 23 · MTP 2025-Aug S2 · Pg 155 asked 2×	RECOGNISE 45 sec	Medium
Q 24 · PYQ 2026-Sep · Pg 156	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 8 questions Application · Level II

- Percentage method: P ₹200 to ₹300 (+50%), Q 2000 to 5000 (+150%), $E_s = 3$.
- Point method for a supply function: $E_s = (dq/dp) \times (p/q)$; for $Q = 20p - 200$ at $p = ₹30$, $q = 400$, $E_s = 1.5$.
- Arc method: $E_s = (Q_2 - Q_1) / (Q_2 + Q_1) \times (P_2 + P_1) / (P_2 - P_1)$ - use only when asked.
- %change in Q = $E_s \times$ %change in P ($E_s = 5$, price +15% gives quantity +75%).

Q 1 · PYQ 2018-Nov · Pg 148	COMPUTE 75 sec	Medium
Q 7 · PYQ 2021-Dec · Pg 150	COMPUTE 75 sec	Medium
Q 9 · PYQ 2022-Jun · Pg 151	COMPUTE 75 sec	Medium
Q 13 · PYQ 2023-Jun · Pg 152	COMPUTE 75 sec	Medium
Q 14 · PYQ 2023-Dec · Pg 152	COMPUTE 75 sec	Medium
Q 15 · PYQ 2025-Jan · Pg 152	COMPUTE 75 sec	Medium
Q 17 · PYQ 2025-Jan · Pg 153 asked 2×	COMPUTE 75 sec	Medium
Q 20 · PYQ 2025-May · Pg 154	COMPUTE 75 sec	Medium

REASON 150 sec trace the chain before you answer · 3 questions Analysis · Level II

- Substitutes in production (corn/wheat): a price rise in one crop pulls inputs to it, shifting the other's supply left and raising its price - trace each market's shift in sequence.
- Classify each event as movement vs shift in each market before applying the laws of demand and supply.

Q 6 · PYQ 2020-Nov · Pg 150	REASON 150 sec	Easy
Q 12 · PYQ 2023-Jun · Pg 152	REASON	Medium

Q 18 · MTP 2025-Jan S2 · Pg 154

150 sec

REASON
150 sec**Medium**

Topic 3.6: Equilibrium Price

P4-C2-U3-T06

Read first Study Section 3.6 'Equilibrium Price' with Table 11 and Fig. 34, plus 3.6.1 on producer surplus and social efficiency; know that short-period equilibrium price is called market price.

NOTES

Producer surplus arises when the market price is MORE than the minimum price at which the producer is willing to supply.

It equals the area above the supply curve and below the price line; at equilibrium both consumer and producer surplus together are maximised (social efficiency).

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- Equilibrium (market clearing) price: quantity demanded = quantity supplied, no unsold stock and no excess demand.
- Short-run price is also called market price.

Q 1 · PYQ 2018-May · Pg 156

RECALL
30 sec**Easy**

Q 2 · PYQ 2022-Dec · Pg 156

RECALL
30 sec**Easy**

Q 3 · PYQ 2023-Dec · Pg 157

RECALL
30 sec**Easy**

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

Q 5 · MTP 2025-Apr S1 · Pg 157 asked 2×

COMPUTE
75 sec**Medium**

REASON 150 sec trace the chain before you answer · 1 question Analysis · Level II

- Simultaneous shifts: demand decreases + supply increases means price definitely falls, while equilibrium quantity is indeterminate (depends on relative shift sizes).
- Method: sketch both shifts, mark the new intersection range, and answer only what is certain - one variable is usually ambiguous.

Q 4 · PYQ 2026-Jan · Pg 157

REASON
150 sec**Medium**

CHAPTER 3

Theory of Production and Cost

2 Units · 9 Topics · 248 Classified Questions · 10.9 marks a paper · Importance: B

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 41 sec a question on average — **a chapter to work with a pen**

RECALL Remembering	70.6%	30 sec	132 of 187 past-exam questions
RECOGNISE Understanding	12.3%	45 sec	23 of 187 past-exam questions
COMPUTE Application	15.0%	75 sec	28 of 187 past-exam questions
REASON Analysis	2.1%	150 sec	4 of 187 past-exam questions

Unit 3.1: Theory of Production

P4-C3-U1 · Importance B · 6.1 marks a paper · Rank 2 in chapter · Category A · 49.6% of chapter questions · 123 questions

Topic 1: Meaning of Production

P4-C3-U1-T00

Read first Read Section 1.0 of Unit 1 (Theory of Production and Cost): production as creation of utility, what counts as production, and the business decision issues listed there.

NOTES

Only activities intended for exchange in the market are production; work done out of love and affection, voluntary services and goods for self-consumption are excluded.

So teaching for a salary is production, but helping a blind person cross the road or household chores are not - exchange in the market is the distinguishing test.

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

- Production = creation of utility in matter (form, place, time and personal utility) - not creation of matter itself; the entire process of production is creation of utilities in the form of goods and services.
- Business decision issues include: optimum output and selling price, product placement in the market, input choice - know the list of decisions a firm faces.

Q 1 · PYQ 2018-May · Pg 162

RECALL
30 sec

Easy

Q 2 · PYQ 2018-Nov · Pg 162	RECALL 30 sec	Easy
Q 4 · PYQ 2021-Jan · Pg 163	RECALL 30 sec	Easy
Q 5 · PYQ 2024-Sep · Pg 163	RECALL 30 sec	Easy
Q 3 · PYQ 2019-May · Pg 163	RECALL 30 sec	Medium

Topic 1.1: Factors of Production

P4-C3-U1-T01

Read first Study Section 1.1: characteristics of land, labour, capital (fixed vs circulating, stages of capital formation) and the entrepreneur's functions (Sections 1.1.0-1.1.3), plus enterprise objectives, the 4 Ps and accounting vs economic profit.

RECALL 30 sec know it or move on · 33 questions Remembering · Level I

- Land: free gift of nature, fixed/perfectly inelastic supply, PASSIVE factor, immobile, heterogeneous (not homogeneous), multiple uses - 'land is active' is always the false option.
- Labour: active, perishable, inseparable from the labourer, weak bargaining power, mobile; consumption is the base of all production activities.
- Capital = wealth used for further production of wealth; circulating capital works in a single use; disguised unemployment = surplus manpower with zero marginal productivity; economies of scale: 2 kinds (internal, external); output maximised where $MR = MC$.
- Entrepreneur: initiates the enterprise, co-ordinates resources, bears risk/uncertainty (most important, uninsurable), innovates (Schumpeter's innovation theory); day-to-day supervision is NOT necessary. Organic objectives = survival, growth, expansion; human objective = interesting job content; 4 Ps = Product, Price, Place, Promotion.

Q 4 · PYQ 2019-Nov · Pg 164	RECALL 30 sec	Easy
Q 5 · PYQ 2020-Nov · Pg 164	RECALL 30 sec	Easy
Q 6 · PYQ 2020-Nov · Pg 165	RECALL 30 sec	Easy
Q 7 · PYQ 2021-Jan · Pg 165	RECALL 30 sec	Easy
Q 8 · PYQ 2021-Jul · Pg 165	RECALL 30 sec	Easy
Q 9 · PYQ 2021-Jul · Pg 165	RECALL 30 sec	Easy
Q 11 · PYQ 2022-Jun · Pg 166	RECALL 30 sec	Easy

Q 12 · PYQ 2022-Jun · Pg 166	RECALL 30 sec	Easy
Q 13 · PYQ 2022-Jun · Pg 166	RECALL 30 sec	Easy
Q 14 · PYQ 2022-Dec · Pg 166	RECALL 30 sec	Easy
Q 15 · PYQ 2020-Nov · Pg 167 asked 2×	RECALL 30 sec	Easy
Q 16 · PYQ 2023-Jun · Pg 167	RECALL 30 sec	Easy
Q 17 · PYQ 2023-Dec · Pg 167	RECALL 30 sec	Easy
Q 18 · PYQ 2023-Dec · Pg 167	RECALL 30 sec	Easy
Q 20 · PYQ 2024-Jun · Pg 168 asked 2×	RECALL 30 sec	Easy
Q 21 · PYQ 2024-Jun · Pg 168	RECALL 30 sec	Easy
Q 23 · MTP 2024-Dec S1 · Pg 168	RECALL 30 sec	Easy
Q 24 · PYQ 2025-Jan · Pg 169	RECALL 30 sec	Easy
Q 25 · PYQ 2025-May · Pg 169	RECALL 30 sec	Easy
Q 26 · PYQ 2025-May · Pg 169	RECALL 30 sec	Easy
Q 27 · PYQ 2025-Sep · Pg 169	RECALL 30 sec	Easy
Q 28 · PYQ 2025-Sep · Pg 169	RECALL 30 sec	Easy
Q 29 · PYQ 2026-Jan · Pg 170	RECALL 30 sec	Easy
Q 30 · PYQ 2026-Jan · Pg 170	RECALL 30 sec	Easy
Q 31 · PYQ 2026-May · Pg 170	RECALL 30 sec	Easy
Q 33 · MTP 2025-Aug S1 · Pg 170	RECALL 30 sec	Easy
Q 34 · MTP 2025-May S2 · Pg 171	RECALL 30 sec	Easy
Q 35 · MTP 2026-Apr S2 · Pg 171	RECALL 30 sec	Easy
Q 36 · PYQ 2026-Sep · Pg 171	RECALL 30 sec	Medium
Q 37 · PYQ 2026-Sep · Pg 171	RECALL 30 sec	Medium

Q 38 · PYQ 2026-Sep · Pg 171	RECALL 30 sec	Medium
Q 39 · PYQ 2026-Sep · Pg 172	RECALL 30 sec	Medium
Q 40 · PYQ 2026-Sep · Pg 172	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 7 questions Understanding · Level I

- Accounting profit counts only explicit costs; economic profit deducts explicit + implicit costs, so accounting profit is generally higher.
- Long-run fall in labour supply: output falls, aggregate price level rises.
- TP/AP/MP: when TP rises, AP and MP need not both rise; MP = AP at AP's maximum.

Q 2 · PYQ 2016-Dec · Pg 164 asked 2×	RECOGNISE 45 sec	Easy
Q 3 · PYQ 2019-May · Pg 164	RECOGNISE 45 sec	Easy
Q 19 · PYQ 2023-Dec · Pg 167	RECOGNISE 45 sec	Easy
Q 32 · PYQ 2026-May · Pg 170	RECOGNISE 45 sec	Easy
Q 1 · PYQ 2018-May · Pg 164	RECOGNISE 45 sec	Medium
Q 10 · PYQ 2021-Dec · Pg 166	RECOGNISE 45 sec	Medium
Q 41 · PYQ 2026-Sep · Pg 172	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

- Multiplier drill (appears here): $K = \text{change in } Y / \text{change in } I = 1800/600 = 3$.
- Then $MPC = 1 - 1/K = 1 - 1/3 = 2/3$.

Q 22 · MTP 2024-Aug · Pg 168	COMPUTE 75 sec	Easy
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Topic 1.2: Production Function

P4-C3-U1-T02

Read first Master Section 1.2: production function definition, Cobb-Douglas (1.2.0), law of variable proportions with three stages (1.2.1), and returns to scale (1.2.2).

RECALL 30 sec know it or move on · 47 questions Remembering · Level I

- Production function = technical relation between inputs and output; Samuelson: maximum output from given inputs under given technology; alternatively minimum inputs for a given output; $Q = f(L, K)$.
- Cobb-Douglas: $Q = K^a L^{1-a}$; US MANUFACTURING; labour contributed 3/4, capital 1/4; constant returns to scale (linear homogeneous). Exponent sum: =1 constant, >1 increasing, <1 decreasing returns.
- Variable proportions (= diminishing returns) is SHORT-RUN, one input fixed; returns to scale is LONG-RUN; secular period = very long period; MP = slope of TP curve.
- Three stages: I increasing, II diminishing, III negative returns.

Q 6 · PYQ 2018-Nov · Pg 173	RECALL 30 sec	Easy
Q 8 · PYQ 2018-Nov · Pg 174	RECALL 30 sec	Easy
Q 13 · PYQ 2020-Nov · Pg 176	RECALL 30 sec	Easy
Q 14 · PYQ 2020-Nov · Pg 176	RECALL 30 sec	Easy
Q 20 · PYQ 2022-Jun · Pg 177	RECALL 30 sec	Easy
Q 21 · PYQ 2022-Dec · Pg 178	RECALL 30 sec	Easy
Q 25 · PYQ 2020-Nov · Pg 178 asked 2×	RECALL 30 sec	Easy
Q 26 · PYQ 2023-Jun · Pg 179	RECALL 30 sec	Easy
Q 27 · PYQ 2023-Dec · Pg 179	RECALL 30 sec	Easy
Q 45 · MTP 2025-Jan S2 · Pg 185	RECALL 30 sec	Easy
Q 47 · PYQ 2025-May · Pg 185	RECALL 30 sec	Easy
Q 48 · PYQ 2025-May · Pg 186	RECALL 30 sec	Easy
Q 49 · PYQ 2025-May · Pg 186	RECALL 30 sec	Easy
Q 57 · PYQ 2026-Jan · Pg 188	RECALL 30 sec	Easy
Q 58 · PYQ 2026-Jan · Pg 189	RECALL 30 sec	Easy
Q 59 · PYQ 2026-May · Pg 189	RECALL 30 sec	Easy
Q 60 · PYQ 2026-May · Pg 189	RECALL 30 sec	Easy
Q 3 · PYQ 2018-May · Pg 173	RECALL 30 sec	Medium

Q 4 · PYQ 2018-May · Pg 173	RECALL 30 sec	Medium
Q 5 · PYQ 2018-May · Pg 173	RECALL 30 sec	Medium
Q 11 · PYQ 2019-Nov · Pg 175	RECALL 30 sec	Medium
Q 12 · PYQ 2019-Nov · Pg 175	RECALL 30 sec	Medium
Q 15 · PYQ 2021-Jan · Pg 176	RECALL 30 sec	Medium
Q 17 · PYQ 2021-Jan · Pg 176	RECALL 30 sec	Medium
Q 18 · PYQ 2021-Jan · Pg 177	RECALL 30 sec	Medium
Q 22 · PYQ 2018-May · Pg 178 asked 2×	RECALL 30 sec	Medium
Q 23 · PYQ 2021-Jan · Pg 178 asked 2×	RECALL 30 sec	Medium
Q 28 · PYQ 2024-Jun · Pg 179	RECALL 30 sec	Medium
Q 30 · PYQ 2024-Jun · Pg 180	RECALL 30 sec	Medium
Q 31 · MTP 2024-Aug · Pg 180 asked 2×	RECALL 30 sec	Medium
Q 32 · MTP 2024-Aug · Pg 181	RECALL 30 sec	Medium
Q 33 · PYQ 2024-Sep · Pg 181	RECALL 30 sec	Medium
Q 34 · PYQ 2024-Sep · Pg 181	RECALL 30 sec	Medium
Q 36 · MTP 2024-Aug · Pg 182	RECALL 30 sec	Medium
Q 37 · PYQ 2019-Nov · Pg 182 asked 3×	RECALL 30 sec	Medium
Q 38 · MTP 2024-Dec S1 · Pg 182	RECALL 30 sec	Medium
Q 39 · PYQ 2024-Sep · Pg 183	RECALL 30 sec	Medium
Q 40 · PYQ 2024-Sep · Pg 183	RECALL 30 sec	Medium
Q 41 · PYQ 2025-Jan · Pg 183	RECALL 30 sec	Medium
Q 44 · PYQ 2025-Jan · Pg 185	RECALL 30 sec	Medium
Q 46 · MTP 2024-Aug · Pg 185 asked 3×	RECALL 30 sec	Medium

Q 56 · PYQ 2025-Sep · Pg 188	RECALL 30 sec	Medium
Q 61 · MTP 2025-Aug S1 · Pg 189	RECALL 30 sec	Medium
Q 62 · MTP 2025-Dec S1 · Pg 190	RECALL 30 sec	Medium
Q 63 · MTP 2026-Apr S1 · Pg 190	RECALL 30 sec	Medium
Q 64 · MTP 2026-Apr S2 · Pg 190	RECALL 30 sec	Medium
Q 65 · PYQ 2026-Sep · Pg 190	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 5 questions Understanding · Level I

- AP rising: $MP > AP$; AP maximum: $MP = AP$; AP falling: $MP < AP$; TP falling: MP negative; MP peaks at TP's point of inflexion.
- TP declines only in Stage 3; in Stage 2 MP and AP fall but stay positive; Stage 1 increasing returns come from better use of the indivisible fixed factor.
- Decreasing returns to scale: output rises less than proportionately to ALL inputs; external economies come from increasing returns to scale.

Q 7 · PYQ 2018-Nov · Pg 174	RECOGNISE 45 sec	Easy
Q 54 · MTP 2025-Jan S2 · Pg 187 asked 2×	RECOGNISE 45 sec	Easy
Q 2 · PYQ 2018-May · Pg 173 asked 2×	RECOGNISE 45 sec	Medium
Q 35 · MTP 2024-Aug · Pg 181 asked 2×	RECOGNISE 45 sec	Medium
Q 55 · PYQ 2025-Sep · Pg 188	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 9 questions Application · Level II

- MP of nth unit = $TP_n - TP_{n-1}$; TP = sum of MPs; $AP = TP/L$ - build the missing column first.
- Diminishing marginal returns: TP additions shrink (50, 90, 120, 140 gives MPs 50, 40, 30, 20).

Q 1 · PYQ 2018-May · Pg 172	COMPUTE 75 sec	Medium
Q 9 · PYQ 2019-Nov · Pg 175	COMPUTE 75 sec	Medium
Q 10 · PYQ 2019-Nov · Pg 175	COMPUTE 75 sec	Medium
Q 29 · PYQ 2024-Jun · Pg 180	COMPUTE 75 sec	Medium

Q 42 · PYQ 2025-Jan · Pg 184	COMPUTE 75 sec	Medium
Q 43 · PYQ 2025-Jan · Pg 184	COMPUTE 75 sec	Medium
Q 51 · PYQ 2025-Jan · Pg 187 asked 2×	COMPUTE 75 sec	Medium
Q 52 · PYQ 2025-Sep · Pg 187	COMPUTE 75 sec	Medium
Q 53 · PYQ 2025-Sep · Pg 187	COMPUTE 75 sec	Medium

REASON 150 sec trace the chain before you answer · 4 questions · Analysis · Level II

- Grade A (rational producer operates in Stage II, AP declining) and R (MP claims for Stages I/III) separately - MP is negative only in Stage III.
- Pick the code only after grading both.

Q 19 · PYQ 2022-Jun · Pg 177	REASON 150 sec	Easy
Q 24 · PYQ 2022-Jun · Pg 178 asked 2×	REASON 150 sec	Easy
Q 16 · PYQ 2018-May · Pg 176 asked 2×	REASON 150 sec	Medium
Q 50 · PYQ 2019-May · Pg 186 asked 3×	REASON 150 sec	Medium

Topic 1.3: Production Optimisation

P4-C3-U1-T03

Read first Read Section 1.3 'Production Optimisation': isoquants and their properties, iso-cost (budget/outlay) lines, MRTS and least-cost combination at the tangency point (Figs 2-4).

NOTES

$MRTS(LK) = MP(L)/MP(K)$; if $MRTS(LK) = 2$, then $MP(K)/MP(L) = 1/2$.

Watch the order: invert the ratio whenever the question asks for the reciprocal form.

RECALL 30 sec know it or move on · 8 questions · Remembering · Level I

- Isoquant = curve showing all input combinations capable of producing the SAME level of output; also called equal-product curves, iso-product curves, production indifference curves - i.e. product lines.
- Properties: negatively sloped, convex to origin (diminishing MRTS), non- intersecting; 'concave to origin' or 'intersecting' is the incorrect statement.
- Iso-cost line (budget/budget constraint line) = alternative combinations of two factors the firm can buy with a given outlay; least-cost combination is where the iso-cost line is tangent to the isoquant.

Q 1 · PYQ 2018-May · Pg 191	RECALL 30 sec	Easy
Q 3 · PYQ 2021-Jan · Pg 191	RECALL 30 sec	Easy
Q 4 · PYQ 2023-Dec · Pg 191	RECALL 30 sec	Easy
Q 5 · PYQ 2024-Jun · Pg 192	RECALL 30 sec	Easy
Q 9 · RTP 2025-Jan · Pg 192 asked 2×	RECALL 30 sec	Easy
Q 10 · PYQ 2025-May · Pg 193	RECALL 30 sec	Easy
Q 11 · PYQ 2026-Jan · Pg 193	RECALL 30 sec	Easy
Q 12 · MTP 2025-Aug S1 · Pg 193	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- An iso-cost line is a straight line BECAUSE the market rate of exchange (price ratio) between the two inputs is constant - both A and R true, R explains A.
- Unlike ICs, the output level of each isoquant is quantifiable (IQ1 = 100 units etc.); higher isoquant = higher output.

Q 2 · PYQ 2020-Nov · Pg 191 asked 2×	RECOGNISE 45 sec	Easy
Q 6 · MTP 2024-Aug · Pg 192	RECOGNISE 45 sec	Medium
Q 7 · MTP 2024-Aug · Pg 192	RECOGNISE 45 sec	Medium
Q 8 · MTP 2025-Jan S2 · Pg 192	RECOGNISE 45 sec	Medium

Unit 3.2: Theory of Cost

P4-C3-U2 · Importance B · 4.8 marks a paper · Rank 1 in chapter · Category A · 50.4% of chapter questions · 125 questions

Topic 2: Cost Concepts

P4-C3-U2-T00

Read first Read Section 2.0 'Cost Concepts' of Unit 2 (Theory of Cost): the paired concepts — accounting vs economic costs, outlay vs opportunity costs, direct vs indirect, incremental vs sunk, historical vs replacement, private vs social, and fixed/variable/semi-variable/stair-step costs.

RECALL 30 sec know it or move on · 22 questions Remembering · Level I

- Total economic cost = explicit (accounting) cost + implicit cost, where normal profit is part of implicit cost; implicit cost = normal return on the entrepreneur's own capital + salary he could have earned elsewhere
- Sunk costs are incurred once and for all and cannot be recovered (advertising, R&D, specialised equipment); they act as a barrier to entry
- Stair-step costs stay fixed over a range of output but jump to a higher level beyond a limit (e.g. foreman's salary); fixed cost is never zero even when production stops
- Opportunity cost = value of the next best alternative foregone; it relates to sacrificed alternatives and is NOT recorded in books of account

Q 1 · PYQ 2017-Jun · Pg 198 asked 2×	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 198	RECALL 30 sec	Easy
Q 3 · PYQ 2019-Nov · Pg 199	RECALL 30 sec	Easy
Q 4 · PYQ 2019-Nov · Pg 199	RECALL 30 sec	Easy
Q 6 · PYQ 2022-Jun · Pg 199	RECALL 30 sec	Easy
Q 7 · PYQ 2022-Dec · Pg 200	RECALL 30 sec	Easy
Q 8 · PYQ 2023-Jun · Pg 200	RECALL 30 sec	Easy
Q 9 · PYQ 2023-Dec · Pg 200	RECALL 30 sec	Easy
Q 12 · MTP 2024-Aug · Pg 201 asked 2×	RECALL 30 sec	Easy
Q 13 · PYQ 2017-Jun · Pg 201 asked 4×	RECALL 30 sec	Easy
Q 14 · MTP 2024-Aug · Pg 201	RECALL 30 sec	Easy
Q 17 · RTP 2024-Sep · Pg 203	RECALL 30 sec	Easy
Q 19 · MTP 2024-Dec · Pg 203	RECALL 30 sec	Easy
Q 23 · RTP 2025-Jan · Pg 204	RECALL 30 sec	Easy
Q 25 · PYQ 2026-Jan · Pg 205	RECALL 30 sec	Easy
Q 27 · PYQ 2026-May · Pg 205	RECALL 30 sec	Easy
Q 28 · PYQ 2026-May · Pg 205	RECALL 30 sec	Easy

Q 29 · MTP 2025-Aug S2 · Pg 206	RECALL 30 sec	Easy
Q 15 · PYQ 2024-Sep · Pg 201	RECALL 30 sec	Medium
Q 21 · RTP 2025-Jan · Pg 204 asked 2×	RECALL 30 sec	Medium
Q 22 · MTP 2025-Jan S2 · Pg 204	RECALL 30 sec	Medium
Q 31 · PYQ 2026-Sep · Pg 206	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 7 questions Understanding · Level I

- Accounting cost is LESS than economic cost because it omits implicit costs; a firm earns zero economic profit when TR just covers explicit + implicit costs (price = minimum ATC)
- Sunk costs are irrelevant to decisions because their opportunity cost is zero; an owned-and-used input has zero explicit cost but positive implicit/opportunity cost
- Shut-down point: $P = AVC$, so $TR = TVC$ and the firm's loss = TFC — all three statements hold together

Q 5 · PYQ 2021-Jan · Pg 199	RECOGNISE 45 sec	Easy
Q 10 · PYQ 2024-Jun · Pg 200	RECOGNISE 45 sec	Easy
Q 11 · PYQ 2024-Jun · Pg 200	RECOGNISE 45 sec	Easy
Q 18 · MTP 2024-Dec S1 · Pg 203	RECOGNISE 45 sec	Easy
Q 20 · PYQ 2023-Dec · Pg 203 asked 4×	RECOGNISE 45 sec	Easy
Q 26 · PYQ 2026-May · Pg 205	RECOGNISE 45 sec	Easy
Q 30 · MTP 2025-Aug S2 · Pg 206	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- Sunk-cost totals: from a list of expenses, add only advertising, R&D and specialised equipment/fixed facilities — exclude fuel, wages, materials
- Economic profit = $TR - \text{explicit cost} - \text{implicit cost}$ (implicit = normal % return on own capital + foregone salary); compute implicit items before subtracting

Q 16 · PYQ 2024-Sep · Pg 202	COMPUTE 75 sec	Medium
Q 24 · PYQ 2025-Sep · Pg 204	COMPUTE 75 sec	Medium

Topic 2.1: Cost Function

P4-C3-U2-T01

Read first Read Section 2.1 'Cost Function': the definition of a cost function, how it is obtained from the production function and input supply, and the split into short-run and long-run cost functions.

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- Cost function = mathematical relation between cost (dependent variable) and its determinants — output, factor prices, technology; it is a FUNCTIONAL concept
- The shape of cost curves depends upon the cost function; cost functions are of two kinds — short-run and long-run
- Opportunity cost is neither MC, VC nor TFC — it is the foregone next-best alternative (a distinct concept)

Q 1 · PYQ 2018-May · Pg 206	RECALL 30 sec	Easy
Q 2 · MTP 2024-Aug · Pg 206 asked 2x	RECALL 30 sec	Easy
Q 3 · RTP 2025-Jan · Pg 207	RECALL 30 sec	Easy
Q 7 · MTP 2025-Apr S1 · Pg 208	RECALL 30 sec	Easy
Q 5 · PYQ 2026-Jan · Pg 207	RECALL 30 sec	Medium
Q 6 · PYQ 2026-Jan · Pg 207	RECALL 30 sec	Medium

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- From a cost table: $AFC = TFC/Q$ and $AVC = (TC - TFC)/Q$; identify TFC as TC at zero output
- Economic profit drill: $TR - (\text{production cost} + \text{normal return on capital invested})$ — e.g. normal return = given % of ₹ invested

Q 4 · PYQ 2025-Sep · Pg 207	COMPUTE 75 sec	Easy
Q 8 · MTP 2025-Dec S1 · Pg 208 asked 2x	COMPUTE 75 sec	Easy

Topic 2.2: Short Run Total Cost

P4-C3-U2-T02

Read first Read Section 2.2 'Short Run Total Costs': TFC, TVC and TC curves, the averages AFC/AVC/ATC, marginal cost, Table 3, and the AC--MC relationship. This is the heaviest numerical zone of the unit.

RECALL 30 sec know it or move on · 37 questions Remembering · Level I

- TC = TFC + TVC; ATC = AFC + AVC, hence $AFC = ATC - AVC$; vertical gap between TC and TVC = TFC at every output
- $AFC = TFC/Q$ is a rectangular hyperbola — falls continuously left to right, never touches either axis, and is the ONLY curve that is never U-shaped; AVC, ATC and MC are all U-shaped
- MC cuts AVC and AC at their minimum points; when AC is minimum, $MC = AC$; TVC (and TC) curve is inverse-S shaped
- In the long run ALL costs are variable; $MC_n = TC_n - TC_{n-1}$

Q 7 · PYQ 2018-Nov · Pg 210	RECALL 30 sec	Easy
Q 12 · PYQ 2019-Nov · Pg 212	RECALL 30 sec	Easy
Q 13 · PYQ 2019-Nov · Pg 212	RECALL 30 sec	Easy
Q 14 · PYQ 2020-Nov · Pg 213	RECALL 30 sec	Easy
Q 15 · PYQ 2020-Nov · Pg 214	RECALL 30 sec	Easy
Q 16 · PYQ 2020-Nov · Pg 214	RECALL 30 sec	Easy
Q 27 · PYQ 2022-Jun · Pg 218	RECALL 30 sec	Easy
Q 1 · PYQ 2017-Dec · Pg 208 asked 2×	RECALL 30 sec	Medium
Q 2 · PYQ 2018-May · Pg 208	RECALL 30 sec	Medium
Q 4 · PYQ 2018-May · Pg 209 asked 2×	RECALL 30 sec	Medium
Q 6 · PYQ 2018-May · Pg 210 asked 2×	RECALL 30 sec	Medium
Q 9 · PYQ 2019-May · Pg 211	RECALL 30 sec	Medium
Q 11 · PYQ 2019-May · Pg 212	RECALL 30 sec	Medium
Q 19 · PYQ 2021-Jan · Pg 215 asked 2×	RECALL 30 sec	Medium
Q 20 · PYQ 2021-Jan · Pg 215	RECALL 30 sec	Medium
Q 22 · PYQ 2021-Jul · Pg 216	RECALL 30 sec	Medium
Q 23 · PYQ 2021-Jul · Pg 217	RECALL 30 sec	Medium

Q 24 · PYQ 2021-Jul · Pg 217	RECALL 30 sec	Medium
Q 25 · PYQ 2021-Dec · Pg 217	RECALL 30 sec	Medium
Q 31 · PYQ 2024-Jun · Pg 219	RECALL 30 sec	Medium
Q 37 · MTP 2024-Dec · Pg 221	RECALL 30 sec	Medium
Q 38 · MTP 2024-Dec · Pg 222	RECALL 30 sec	Medium
Q 39 · MTP 2024-Dec · Pg 222	RECALL 30 sec	Medium
Q 40 · MTP 2024-Dec · Pg 222	RECALL 30 sec	Medium
Q 41 · MTP 2024-Dec S1 · Pg 222	RECALL 30 sec	Medium
Q 43 · MTP 2025-Jan S2 · Pg 223	RECALL 30 sec	Medium
Q 44 · MTP 2025-Jan S2 · Pg 223	RECALL 30 sec	Medium
Q 45 · PYQ 2025-May · Pg 224	RECALL 30 sec	Medium
Q 46 · PYQ 2025-May · Pg 224	RECALL 30 sec	Medium
Q 50 · PYQ 2026-May · Pg 226	RECALL 30 sec	Medium
Q 54 · MTP 2025-May S2 · Pg 227	RECALL 30 sec	Medium
Q 55 · MTP 2025-Aug S1 · Pg 227	RECALL 30 sec	Medium
Q 57 · MTP 2026-Apr S1 · Pg 227	RECALL 30 sec	Medium
Q 58 · MTP 2026-Apr S2 · Pg 228	RECALL 30 sec	Medium
Q 34 · PYQ 2017-Dec · Pg 220 asked 2×	RECALL 30 sec	Hard
Q 35 · PYQ 2024-Sep · Pg 221	RECALL 30 sec	Hard
Q 36 · PYQ 2024-Sep · Pg 221	RECALL 30 sec	Hard

RECOGNISE 45 sec decide which idea applies · 7 questions Understanding · Level I

- MC is independent of fixed cost — it is derived only from TVC and changes due to variable cost
- When AC falls, $MC < AC$; when AC rises, $MC > AC$ (MC can rise while AC still falls — AC falling does not force MC to fall)

- Diminishing marginal returns make MC rise and TVC rise at an increasing rate; total and variable cost rise continuously with output
- ATC and AVC converge at higher output because AFC continuously declines toward zero

Q 8 · PYQ 2018-Nov · Pg 210	RECOGNISE 45 sec	Easy
Q 26 · PYQ 2022-Jun · Pg 217	RECOGNISE 45 sec	Easy
Q 42 · PYQ 2025-Jan · Pg 223	RECOGNISE 45 sec	Easy
Q 10 · PYQ 2019-May · Pg 211	RECOGNISE 45 sec	Medium
Q 32 · MTP 2024-Aug · Pg 220	RECOGNISE 45 sec	Medium
Q 33 · MTP 2024-Aug · Pg 220	RECOGNISE 45 sec	Medium
Q 56 · RTP 2025-Sep · Pg 227	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 16 questions Application · Level II

- AFC re-scaling: $TFC = AFC \times Q$ is constant, so AFC at new output = $TFC/\text{new } Q$ (₹20 at 6 units → TFC ₹120 → ₹30 at 4 units)
- From tables: $AVC = (TC - TFC)/Q$, $ATC = TC/Q$, $TVC = TC - TFC$, MC of nth unit = $TC_n - TC_{n-1}$
- Splits: given ATC and TFC, $AVC = ATC - TFC/Q$; given AVC and TFC, $ATC = AVC + TFC/Q$
- Diminishing marginal returns set in between the units where MC stops falling and starts rising — compute successive MCs first

Q 17 · PYQ 2020-Nov · Pg 214	COMPUTE 75 sec	Easy
Q 3 · PYQ 2018-May · Pg 209	COMPUTE 75 sec	Medium
Q 5 · PYQ 2018-May · Pg 209	COMPUTE 75 sec	Medium
Q 18 · PYQ 2016-Dec · Pg 214 asked 2×	COMPUTE 75 sec	Medium
Q 21 · PYQ 2021-Jul · Pg 216	COMPUTE 75 sec	Medium
Q 28 · PYQ 2021-Jan · Pg 218 asked 2×	COMPUTE 75 sec	Medium
Q 29 · PYQ 2016-Dec · Pg 218 asked 2×	COMPUTE 75 sec	Medium
Q 30 · PYQ 2024-Jun · Pg 219	COMPUTE 75 sec	Medium

Q 47 · PYQ 2025-Sep · Pg 225	COMPUTE 75 sec	Medium
Q 48 · PYQ 2025-May · Pg 225	COMPUTE 75 sec	Medium
Q 49 · PYQ 2025-May · Pg 225	COMPUTE 75 sec	Medium
Q 51 · PYQ 2026-May · Pg 226	COMPUTE 75 sec	Medium
Q 52 · PYQ 2026-May · Pg 226	COMPUTE 75 sec	Medium
Q 53 · PYQ 2026-May · Pg 227	COMPUTE 75 sec	Medium
Q 59 · PYQ 2026-Sep · Pg 228	COMPUTE 75 sec	Medium
Q 60 · PYQ 2026-Sep · Pg 228	COMPUTE 75 sec	Medium

Topic 2.3: Long Run Average Cost Curve

P4-C3-U2-T03

Read first Read Section 2.3 'Long Run Average Cost Curve': derivation of LAC as the envelope of short-run AC (plant) curves, the planning-curve idea, why LAC is U- shaped (returns to scale), and the modern L-shaped LAC.

RECALL 30 sec know it or move on · 9 questions Remembering · Level I

- LAC is called the 'envelope curve' (it envelopes/supports the family of SAC curves from below) and the 'planning curve' (firm plans long-run plant size on it); each SAC is a 'plant curve'
- The shape of LAC depends on RETURNS TO SCALE, not the law of variable proportions; increasing returns to scale are explained by internal and external economies
- Modern industrial units face an L-shaped LAC due to changing technology — costs fall with scale and do not rise again
- Economies of scope = fall in average total cost when a firm produces more than one product

Q 1 · PYQ 2018-May · Pg 229	RECALL 30 sec	Easy
Q 2 · PYQ 2023-Jun · Pg 229 asked 2×	RECALL 30 sec	Easy
Q 3 · PYQ 2024-Jun · Pg 229	RECALL 30 sec	Easy
Q 4 · PYQ 2024-Jun · Pg 229	RECALL 30 sec	Easy
Q 5 · PYQ 2025-Jan · Pg 229	RECALL 30 sec	Easy

Q 6 · MTP 2025-Jan S2 · Pg 230	RECALL 30 sec	Easy
Q 7 · RTP 2025-Jan · Pg 230 asked 2x	RECALL 30 sec	Easy
Q 8 · PYQ 2025-Sep · Pg 230	RECALL 30 sec	Easy
Q 9 · MTP 2025-May S2 · Pg 230	RECALL 30 sec	Easy

Topic 2.4: Economies & Diseconomies of Scale

P4-C3-U2-T04

Read first Read Section 2.4 'Economies and Diseconomies of Scale': the five internal economies (technical, managerial, commercial, financial, risk-bearing) with their diseconomies, and the six external economies from industry expansion; also revise the shut-down rule from cost-revenue analysis.

NOTES

Economic profit numerical: $TR - (\text{cost of production} + \text{normal return, e.g. } 10\% \text{ of } ₹1,50,000 \text{ investment})$ — implicit return must be deducted

RECALL 30 sec know it or move on · 13 questions Remembering · Level I

- Internal economies accrue to a FIRM from expanding its own output (specialised labour, superior techniques, use of by-products); external economies accrue to all firms when the INDUSTRY expands
- External economies: cheaper raw materials and capital equipment, technological external economies, development of skilled labour, growth of ancillary industries, better transport/marketing, economies of information
- LAC is U-shaped and is also called the envelope curve; in a Cobb-Douglas function, output change from one extra unit of an input relates to elasticity

Q 3 · PYQ 2020-Nov · Pg 231	RECALL 30 sec	Easy
Q 4 · PYQ 2020-Nov · Pg 232	RECALL 30 sec	Easy
Q 6 · PYQ 2023-Jun · Pg 232	RECALL 30 sec	Easy
Q 7 · RTP 2024-Sep · Pg 232	RECALL 30 sec	Easy
Q 8 · PYQ 2025-Jan · Pg 233	RECALL 30 sec	Easy
Q 2 · PYQ 2019-Nov · Pg 231	RECALL 30 sec	Medium

Q 9 · MTP 2025-Jan S2 · Pg 233	RECALL 30 sec	Medium
Q 10 · MTP 2025-Jan S2 · Pg 233	RECALL 30 sec	Medium
Q 11 · PYQ 2026-Jan · Pg 233	RECALL 30 sec	Medium
Q 14 · MTP 2025-Aug S2 · Pg 234	RECALL 30 sec	Medium
Q 15 · RTP 2025-May · Pg 234 asked 3×	RECALL 30 sec	Medium
Q 16 · MTP 2026-Apr S1 · Pg 234	RECALL 30 sec	Medium
Q 17 · MTP 2026-Apr S2 · Pg 235	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- Output increasing more than inputs (increasing returns to scale) is due to internal AND external economies; a firm first enjoys internal economies, then beyond a limit suffers internal diseconomies
- Shut-down logic: a loss-making firm continues in the short run if $P > AVC$; it shuts down when $P < AVC$ in the SHORT run — at shut-down, price is below ATC but equal to minimum AVC
- External assistance or unskilled labour are NOT sources of external economies — MCQs swap them in

Q 1 · PYQ 2018-May · Pg 231	RECOGNISE 45 sec	Medium
Q 5 · PYQ 2022-Dec · Pg 232	RECOGNISE 45 sec	Medium
Q 13 · MTP 2025-Apr S1 · Pg 234	RECOGNISE 45 sec	Medium
Q 12 · PYQ 2026-May · Pg 233	RECOGNISE 45 sec	Hard

CHAPTER 4

Price Determination in Different Markets

3 Units · 11 Topics · 376 Classified Questions · 13.9 marks a paper · Importance: A

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 40 sec a question on average — **mostly reading, with a little arithmetic**

RECALL Remembering	75.3%	30 sec	216 of 287 past-exam questions
RECOGNISE Understanding	15.0%	45 sec	43 of 287 past-exam questions
COMPUTE Application	5.6%	75 sec	16 of 287 past-exam questions
REASON Analysis	4.2%	150 sec	12 of 287 past-exam questions

Unit 4.1: Meaning and Types of Markets

P4-C4-U1 · Importance B · 3.5 marks a paper · Rank 2 in chapter · Category B · 26.9% of chapter questions · 101 questions

Topic 1: Meaning of Market

P4-C4-U1-T00

Read first Read Section 1.0 'Meaning of Market' of Chapter 4 Unit 1: price and exchange value, the five elements of a market, product vs factor markets, and the six bases of classification (geographical area, time, nature of transaction, regulation, volume of business, competition).

RECALL 30 sec know it or move on · 31 questions Remembering · Level I

- Five elements of a market: buyers and sellers; a product or service; bargaining for a price; knowledge about market conditions; ONE price for a product at a given time
- By transaction: spot/cash market (goods for money payable immediately, e.g. grain mandi) vs forward/future market (contract to pay and deliver at a future date); by regulation: regulated (stock exchange) vs unregulated/free market (haat bazaar)
- By volume: wholesale market — bulk, trader-to-trader (B2B) vs retail — small quantities to ultimate consumers (B2C); by area: local, regional (few adjacent cities/states), national, international
- Alfred Marshall introduced the time element: very short (market) period — supply fixed; short period — market price; long period — normal price; very long/secular period; product markets allocate goods to consumers, factor markets allocate productive resources to producers

	30 sec	
Q 2 · PYQ 2018-May · Pg 238	RECALL 30 sec	Easy
Q 3 · PYQ 2019-May · Pg 239	RECALL 30 sec	Easy
Q 4 · PYQ 2019-Nov · Pg 239	RECALL 30 sec	Easy
Q 5 · PYQ 2019-Nov · Pg 239	RECALL 30 sec	Easy
Q 6 · PYQ 2020-Nov · Pg 239	RECALL 30 sec	Easy
Q 7 · PYQ 2020-Nov · Pg 239	RECALL 30 sec	Easy
Q 8 · PYQ 2021-Jan · Pg 240 asked 2×	RECALL 30 sec	Easy
Q 9 · PYQ 2021-Jan · Pg 240	RECALL 30 sec	Easy
Q 10 · PYQ 2021-Jul · Pg 240	RECALL 30 sec	Easy
Q 12 · PYQ 2021-Jul · Pg 240	RECALL 30 sec	Easy
Q 13 · PYQ 2022-Jun · Pg 240	RECALL 30 sec	Easy
Q 14 · PYQ 2022-Jun · Pg 241	RECALL 30 sec	Easy
Q 15 · PYQ 2022-Jun · Pg 241	RECALL 30 sec	Easy
Q 16 · PYQ 2022-Dec · Pg 241	RECALL 30 sec	Easy
Q 17 · PYQ 2022-Dec · Pg 241	RECALL 30 sec	Easy
Q 18 · PYQ 2023-Jun · Pg 241	RECALL 30 sec	Easy
Q 20 · PYQ 2024-Jun · Pg 242	RECALL 30 sec	Easy
Q 21 · PYQ 2024-Sep · Pg 242 asked 2×	RECALL 30 sec	Easy
Q 22 · MTP 2024-Aug · Pg 242	RECALL 30 sec	Easy
Q 23 · RTP 2024-Sep · Pg 242	RECALL 30 sec	Easy
Q 24 · PYQ 2025-Jan · Pg 243	RECALL 30 sec	Easy
Q 26 · PYQ 2026-Jan · Pg 243	RECALL 30 sec	Easy
Q 27 · PYQ 2026-May · Pg 243	RECALL	Easy

	30 sec	
Q 28 · PYQ 2026-May · Pg 244	RECALL 30 sec	Easy
Q 29 · MTP 2025-Aug S1 · Pg 244	RECALL 30 sec	Easy
Q 30 · MTP 2026-Apr S2 · Pg 244	RECALL 30 sec	Easy
Q 31 · PYQ 2026-Sep · Pg 244	RECALL 30 sec	Medium
Q 32 · PYQ 2026-Sep · Pg 244	RECALL 30 sec	Medium
Q 33 · PYQ 2026-Sep · Pg 245	RECALL 30 sec	Medium
Q 34 · PYQ 2026-Sep · Pg 245	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Very short period: supply is fixed, so price depends on demand — perishables like fruits and vegetables; short period suits goods whose supply adjusts via variable factors
- In a market economy, resource allocation is driven by consumer demand and supply interaction, not central planning

Q 11 · PYQ 2021-Jul · Pg 240	RECOGNISE 45 sec	Easy
Q 19 · PYQ 2023-Dec · Pg 242	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

- MR from a price fall: $MR = \Delta TR / \Delta Q$ — compute TR before and after (e.g. ₹30×19 = 570; ₹28×20 = 560; MR = -10)

Q 25 · PYQ 2025-May · Pg 243	COMPUTE 75 sec	Medium
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Topic 1.1: Types of Market Structures

P4-C4-U1-T01

Read first Read Section 1.1 'Types of Market Structures' and Table 1: features of perfect competition, monopolistic competition, oligopoly and monopoly — number of sellers, product differentiation, elasticity of firm demand and control over price.

RECALL 30 sec know it or move on · 6 questions · Remembering · Level I

- Factors determining market type: nature of the commodity, size of production and extent of demand; market share = a firm's demand expressed as a percentage of industry demand
- Table 1 contrasts: sellers (very large/large/small/one), differentiation (none/slight/none-to-substantial/extreme), firm's demand elasticity (infinite/large/small/small), price control (none/some/some/very considerable)
- Elements of a market include buyer, seller, product/service and bargaining for price — 'firm' by itself is not an element

Q 2 · PYQ 2023-Jun · Pg 245	RECALL 30 sec	Easy
Q 5 · PYQ 2026-Jan · Pg 246	RECALL 30 sec	Easy
Q 7 · MTP 2025-Aug S2 · Pg 246	RECALL 30 sec	Easy
Q 3 · RTP 2024-Sep · Pg 245	RECALL 30 sec	Medium
Q 4 · MTP 2025-Jan S2 · Pg 246 asked 2×	RECALL 30 sec	Medium
Q 6 · PYQ 2026-May · Pg 246	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question · Understanding · Level I

- A negatively sloped demand curve for the FIRM means imperfect competition (monopoly if single seller); under perfect competition the firm's demand curve is horizontal (perfectly elastic), though MARKET demand still slopes downward
- Buying a foreign-currency contract at a future rate from a bank is a forward- market transaction — promise to pay and deliver later

Q 1 · PYQ 2022-Jun · Pg 245	RECOGNISE 45 sec	Easy
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Topic 1.2: Concepts of Total Revenue, Average Revenue and Marginal Revenue

P4-C4-U1-T02

Read first Read Section 1.2 'Concepts of Total, Average and Marginal Revenue', 1.2.0 on the AR--MR--elasticity relationship, and 1.2.1 'Behavioural Principles' (shut-down rule and $MR = MC$ profit maximisation).

RECALL 30 sec know it or move on · 31 questions · Remembering · Level I

- $TR = P \times Q = \Sigma MR$; $AR = TR/Q = \text{Price}$, so the AR curve IS the firm's demand curve; $MR_n = TR_n - TR_{n-1}$ (or $\Delta TR/\Delta Q$)

- $MR = AR \times (e-1)/e$, where e = price elasticity of demand
- Profit is maximum where $MR = MC$ (first-order condition); at $MR = MC$ the firm earns maximum profits
- Under a falling demand curve $MR < AR$; under perfect competition (constant price) $MR = AR$ and both are horizontal

Q 2 · PYQ 2018-Nov · Pg 247 asked 2×	RECALL 30 sec	Easy
Q 25 · PYQ 2022-Jun · Pg 256	RECALL 30 sec	Easy
Q 27 · PYQ 2022-Jun · Pg 256	RECALL 30 sec	Easy
Q 28 · PYQ 2022-Jun · Pg 257	RECALL 30 sec	Easy
Q 1 · PYQ 2018-May · Pg 247	RECALL 30 sec	Medium
Q 3 · PYQ 2019-May · Pg 247	RECALL 30 sec	Medium
Q 4 · PYQ 2019-May · Pg 248 asked 2×	RECALL 30 sec	Medium
Q 5 · PYQ 2019-May · Pg 248	RECALL 30 sec	Medium
Q 15 · PYQ 2021-Jan · Pg 252	RECALL 30 sec	Medium
Q 16 · PYQ 2021-Jan · Pg 253	RECALL 30 sec	Medium
Q 17 · PYQ 2021-Jan · Pg 253	RECALL 30 sec	Medium
Q 23 · PYQ 2021-Dec · Pg 255	RECALL 30 sec	Medium
Q 24 · PYQ 2021-Dec · Pg 256	RECALL 30 sec	Medium
Q 29 · PYQ 2022-Dec · Pg 257	RECALL 30 sec	Medium
Q 30 · PYQ 2022-Dec · Pg 257	RECALL 30 sec	Medium
Q 31 · PYQ 2023-Jun · Pg 257	RECALL 30 sec	Medium
Q 32 · PYQ 2023-Jun · Pg 258	RECALL 30 sec	Medium
Q 34 · PYQ 2023-Dec · Pg 258	RECALL 30 sec	Medium
Q 35 · PYQ 2022-Dec · Pg 258 asked 2×	RECALL 30 sec	Medium
Q 36 · PYQ 2023-Dec · Pg 258	RECALL 30 sec	Medium

Q 38 · PYQ 2024-Jun · Pg 259	RECALL 30 sec	Medium
Q 40 · MTP 2024-Aug · Pg 260 asked 2×	RECALL 30 sec	Medium
Q 43 · PYQ 2025-Jan · Pg 260	RECALL 30 sec	Medium
Q 46 · PYQ 2025-May · Pg 262	RECALL 30 sec	Medium
Q 47 · PYQ 2016-Dec · Pg 262 asked 2×	RECALL 30 sec	Medium
Q 53 · MTP 2025-Aug S1 · Pg 264	RECALL 30 sec	Medium
Q 55 · MTP 2025-Aug S2 · Pg 265	RECALL 30 sec	Medium
Q 56 · MTP 2025-Dec S1 · Pg 265	RECALL 30 sec	Medium
Q 57 · MTP 2025-Aug S1 · Pg 265 asked 2×	RECALL 30 sec	Medium
Q 58 · PYQ 2026-Sep · Pg 265	RECALL 30 sec	Medium
Q 59 · PYQ 2026-Sep · Pg 265	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 14 questions Understanding · Level I

- Elasticity link: $e > 1 \rightarrow$ MR positive and TR rising; $e = 1 \rightarrow$ MR = 0 and TR maximum; $e < 1 \rightarrow$ MR negative and TR falling — TR is maximum where elasticity equals one
- TR initially rises at a diminishing rate because MR is falling; when MR = 0, TR peaks; the TR curve of a downward-sloping demand firm is positively sloped up to the peak, then falls
- Behavioural principles: shut down if AR (price) < AVC — at shut-down $P = AVC$, $TR = TVC$ and $\text{loss} = TFC$; expand output whenever $MR > MC$, stop where $MR = MC$; profit is maximum where the vertical gap $TR - TC$ is largest (TR and TC curves parallel)
- AR (price) can never be zero or negative, but MR can be zero or negative; if price is fixed, TR rises by the same amount per unit and MR stays constant

Q 48 · PYQ 2025-Sep · Pg 263	RECOGNISE 45 sec	Easy
Q 6 · PYQ 2019-May · Pg 249	RECOGNISE 45 sec	Medium
Q 7 · PYQ 2019-Nov · Pg 249	RECOGNISE 45 sec	Medium
Q 10 · PYQ 2020-Nov · Pg 250	RECOGNISE 45 sec	Medium
Q 11 · PYQ 2020-Nov · Pg 251	RECOGNISE 45 sec	Medium

Q 13 · PYQ 2020-Nov · Pg 252	RECOGNISE 45 sec	Medium
Q 19 · PYQ 2019-Nov · Pg 254 asked 2×	RECOGNISE 45 sec	Medium
Q 20 · PYQ 2021-Jul · Pg 254	RECOGNISE 45 sec	Medium
Q 33 · PYQ 2023-Dec · Pg 258	RECOGNISE 45 sec	Medium
Q 37 · PYQ 2024-Jun · Pg 259	RECOGNISE 45 sec	Medium
Q 42 · PYQ 2025-Jan · Pg 260	RECOGNISE 45 sec	Medium
Q 52 · MTP 2025-Apr S1 · Pg 264	RECOGNISE 45 sec	Medium
Q 54 · MTP 2025-Aug S2 · Pg 264	RECOGNISE 45 sec	Medium
Q 60 · PYQ 2026-Sep · Pg 266	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 13 questions Application · Level II

- MR of the nth unit = $TR_n - TR_{n-1}$ (₹6,204 – ₹6,000 over 3 units → $MR = 204/3 = ₹68$ per unit; use $\Delta TR/\Delta Q$ when quantity changes by more than one)
- Percentage-change type: new P = old P $\pm$ %, new Q = old Q $\pm$ %, compute both TRs, then $MR = \Delta TR/\Delta Q$
- Elasticity type: $MR = AR(e-1)/e$ — e.g. AR ₹45, $e = 3 \rightarrow MR = 45 \times 2/3 = ₹30$
- TR = sum of MRs of all units (MR ₹10 + ₹5 + ₹3 → TR ₹18); $AR = TR/Q$

Q 26 · PYQ 2022-Jun · Pg 256	COMPUTE 75 sec	Easy
Q 41 · PYQ 2024-Sep · Pg 260	COMPUTE 75 sec	Easy
Q 9 · PYQ 2019-Nov · Pg 250	COMPUTE 75 sec	Medium
Q 12 · PYQ 2020-Nov · Pg 251	COMPUTE 75 sec	Medium
Q 14 · PYQ 2020-Nov · Pg 252	COMPUTE 75 sec	Medium
Q 18 · PYQ 2021-Jan · Pg 253	COMPUTE 75 sec	Medium
Q 21 · PYQ 2021-Jul · Pg 254	COMPUTE 75 sec	Medium
Q 22 · PYQ 2021-Dec · Pg 255	COMPUTE 75 sec	Medium
Q 44 · PYQ 2025-Jan · Pg 261	COMPUTE 75 sec	Medium
Q 45 · PYQ 2025-May · Pg 261 asked 2×	COMPUTE	Medium

	75 sec	
Q 49 · PYQ 2026-Jan · Pg 263	COMPUTE 75 sec	Medium
Q 50 · PYQ 2026-Jan · Pg 263	COMPUTE 75 sec	Medium
Q 51 · PYQ 2026-May · Pg 264	COMPUTE 75 sec	Medium

REASON 150 sec trace the chain before you answer · 2 questions Analysis · Level II

Q 8 · PYQ 2019-Nov · Pg 249	REASON 150 sec	Medium
Q 39 · MTP 2024-Aug · Pg 259	REASON 150 sec	Medium

Unit 4.2: Determination of Prices

P4-C4-U2 · Importance C · 2.1 marks a paper · Rank 3 in chapter · Category C · 8.5% of chapter questions · 32 questions

Topic 2: Introduction

P4-C4-U2-T00

Read first Read Section 2.0 'Introduction' of Chapter 4 Unit 2 (Determination of Prices): price as exchange value, Ricardo's definition, the free market, and cases where the Government fixes prices (petrol, procurement prices).

NOTES

Economic profit numerical: $TR - \text{explicit costs} - \text{implicit costs}$ (e.g. $TR ₹1,20,000 - \text{explicit ₹}95,000 - \text{foregone salary} = \text{economic profit}$)

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

- Price of a commodity expresses its EXCHANGE value — the purchasing power of an article in terms of money
- Ricardo: exchange value = command over commodities in general, or power in exchange over purchasable commodities in general (not subjective preference or cost of production)
- Distinguish value in use (utility) from value in exchange (economic value determined in the market); a free market has no government intervention

Q 1 · PYQ 2018-Nov · Pg 270	RECALL 30 sec	Easy
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Q 2 · PYQ 2023-Jun · Pg 270

RECALL
30 sec

Easy

Q 6 · RTP 2025-May · Pg 272 asked 3×

RECALL
30 sec

Easy

Q 3 · PYQ 2024-Sep · Pg 271

RECALL
30 sec

Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

Q 4 · PYQ 2025-May · Pg 271

RECOGNISE
45 sec

Easy

Q 5 · MTP 2025-Apr S1 · Pg 272

RECOGNISE
45 sec

Easy

Topic 2.1: Determination of Prices - A General View

P4-C4-U2-T01

Read first Read Section 2.1 'Determination of Prices — A General View': the demand-supply schedule (Table 3), equilibrium/market-clearing price, stable equilibrium and how the price mechanism removes surplus and shortage.

NOTES

Excess demand (shortage) exists when market price is BELOW equilibrium price — buyers bid price up; excess supply (surplus) when market price is above — sellers cut price; price movements restore equilibrium automatically

Schedule questions: scan the table for the price row where the demand column equals the supply column — that price is the equilibrium price (in the SM table, ₹2 where both are 35 units)

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- Equilibrium (market-clearing) price = price at which quantity demanded equals quantity supplied — no unsold stock and no unsupplied demand; equilibrium is stable if any disturbance is self-adjusting

Q 1 · PYQ 2021-Jul · Pg 272

RECALL
30 sec

Easy

Q 2 · MTP 2024-Aug · Pg 272 asked 2×

RECALL
30 sec

Medium

Topic 2.2: Changes in Demand and Supply

P4-C4-U2-T02

Read first Read Section 2.2 'Changes in Demand and Supply' (four single shifts, Figs 8--11) and Section 2.3 on simultaneous shifts with Illustration 1 — this topic's MCQs are almost all shift-outcome

questions.

NOTES

Method: (1) decide which curve shifts and which way from the story, (2) apply the shift-outcome rules, (3) pick the matching new equilibrium point on the diagram

Drill the SM Illustration cases: income up + factor price up → D right + S left → P rises; storm/crop damage → S left → P up, Q down; expected price rise for motorcycles → D right → P up

RECALL 30 sec know it or move on · 9 questions Remembering · Level I

- A leftward shift of the supply curve caused by non-price factors = DECREASE in supply (contraction = movement along the curve due to price); rightward shift = increase in supply

Q 3 · PYQ 2019-Nov · Pg 274	RECALL 30 sec	Easy
Q 4 · PYQ 2021-Jul · Pg 275	RECALL 30 sec	Medium
Q 5 · PYQ 2021-Dec · Pg 275	RECALL 30 sec	Medium
Q 6 · PYQ 2022-Dec · Pg 275	RECALL 30 sec	Medium
Q 9 · PYQ 2024-Jun · Pg 276 asked 2×	RECALL 30 sec	Medium
Q 10 · PYQ 2024-Jun · Pg 277	RECALL 30 sec	Medium
Q 11 · PYQ 2024-Jun · Pg 277	RECALL 30 sec	Medium
Q 12 · PYQ 2024-Jun · Pg 277	RECALL 30 sec	Medium
Q 19 · PYQ 2025-Sep · Pg 280	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Single shifts: D up → P up, Q up; D down → P down, Q down; S up → P down, Q up; S down → P up, Q down
- Same-direction shifts: both increase → Q rises, P uncertain (P constant if shifts equal, P rises if demand shift larger, P falls if supply shift larger); both decrease → Q falls, P uncertain
- Opposite shifts: D up + S down → P rises, Q uncertain; D down + S up → P falls, Q uncertain — the curve shifting more dominates the uncertain variable
- Expected future price rise shifts CURRENT demand right → price rises now; a fall in income shifts demand for a normal good left → price falls

Q 15 · PYQ 2025-Jan · Pg 278	RECOGNISE 45 sec	Easy
Q 21 · PYQ 2025-Jan · Pg 281 asked 2x	RECOGNISE 45 sec	Easy

REASON 150 sec trace the chain before you answer · 11 questions Analysis · Level II

Q 1 · PYQ 2018-Nov · Pg 273	REASON 150 sec	Easy
Q 2 · PYQ 2019-May · Pg 273	REASON 150 sec	Easy
Q 7 · PYQ 2023-Jun · Pg 276	REASON 150 sec	Easy
Q 16 · PYQ 2025-Jan · Pg 279	REASON 150 sec	Easy
Q 17 · PYQ 2025-Jan · Pg 279	REASON 150 sec	Easy
Q 8 · PYQ 2024-Jun · Pg 276	REASON 150 sec	Medium
Q 13 · PYQ 2024-Sep · Pg 278	REASON 150 sec	Medium
Q 14 · PYQ 2024-Sep · Pg 278	REASON 150 sec	Medium
Q 18 · PYQ 2025-May · Pg 280	REASON 150 sec	Medium
Q 20 · PYQ 2025-Sep · Pg 281	REASON 150 sec	Medium
Q 22 · MTP 2025-Aug S1 · Pg 281	REASON 150 sec	Medium

Topic 2.3: Simultaneous Changes in Demand and Supply

P4-C4-U2-T03

Read first Read Section 2.3 'Simultaneous Changes in Demand and Supply' along with the unit's note on government intervention (price ceilings and floor prices) — the Scanner MCQs here test the price-ceiling concept.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- Price ceiling = the MAXIMUM price that can legally be charged for a good, fixed by government below the equilibrium price to protect consumers (a price floor/MSP is the minimum)

Q 1 · MTP 2024-Aug · Pg 282	RECALL 30 sec	Easy
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RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- A ceiling set below equilibrium makes quantity demanded exceed quantity supplied → persistent SHORTAGES, queues and black marketing; producers cannot raise price to clear the market

Q 2 · MTP 2024-Dec S1 · Pg 282 asked 2×

RECOGNISE
45 sec**Easy**

Unit 4.3: Price Output Determination Under Different Market Forms

P4-C4-U3 · Importance A · 8.3 marks a paper · Rank 1 in chapter · Category A · 64.6% of chapter questions · 243 questions

Topic 3: Perfect Competition

P4-C4-U3-T00

Read first Study Sections 3.0.0 (Features), 3.0.1 (Price Determination -- equilibrium of industry and firm), 3.0.3 (Can a competitive firm earn profits?) and 3.0.4/3.0.5 (Long Run Equilibrium of firm and industry) in Unit 3.

RECALL 30 sec know it or move on · 50 questions Remembering · Level I

- Features: large number of buyers and sellers, homogeneous product, free entry and exit, perfect knowledge, low transaction costs; selling cost/advertising is NOT a feature. First three alone = 'pure competition'.
- Firm is a price taker, never a price maker; equilibrium price is fixed by market demand and market supply, not by government or individual sellers.
- Firm's demand curve is a horizontal (perfectly/infinately elastic) line at the market price, so $AR = MR = P$.
- In the long run every firm earns only normal profit; near-examples: agricultural products, financial instruments, precious metals.

Q 1 · PYQ 2017-Jun · Pg 286 asked 2×

RECALL
30 sec**Easy**

Q 6 · PYQ 2018-Nov · Pg 288

RECALL
30 sec**Easy**

Q 7 · PYQ 2018-Nov · Pg 288

RECALL
30 sec**Easy**

Q 8 · PYQ 2018-Nov · Pg 288

RECALL
30 sec**Easy**

Q 9 · PYQ 2018-Nov · Pg 288

RECALL
30 sec**Easy**

Q 10 · PYQ 2018-Nov · Pg 288

RECALL
30 sec**Easy**

Q 16 · PYQ 2019-May · Pg 290	RECALL 30 sec	Easy
Q 19 · PYQ 2021-Jul · Pg 291	RECALL 30 sec	Easy
Q 20 · PYQ 2021-Dec · Pg 292	RECALL 30 sec	Easy
Q 21 · PYQ 2021-Dec · Pg 292	RECALL 30 sec	Easy
Q 22 · PYQ 2022-Jun · Pg 292	RECALL 30 sec	Easy
Q 26 · PYQ 2023-Jun · Pg 294 asked 2×	RECALL 30 sec	Easy
Q 27 · PYQ 2020-Nov · Pg 294 asked 2×	RECALL 30 sec	Easy
Q 31 · PYQ 2024-Jun · Pg 295	RECALL 30 sec	Easy
Q 32 · MTP 2024-Aug · Pg 296	RECALL 30 sec	Easy
Q 33 · PYQ 2024-Sep · Pg 296	RECALL 30 sec	Easy
Q 35 · PYQ 2024-Sep · Pg 296	RECALL 30 sec	Easy
Q 36 · PYQ 2024-Sep · Pg 297	RECALL 30 sec	Easy
Q 37 · PYQ 2025-Jan · Pg 297	RECALL 30 sec	Easy
Q 38 · PYQ 2025-May · Pg 297	RECALL 30 sec	Easy
Q 49 · MTP 2025-May S2 · Pg 300	RECALL 30 sec	Easy
Q 50 · MTP 2025-Aug S2 · Pg 301	RECALL 30 sec	Easy
Q 51 · MTP 2025-Dec S1 · Pg 301	RECALL 30 sec	Easy
Q 52 · MTP 2025-Dec S1 · Pg 301	RECALL 30 sec	Easy
Q 53 · RTP 2025-May · Pg 301	RECALL 30 sec	Easy
Q 56 · MTP 2025-Dec S1 · Pg 302	RECALL 30 sec	Easy
Q 57 · MTP 2025-Dec S1 · Pg 302	RECALL 30 sec	Easy
Q 58 · MTP 2025-Dec S1 · Pg 302	RECALL 30 sec	Easy
Q 61 · MTP 2026-Apr S2 · Pg 303	RECALL 30 sec	Easy

Q 62 · PYQ 2026-Sep · Pg 303	RECALL 30 sec	Easy
Q 63 · PYQ 2026-Sep · Pg 303	RECALL 30 sec	Easy
Q 64 · PYQ 2026-Sep · Pg 304	RECALL 30 sec	Easy
Q 2 · PYQ 2018-May · Pg 286	RECALL 30 sec	Medium
Q 3 · PYQ 2018-May · Pg 287	RECALL 30 sec	Medium
Q 4 · PYQ 2018-May · Pg 287	RECALL 30 sec	Medium
Q 5 · PYQ 2018-May · Pg 287	RECALL 30 sec	Medium
Q 12 · PYQ 2019-Nov · Pg 289	RECALL 30 sec	Medium
Q 13 · PYQ 2019-Nov · Pg 289	RECALL 30 sec	Medium
Q 14 · PYQ 2019-Nov · Pg 290	RECALL 30 sec	Medium
Q 15 · PYQ 2019-Nov · Pg 290	RECALL 30 sec	Medium
Q 17 · PYQ 2021-Jan · Pg 291	RECALL 30 sec	Medium
Q 23 · PYQ 2022-Dec · Pg 293	RECALL 30 sec	Medium
Q 25 · PYQ 2022-Dec · Pg 293	RECALL 30 sec	Medium
Q 28 · PYQ 2023-Dec · Pg 294	RECALL 30 sec	Medium
Q 30 · PYQ 2023-Dec · Pg 295 asked 2×	RECALL 30 sec	Medium
Q 34 · PYQ 2019-Nov · Pg 296 asked 3×	RECALL 30 sec	Medium
Q 39 · PYQ 2025-Sep · Pg 297	RECALL 30 sec	Medium
Q 40 · PYQ 2025-Sep · Pg 298	RECALL 30 sec	Medium
Q 45 · MTP 2025-Jan S2 · Pg 299	RECALL 30 sec	Medium
Q 47 · PYQ 2026-Jan · Pg 300	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 14 questions Understanding · Level I

- Equilibrium of the firm needs BOTH conditions: $MR = MC$ and MC cuts MR from below; if $MR > MC$ expand output, if $MR < MC$ contract output.

- Short run profit test compares price with average cost: $AR > ATC$ (i.e. $ATC < MC$ at equilibrium) = supernormal profit; $AR = ATC$ = normal profit; $AR < ATC$ = loss. $AR = MR$ always, so options like ' $AR > MR$ ' are traps.
- Long run: $SMC = LMC = SAC = LAC = P = MR$; entry/exit wipes out supernormal profits/losses, $P = \min LAC = MC$ gives optimal resource allocation.

Q 11 · PYQ 2019-May · Pg 288	RECOGNISE 45 sec	Easy
Q 18 · PYQ 2021-Jul · Pg 291	RECOGNISE 45 sec	Easy
Q 42 · PYQ 2025-Jan · Pg 298	RECOGNISE 45 sec	Easy
Q 43 · PYQ 2025-Jan · Pg 299	RECOGNISE 45 sec	Easy
Q 48 · PYQ 2026-May · Pg 300	RECOGNISE 45 sec	Easy
Q 54 · MTP 2025-Aug S1 · Pg 301 asked 2×	RECOGNISE 45 sec	Easy
Q 55 · MTP 2025-Dec S1 · Pg 302	RECOGNISE 45 sec	Easy
Q 59 · MTP 2025-Dec S1 · Pg 303	RECOGNISE 45 sec	Easy
Q 60 · RTP 2026-Jan · Pg 303	RECOGNISE 45 sec	Easy
Q 24 · PYQ 2022-Dec · Pg 293	RECOGNISE 45 sec	Medium
Q 29 · PYQ 2023-Dec · Pg 295	RECOGNISE 45 sec	Medium
Q 41 · PYQ 2025-Sep · Pg 298	RECOGNISE 45 sec	Medium
Q 44 · MTP 2025-Jan S2 · Pg 299 asked 2×	RECOGNISE 45 sec	Medium
Q 46 · MTP 2025-Jan S2 · Pg 300	RECOGNISE 45 sec	Medium

Topic 3.1: Monopoly

P4-C4-U3-T01

Read first Study Sections 3.1.0 (Features), 3.1.2 (Monopolist's Revenue Curves), 3.1.3 (Equilibrium of the Monopoly Firm) and especially 3.1.4 (Price Discrimination -- conditions, objectives, Pigou's three degrees).

RECALL 30 sec know it or move on · 53 questions Remembering · Level I

- Features: single seller (firm = industry, so firm's and industry's demand curves are the same), no close substitutes (cross elasticity near zero), strong barriers to entry, price MAKER (not taker).
- AR curve falls from left to right; MR lies halfway between AR and the Y-axis (slope twice AR's); MR can be zero (where TR is maximum) or negative, AR can never be zero.
- Pigou's degrees: 1st -- price per individual's capacity, extracts entire consumer surplus (auctions, doctors' fees); 2nd -- different prices for different quantities sold; 3rd -- sub-markets by location/segment (dumping).
- Objectives of price discrimination: maximum profit, dispose of surplus stock, economies of scale, capture foreign markets, equity -- NOT 'holding extra stocks'.

Q 1 · PYQ 2016-Dec · Pg 304 asked 4×	RECALL 30 sec	Easy
Q 2 · PYQ 2018-May · Pg 304	RECALL 30 sec	Easy
Q 3 · PYQ 2018-May · Pg 304 asked 2×	RECALL 30 sec	Easy
Q 4 · PYQ 2018-May · Pg 305 asked 2×	RECALL 30 sec	Easy
Q 5 · PYQ 2018-Nov · Pg 305	RECALL 30 sec	Easy
Q 6 · PYQ 2018-Nov · Pg 305	RECALL 30 sec	Easy
Q 7 · PYQ 2018-Nov · Pg 305	RECALL 30 sec	Easy
Q 13 · PYQ 2020-Nov · Pg 307	RECALL 30 sec	Easy
Q 15 · PYQ 2021-Jul · Pg 308	RECALL 30 sec	Easy
Q 16 · PYQ 2021-Dec · Pg 308	RECALL 30 sec	Easy
Q 17 · PYQ 2021-Dec · Pg 308 asked 2×	RECALL 30 sec	Easy
Q 18 · PYQ 2021-Dec · Pg 308	RECALL 30 sec	Easy
Q 19 · PYQ 2021-Dec · Pg 309	RECALL 30 sec	Easy
Q 21 · PYQ 2022-Jun · Pg 309	RECALL 30 sec	Easy
Q 22 · PYQ 2022-Jun · Pg 309	RECALL 30 sec	Easy
Q 23 · PYQ 2022-Jun · Pg 309	RECALL 30 sec	Easy
Q 24 · PYQ 2018-May · Pg 310 asked 2×	RECALL 30 sec	Easy

Q 27 · PYQ 2023-Dec · Pg 310	RECALL 30 sec	Easy
Q 28 · PYQ 2024-Jun · Pg 310	RECALL 30 sec	Easy
Q 29 · PYQ 2024-Jun · Pg 311	RECALL 30 sec	Easy
Q 30 · PYQ 2024-Jun · Pg 311	RECALL 30 sec	Easy
Q 32 · MTP 2024-Aug · Pg 311	RECALL 30 sec	Easy
Q 33 · MTP 2024-Aug · Pg 311 asked 2×	RECALL 30 sec	Easy
Q 34 · MTP 2024-Aug · Pg 311 asked 2×	RECALL 30 sec	Easy
Q 36 · PYQ 2021-Dec · Pg 312 asked 2×	RECALL 30 sec	Easy
Q 38 · PYQ 2025-Jan · Pg 313	RECALL 30 sec	Easy
Q 41 · PYQ 2023-Dec · Pg 313 asked 2×	RECALL 30 sec	Easy
Q 42 · PYQ 2025-May · Pg 313	RECALL 30 sec	Easy
Q 43 · PYQ 2025-May · Pg 314 asked 2×	RECALL 30 sec	Easy
Q 55 · MTP 2024-Aug · Pg 317 asked 2×	RECALL 30 sec	Easy
Q 56 · MTP 2025-Apr S1 · Pg 317	RECALL 30 sec	Easy
Q 57 · MTP 2025-Apr S1 · Pg 317	RECALL 30 sec	Easy
Q 58 · MTP 2025-May S2 · Pg 318	RECALL 30 sec	Easy
Q 59 · MTP 2025-May S2 · Pg 318	RECALL 30 sec	Easy
Q 61 · MTP 2025-Aug S1 · Pg 318	RECALL 30 sec	Easy
Q 65 · MTP 2026-Apr S2 · Pg 319	RECALL 30 sec	Easy
Q 66 · MTP 2025-Aug S2 · Pg 319 asked 3×	RECALL 30 sec	Easy
Q 8 · PYQ 2019-May · Pg 306 asked 2×	RECALL 30 sec	Medium
Q 9 · PYQ 2019-May · Pg 306	RECALL 30 sec	Medium
Q 10 · PYQ 2019-May · Pg 306	RECALL 30 sec	Medium

Q 11 · PYQ 2019-May · Pg 306	RECALL 30 sec	Medium
Q 12 · PYQ 2019-May · Pg 307	RECALL 30 sec	Medium
Q 25 · PYQ 2023-Jun · Pg 310	RECALL 30 sec	Medium
Q 26 · PYQ 2023-Jun · Pg 310	RECALL 30 sec	Medium
Q 39 · MTP 2025-Jan S2 · Pg 313	RECALL 30 sec	Medium
Q 40 · MTP 2025-Jan S2 · Pg 313 asked 2×	RECALL 30 sec	Medium
Q 45 · PYQ 2017-Jun · Pg 314 asked 2×	RECALL 30 sec	Medium
Q 46 · MTP 2025-Jan S2 · Pg 314 asked 2×	RECALL 30 sec	Medium
Q 47 · PYQ 2025-Sep · Pg 315	RECALL 30 sec	Medium
Q 48 · PYQ 2026-Jan · Pg 315	RECALL 30 sec	Medium
Q 49 · PYQ 2026-Jan · Pg 315	RECALL 30 sec	Medium
Q 50 · PYQ 2026-Jan · Pg 315	RECALL 30 sec	Medium
Q 52 · PYQ 2026-Jan · Pg 316	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 11 questions Understanding · Level I

- Price discrimination is profitable only when markets are kept separate, elasticities differ between them and resale (arbitrage) is impossible; the LESS elastic market is charged the higher price.
- Long run: supernormal profit persists (entry blocked); monopoly is undesirable -- higher price, lower output than competition.
- Discriminating monopolist: total output where $MC = \text{aggregate MR}$, distributed so $MR_a = MR_b$.

Q 14 · PYQ 2021-Jul · Pg 308	RECOGNISE 45 sec	Easy
Q 20 · PYQ 2021-Dec · Pg 309	RECOGNISE 45 sec	Easy
Q 31 · MTP 2024-Aug · Pg 311	RECOGNISE 45 sec	Easy
Q 35 · PYQ 2024-Sep · Pg 312	RECOGNISE 45 sec	Easy
Q 37 · MTP 2024-Dec S1 · Pg 312	RECOGNISE 45 sec	Easy

Q 44 · PYQ 2025-May · Pg 314	RECOGNISE 45 sec	Easy
Q 60 · MTP 2025-May S2 · Pg 318	RECOGNISE 45 sec	Easy
Q 63 · MTP 2026-Apr S1 · Pg 319	RECOGNISE 45 sec	Easy
Q 54 · PYQ 2026-May · Pg 317	RECOGNISE 45 sec	Medium
Q 62 · MTP 2025-Aug S1 · Pg 318	RECOGNISE 45 sec	Medium
Q 64 · MTP 2026-Apr S2 · Pg 319	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- MR from elasticity: $MR = P \times (1 - 1/e)$. E.g. $P = 60$, $e = 5$ gives $MR = 48$; $e = 6$ gives $MR = 50$.
- Classify examples: cheaper rural vs industrial electricity (₹3 vs ₹7 per unit), dynamic railway fares, segment-wise software pricing = price discrimination / discriminating monopoly (not product differentiation).

Q 51 · PYQ 2021-Dec · Pg 316 asked 2×	COMPUTE 75 sec	Easy
Q 53 · PYQ 2026-May · Pg 317	COMPUTE 75 sec	Medium

Topic 3.2: Imperfect Competition-Monopolistic Competition

P4-C4-U3-T02

Read first Study Section 3.2.0 (Features of Monopolistic Competition) and 3.2.1 (Price-Output Determination: short run profit/loss and long run equilibrium with excess capacity).

NOTES

Identify examples: toothpaste, soaps and detergents, restaurants, hotels and pubs, fast-food chains with differentiated burgers = monopolistic competition.

Test a scenario against the checklist: many buyers/sellers + differentiated product + unrestricted long-run entry/exit = monopolistic competition (not oligopoly or perfect competition).

RECALL 30 sec know it or move on · 25 questions Remembering · Level I

- Features: large number of sellers, product differentiation (the defining feature), freedom of entry and exit, non-price competition (advertising, selling costs).
- It is a blend of monopoly and perfect competition; the concept of 'group' equilibrium in the long run belongs to monopolistic competition (Chamberlin).

Q 1 · PYQ 2018-Nov · Pg 320	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 320	RECALL 30 sec	Easy
Q 3 · PYQ 2019-May · Pg 320	RECALL 30 sec	Easy
Q 4 · PYQ 2019-Nov · Pg 320	RECALL 30 sec	Easy
Q 5 · PYQ 2019-Nov · Pg 321 asked 2×	RECALL 30 sec	Easy
Q 9 · PYQ 2021-Jul · Pg 322	RECALL 30 sec	Easy
Q 11 · PYQ 2022-Jun · Pg 322	RECALL 30 sec	Easy
Q 12 · PYQ 2023-Jun · Pg 323	RECALL 30 sec	Easy
Q 13 · PYQ 2024-Jun · Pg 323	RECALL 30 sec	Easy
Q 14 · MTP 2024-Aug · Pg 323 asked 2×	RECALL 30 sec	Easy
Q 15 · MTP 2024-Aug · Pg 323	RECALL 30 sec	Easy
Q 16 · PYQ 2024-Sep · Pg 323	RECALL 30 sec	Easy
Q 19 · PYQ 2025-Jan · Pg 324	RECALL 30 sec	Easy
Q 20 · PYQ 2025-Jan · Pg 324	RECALL 30 sec	Easy
Q 21 · MTP 2025-Jan S2 · Pg 324 asked 3×	RECALL 30 sec	Easy
Q 24 · MTP 2025-Apr S1 · Pg 325	RECALL 30 sec	Easy
Q 25 · MTP 2025-May S2 · Pg 325	RECALL 30 sec	Easy
Q 26 · RTP 2025-May · Pg 326	RECALL 30 sec	Easy
Q 28 · MTP 2026-Apr S2 · Pg 326	RECALL 30 sec	Easy
Q 6 · PYQ 2021-Jan · Pg 321	RECALL 30 sec	Medium
Q 10 · PYQ 2021-Dec · Pg 322	RECALL 30 sec	Medium
Q 17 · RTP 2024-Sep · Pg 324 asked 2×	RECALL 30 sec	Medium
Q 18 · MTP 2024-Dec S1 · Pg 324	RECALL 30 sec	Medium

Q 23 · PYQ 2021-Jan · Pg 325 asked 2×	RECALL 30 sec	Medium
Q 30 · PYQ 2026-Sep · Pg 327	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 5 questions Understanding · Level I

- Firm faces a downward-sloping but relatively elastic demand curve; MR lies BELOW AR because of product differentiation; generic product (soap) demand is inelastic while a brand (Lux) is elastic.
- Short run: supernormal profit or loss possible at $MR = MC$; long run: entry/exit leaves only normal profit ($AR = AC$) -- the similarity with perfect competition; the difference is product differentiation and excess capacity (output below optimum, $P > MC$).

Q 7 · PYQ 2021-Jul · Pg 322	RECOGNISE 45 sec	Easy
Q 8 · PYQ 2021-Jul · Pg 322	RECOGNISE 45 sec	Easy
Q 22 · MTP 2025-Jan S2 · Pg 325	RECOGNISE 45 sec	Easy
Q 27 · MTP 2025-Dec S1 · Pg 326	RECOGNISE 45 sec	Easy
Q 29 · MTP 2026-Apr S2 · Pg 326	RECOGNISE 45 sec	Easy

Topic 3.3: Oligopoly

P4-C4-U3-T03

Read first Study the Oligopoly introduction (definition, game theory, types), Section 3.3.0 (Characteristics), 3.3.1 (price-output models), 3.3.2 (Price Leadership), 3.3.3 (Kinked Demand Curve) and 3.3.4 (Other Important Market Forms).

NOTES

Classify industries: smartphones, telecom, airlines, cold drinks = oligopoly (exactly two rival firms = duopoly).

Look for interdependence/rival-watching wording plus few sellers before picking the market form.

RECALL 30 sec know it or move on · 71 questions Remembering · Level I

- Oligopoly = 'competition among the few' (Stigler), 2--10 sellers; features: strategic interdependence (most important), heavy selling costs, group behaviour, strong entry barriers -- free entry is NOT a feature.
- Types: pure/perfect (homogeneous, e.g. aluminium) vs differentiated; open vs closed; collusive (cartel, e.g. OPEC) vs competitive; partial (one dominant leader firm) vs full; syndicated vs organized.

- Duopoly = two sellers; monopsony = one buyer; oligopsony = few buyers; bilateral monopoly = one seller + one buyer.
- Kinked demand curve = Paul Sweezy (explains price rigidity); game theory = Von Neumann and Morgenstern (1944); Cournot -- output is the control variable, Bertrand -- price, Stackelberg -- leader commits output first.

Q 1 · PYQ 2018-May · Pg 327	RECALL 30 sec	Easy
Q 2 · PYQ 2018-May · Pg 327	RECALL 30 sec	Easy
Q 3 · PYQ 2018-May · Pg 327	RECALL 30 sec	Easy
Q 4 · PYQ 2018-Nov · Pg 327	RECALL 30 sec	Easy
Q 5 · PYQ 2018-Nov · Pg 328	RECALL 30 sec	Easy
Q 6 · PYQ 2018-Nov · Pg 328	RECALL 30 sec	Easy
Q 7 · PYQ 2019-May · Pg 328 asked 2×	RECALL 30 sec	Easy
Q 8 · PYQ 2019-Nov · Pg 328	RECALL 30 sec	Easy
Q 9 · PYQ 2019-Nov · Pg 328	RECALL 30 sec	Easy
Q 11 · PYQ 2019-Nov · Pg 329	RECALL 30 sec	Easy
Q 12 · PYQ 2019-Nov · Pg 329	RECALL 30 sec	Easy
Q 13 · PYQ 2020-Nov · Pg 329	RECALL 30 sec	Easy
Q 14 · PYQ 2020-Nov · Pg 329	RECALL 30 sec	Easy
Q 15 · PYQ 2020-Nov · Pg 329	RECALL 30 sec	Easy
Q 17 · PYQ 2020-Nov · Pg 330	RECALL 30 sec	Easy
Q 18 · PYQ 2020-Nov · Pg 330	RECALL 30 sec	Easy
Q 19 · PYQ 2020-Nov · Pg 330	RECALL 30 sec	Easy
Q 20 · PYQ 2020-Nov · Pg 331	RECALL 30 sec	Easy
Q 21 · PYQ 2021-Jan · Pg 331	RECALL 30 sec	Easy
Q 22 · PYQ 2021-Jan · Pg 331 asked 2×	RECALL 30 sec	Easy

Q 23 · PYQ 2021-Jan · Pg 331	RECALL 30 sec	Easy
Q 24 · PYQ 2021-Jul · Pg 332	RECALL 30 sec	Easy
Q 25 · PYQ 2021-Jul · Pg 332	RECALL 30 sec	Easy
Q 26 · PYQ 2021-Jul · Pg 332	RECALL 30 sec	Easy
Q 37 · PYQ 2022-Dec · Pg 335	RECALL 30 sec	Easy
Q 38 · PYQ 2022-Dec · Pg 335	RECALL 30 sec	Easy
Q 39 · PYQ 2022-Dec · Pg 335	RECALL 30 sec	Easy
Q 41 · PYQ 2023-Dec · Pg 336	RECALL 30 sec	Easy
Q 42 · PYQ 2023-Dec · Pg 336	RECALL 30 sec	Easy
Q 48 · PYQ 2020-Nov · Pg 337 asked 2×	RECALL 30 sec	Easy
Q 51 · PYQ 2023-Dec · Pg 338 asked 2×	RECALL 30 sec	Easy
Q 61 · RTP 2025-Jan · Pg 340	RECALL 30 sec	Easy
Q 62 · PYQ 2025-May · Pg 340 asked 2×	RECALL 30 sec	Easy
Q 63 · PYQ 2024-Jun · Pg 341 asked 3×	RECALL 30 sec	Easy
Q 64 · PYQ 2025-Sep · Pg 341	RECALL 30 sec	Easy
Q 69 · PYQ 2026-May · Pg 342	RECALL 30 sec	Easy
Q 70 · PYQ 2026-May · Pg 342	RECALL 30 sec	Easy
Q 71 · PYQ 2026-May · Pg 342	RECALL 30 sec	Easy
Q 73 · PYQ 2026-May · Pg 343	RECALL 30 sec	Easy
Q 74 · MTP 2025-Jan S2 · Pg 343	RECALL 30 sec	Easy
Q 75 · MTP 2025-Apr S1 · Pg 343	RECALL 30 sec	Easy
Q 76 · MTP 2025-Aug S1 · Pg 343	RECALL 30 sec	Easy
Q 77 · RTP 2025-May · Pg 344 asked 2×	RECALL 30 sec	Easy

Q 79 · MTP 2025-Dec S1 · Pg 344 asked 2×	RECALL 30 sec	Easy
Q 80 · MTP 2026-Apr S2 · Pg 344	RECALL 30 sec	Easy
Q 81 · PYQ 2026-Sep · Pg 344	RECALL 30 sec	Easy
Q 82 · PYQ 2026-Sep · Pg 345	RECALL 30 sec	Easy
Q 83 · PYQ 2026-Sep · Pg 345	RECALL 30 sec	Easy
Q 28 · PYQ 2021-Dec · Pg 333	RECALL 30 sec	Medium
Q 31 · PYQ 2021-Dec · Pg 333	RECALL 30 sec	Medium
Q 32 · PYQ 2021-Dec · Pg 333	RECALL 30 sec	Medium
Q 33 · PYQ 2021-Dec · Pg 334	RECALL 30 sec	Medium
Q 34 · PYQ 2022-Jun · Pg 334	RECALL 30 sec	Medium
Q 35 · PYQ 2022-Jun · Pg 334	RECALL 30 sec	Medium
Q 40 · PYQ 2023-Jun · Pg 335	RECALL 30 sec	Medium
Q 44 · MTP 2024-Aug · Pg 336	RECALL 30 sec	Medium
Q 45 · MTP 2024-Aug · Pg 336	RECALL 30 sec	Medium
Q 46 · MTP 2024-Aug · Pg 337	RECALL 30 sec	Medium
Q 47 · MTP 2024-Aug · Pg 337 asked 2×	RECALL 30 sec	Medium
Q 52 · MTP 2024-Dec S1 · Pg 338	RECALL 30 sec	Medium
Q 53 · MTP 2024-Dec S1 · Pg 338	RECALL 30 sec	Medium
Q 54 · MTP 2024-Aug · Pg 339 asked 2×	RECALL 30 sec	Medium
Q 55 · MTP 2024-Dec S1 · Pg 339	RECALL 30 sec	Medium
Q 56 · MTP 2024-Dec S1 · Pg 339	RECALL 30 sec	Medium
Q 57 · PYQ 2025-Jan · Pg 339	RECALL 30 sec	Medium
Q 58 · PYQ 2017-Jun · Pg 340 asked 2×	RECALL 30 sec	Medium

Q 59 · RTP 2026-Jan · Pg 340 asked 2×	RECALL 30 sec	Medium
Q 60 · RTP 2026-Jan · Pg 340 asked 3×	RECALL 30 sec	Medium
Q 65 · PYQ 2025-Sep · Pg 341	RECALL 30 sec	Medium
Q 66 · PYQ 2026-Jan · Pg 341	RECALL 30 sec	Medium
Q 67 · PYQ 2026-Jan · Pg 341	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 11 questions Understanding · Level I

- Kinked demand: rivals match a price CUT but ignore a price RISE, so the upper segment (above prevailing price) is relatively elastic and the lower segment inelastic -- price sticks at the kink.
- Price leadership: dominant firm follows 'live and let live'; low-cost firm leaves some profit to followers; barometric -- old, experienced, respected firm reads market conditions.
- Collusion is impossible with a large number of firms; oligopolists avoid price wars, competing on non-price bases (selling costs).

Q 10 · PYQ 2019-Nov · Pg 328	RECOGNISE 45 sec	Easy
Q 16 · PYQ 2020-Nov · Pg 330	RECOGNISE 45 sec	Easy
Q 29 · PYQ 2020-Nov · Pg 333 asked 2×	RECOGNISE 45 sec	Easy
Q 30 · PYQ 2021-Dec · Pg 333	RECOGNISE 45 sec	Easy
Q 36 · PYQ 2022-Dec · Pg 334	RECOGNISE 45 sec	Easy
Q 43 · PYQ 2024-Jun · Pg 336	RECOGNISE 45 sec	Easy
Q 49 · PYQ 2024-Sep · Pg 337	RECOGNISE 45 sec	Easy
Q 72 · PYQ 2026-May · Pg 343	RECOGNISE 45 sec	Easy
Q 78 · MTP 2026-Apr S2 · Pg 344	RECOGNISE 45 sec	Easy
Q 27 · PYQ 2021-Dec · Pg 332	RECOGNISE 45 sec	Medium
Q 50 · PYQ 2022-Jun · Pg 338 asked 2×	RECOGNISE 45 sec	Medium

REASON 150 sec trace the chain before you answer · 1 question Analysis · Level II

- Market-share tables: a few firms holding the bulk of the share (e.g. two firms with ~59% combined) = oligopoly -- judge concentration, not the total count of firms.

- Break scenarios into feature tests (number of firms, product type, entry barriers, interdependence) and match against the summary table of market forms.

Q 68 · PYQ 2026-Jan · Pg 342

REASON
150 sec

Medium

CHAPTER 5

Determination of National Income

2 Units · 15 Topics · 270 Classified Questions · 15.0 marks a paper · Importance: B

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 47 sec a question on average — **a chapter to work with a pen**

RECALL Remembering	57.4%	30 sec	66 of 115 past-exam questions
RECOGNISE Understanding	8.7%	45 sec	10 of 115 past-exam questions
COMPUTE Application	33.0%	75 sec	38 of 115 past-exam questions
REASON Analysis	0.9%	150 sec	1 of 115 past-exam questions

Unit 5.1: National Income Accounting

P4-C5-U1 · Importance B · 8.8 marks a paper · Rank 1 in chapter · Category A · 56.7% of chapter questions · 153 questions

Topic 1.1: National Income Accounting

P4-C5-U1-T01

Read first Read Section 1.1 (National Income Accounting) -- the definition of the system of macroeconomic accounts, its pioneers and the agencies that compile national accounts in India.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- National Income Accounting was pioneered by Nobel prize-winning economists Simon Kuznets and Richard Stone.
- It is the system of macroeconomic accounts covering goods and services from the stage of production to the stage of final disposal.
- The Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation, compiles National Accounts Statistics; State Directorates of Economics and Statistics (DEs) compile State Domestic Product.

Q 1 · PYQ 2025-Sep · Pg 351

RECALL
30 sec

Easy

Topic 1.2: Usefulness and Significance of National Income Estimates

P4-C5-U1-T02

Read first Read Section 1.2 (Usefulness and Significance of National Income Estimates) -- the bulleted list of uses -- along with the CSO's role from Section 1.1.

RECALL 30 sec know it or move on • 3 questions Remembering • Level I

- The CSO (not DES, RBI or NITI Aayog) is responsible for compilation of National Accounts Statistics at the national level.
- National income accounts are called fundamental aggregate statistics of macroeconomic analysis, especially useful for emerging and transition economies.

Q 1 • PYQ 2025-May • Pg 351

RECALL
30 sec

Easy

Q 3 • PYQ 2026-Jan • Pg 352

RECALL
30 sec

Easy

Q 4 • PYQ 2026-Sep • Pg 352

RECALL
30 sec

Easy

RECOGNISE 45 sec decide which idea applies • 1 question Understanding • Level I

- Genuine uses: business demand forecasting, showing sectoral composition and structural shifts, basis for macro modelling and policy evaluation, light on income distribution/inequality, international comparisons for loan eligibility -- be ready to spot the option that is NOT a use.
- If NFIA is negative, $GNP_{mp} < GDP_{mp}$ (citizens/companies earn less abroad than foreigners earn domestically); a negative NFIA does not mean income earned abroad is itself negative.

Q 2 • PYQ 2025-May • Pg 352

RECOGNISE
45 sec

Easy

Topic 1.3: Different Concepts of National Income

P4-C5-U1-T03

Read first Read Sections 1.3.1 to 1.3.12 -- nominal vs real GDP, GDP deflator, NDP, GNP/NFIA, NNPmp, factor cost vs basic vs market price, NNPfc (National Income), per capita, personal, disposable and private income, with Illustrations 1 to 8.

RECALL 30 sec know it or move on • 52 questions Remembering • Level I

- Core formulas: $GDP\ deflator = (Nominal\ GDP / Real\ GDP) \times 100$; $NDP_{mp} = GDP_{mp} - Depreciation$; $GNP_{mp} = GDP_{mp} + NFIA$; $NNP_{mp} = GNP_{mp} - Depreciation$; $Factor\ Cost = Market\ Price - Net\ Indirect\ Taxes$ (NIT = Indirect Taxes - Subsidies); $NNP_{fc} = National\ Income$.

- Personal Income = income RECEIVED by households including NPISH: $PI = NI - \text{undistributed profits} - \text{net interest paid by households} - \text{corporate tax} + \text{transfer payments}$; $DI = PI - \text{personal taxes} - \text{non-tax payments (for consumption or saving)}$.
- Gross Investment = Net Investment + Replacement Investment (depreciation); Private Income = factor income + transfer income accruing to the private sector from all sources.

Q 1 · source not stated · Pg 353	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 353	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 353	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 354	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 354	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 354	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 355	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 355	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 355	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 355	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 358	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 359	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 359	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Jun · Pg 359	RECALL 30 sec	Easy
Q 4 · PYQ 2024-Jun · Pg 360	RECALL 30 sec	Easy
Q 6 · PYQ 2024-Jun · Pg 360	RECALL 30 sec	Easy
Q 7 · PYQ 2024-Sep · Pg 361	RECALL 30 sec	Easy
Q 8 · PYQ 2024-Sep · Pg 361	RECALL 30 sec	Easy
Q 13 · RTP 2024-Sep · Pg 364 asked 2x	RECALL 30 sec	Easy
Q 14 · MTP 2024-Dec S1 · Pg 364	RECALL 30 sec	Easy

Q 15 · MTP 2024-Dec S1 · Pg 364 asked 3×	RECALL 30 sec	Easy
Q 16 · MTP 2024-Dec S1 · Pg 365 asked 2×	RECALL 30 sec	Easy
Q 17 · PYQ 2025-Jan · Pg 365	RECALL 30 sec	Easy
Q 18 · PYQ 2024-Jun · Pg 365 asked 2×	RECALL 30 sec	Easy
Q 20 · PYQ 2025-Jan · Pg 367	RECALL 30 sec	Easy
Q 21 · PYQ 2025-Jan · Pg 367	RECALL 30 sec	Easy
Q 23 · PYQ 2024-Jun · Pg 368 asked 2×	RECALL 30 sec	Easy
Q 24 · PYQ 2025-May · Pg 369	RECALL 30 sec	Easy
Q 25 · PYQ 2025-May · Pg 369	RECALL 30 sec	Easy
Q 26 · PYQ 2025-May · Pg 369	RECALL 30 sec	Easy
Q 27 · PYQ 2025-May · Pg 370	RECALL 30 sec	Easy
Q 31 · PYQ 2024-Jun · Pg 371 asked 2×	RECALL 30 sec	Easy
Q 33 · PYQ 2025-Sep · Pg 372	RECALL 30 sec	Easy
Q 34 · PYQ 2025-Sep · Pg 372	RECALL 30 sec	Easy
Q 36 · PYQ 2026-Jan · Pg 373	RECALL 30 sec	Easy
Q 37 · PYQ 2026-Jan · Pg 373	RECALL 30 sec	Easy
Q 41 · PYQ 2026-Jan · Pg 375	RECALL 30 sec	Easy
Q 45 · PYQ 2026-May · Pg 376	RECALL 30 sec	Easy
Q 46 · PYQ 2026-May · Pg 376	RECALL 30 sec	Easy
Q 47 · PYQ 2026-May · Pg 376	RECALL 30 sec	Easy
Q 48 · PYQ 2026-May · Pg 376	RECALL 30 sec	Easy
Q 51 · MTP 2025-May S2 · Pg 377	RECALL 30 sec	Easy
Q 53 · MTP 2025-Aug S1 · Pg 378	RECALL 30 sec	Easy

Q 55 · MTP 2025-Dec S1 · Pg 378	RECALL 30 sec	Easy
Q 56 · MTP 2025-Dec S1 · Pg 378	RECALL 30 sec	Easy
Q 57 · MTP 2026-Apr S1 · Pg 378	RECALL 30 sec	Easy
Q 58 · MTP 2026-Apr S1 · Pg 379	RECALL 30 sec	Easy
Q 61 · MTP 2026-Apr S2 · Pg 379	RECALL 30 sec	Easy
Q 62 · PYQ 2026-Sep · Pg 380	RECALL 30 sec	Easy
Q 63 · PYQ 2026-Sep · Pg 380	RECALL 30 sec	Easy
Q 64 · PYQ 2026-Sep · Pg 381	RECALL 30 sec	Easy
Q 65 · PYQ 2026-Sep · Pg 381	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 5 questions Understanding · Level I

- Three dividing lines: Gross vs Net = depreciation; National vs Domestic = NFIA (NFIA positive → GNPmp > GDPmp; negative → GNPmp < GDPmp); Market Price vs Factor Cost = NIT.
- Deflator > 100 means nominal GDP > real GDP (prices above base year); deflator = 100 in the base year.
- Goods bought for resale/further production are intermediate, not final; PI is received-income vs NI earned-income -- transfer payments are in PI but not NI.

Q 28 · PYQ 2025-May · Pg 370	RECOGNISE 45 sec	Easy
Q 30 · PYQ 2025-Sep · Pg 371	RECOGNISE 45 sec	Easy
Q 49 · MTP 2025-Jan S2 · Pg 377	RECOGNISE 45 sec	Easy
Q 52 · MTP 2025-May S2 · Pg 377	RECOGNISE 45 sec	Easy
Q 54 · MTP 2025-Aug S2 · Pg 378	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 29 questions Application · Level II

- Deflator numericals: $\text{Real GDP} = \text{Nominal} / \text{deflator} \times 100$; inflation rate = $(\text{Deflator2} - \text{Deflator1}) / \text{Deflator1} \times 100$, e.g. $(157.33 - 140.75) / 140.75 \times 100 = 11.78\%$.
- Aggregate conversions: $\text{NDPmp} = \text{GDPmp} - \text{depreciation}$ (₹6,700 - ₹530 = ₹6,170 crore); $\text{GDPmp} = \text{GNPmp} - \text{NFIA}$; convert stepwise Gross → Net, National → Domestic, MP → FC.
- Territory logic: profits of a US company's unit operating in India = India's GDP but US's GNP.

Q 1 · source not stated · Pg 356	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 356	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 356	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 357	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 357	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 357	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 358	COMPUTE 75 sec	Medium
Q 2 · source not stated · Pg 358	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 358	COMPUTE 75 sec	Medium
Q 3 · PYQ 2024-Jun · Pg 359	COMPUTE 75 sec	Medium
Q 5 · PYQ 2024-Jun · Pg 360	COMPUTE 75 sec	Medium
Q 9 · PYQ 2024-Sep · Pg 361	COMPUTE 75 sec	Medium
Q 10 · PYQ 2024-Sep · Pg 362	COMPUTE 75 sec	Medium
Q 11 · PYQ 2024-Sep · Pg 363	COMPUTE 75 sec	Medium
Q 12 · PYQ 2024-Sep · Pg 363	COMPUTE 75 sec	Medium
Q 19 · PYQ 2025-Jan · Pg 366 asked 2×	COMPUTE 75 sec	Medium
Q 22 · PYQ 2025-May · Pg 367	COMPUTE 75 sec	Medium
Q 29 · PYQ 2025-Sep · Pg 370	COMPUTE 75 sec	Medium
Q 32 · PYQ 2025-Sep · Pg 372	COMPUTE 75 sec	Medium
Q 35 · PYQ 2025-Sep · Pg 373	COMPUTE 75 sec	Medium
Q 38 · PYQ 2026-Jan · Pg 374	COMPUTE 75 sec	Medium
Q 39 · PYQ 2026-Jan · Pg 374	COMPUTE 75 sec	Medium
Q 40 · PYQ 2026-Jan · Pg 374	COMPUTE 75 sec	Medium

Q 42 · PYQ 2026-May · Pg 375	COMPUTE 75 sec	Medium
Q 43 · PYQ 2026-May · Pg 375	COMPUTE 75 sec	Medium
Q 44 · PYQ 2026-May · Pg 375	COMPUTE 75 sec	Medium
Q 50 · RTP 2025-May · Pg 377	COMPUTE 75 sec	Medium
Q 59 · MTP 2026-Apr S1 · Pg 379	COMPUTE 75 sec	Medium
Q 60 · MTP 2026-Apr S2 · Pg 379	COMPUTE 75 sec	Medium

Topic 1.4: Measurement of National Income in India

P4-C5-U1-T04

Read first Read Section 1.4 -- the circular flow of income (1.4.1), Value Added/Product Method (1.4.2), Income Method (1.4.3) and Expenditure Method (1.4.4), with Illustrations 9 to 15.

NOTES

Double counting is avoided by counting only FINAL goods (or only value added); increases in unwanted inventories count as investment.

Net domestic expenditure = consumption expenditure + net domestic investment; adding net foreign investment gives national expenditure.

RECALL 30 sec know it or move on · 32 questions Remembering · Level I

- Circular flow phases: Production, Distribution (income) and Disposition (expenditure); value added method = Product / Industrial Origin / Net Output Method; income method = Factor Payment / Distributed Share Method; expenditure method = Income Disposal Method.
- $GVAmp = \text{Value of Output} - \text{Intermediate Consumption} = (\text{Sales} + \text{Change in Stock}) - \text{Intermediate Consumption}$; the value added method measures each producing enterprise's unduplicated contribution.
- Mixed income of self-employed = combined factor payments (labour + capital) that cannot be separated; in India agriculture uses the production/output method, small-scale sector the income method, construction the expenditure method.
- Expenditure method: $GDP_{mp} = C (PFCE + GFCE) + \text{Gross Domestic Capital Formation} + \text{Net Exports}$; transfer payments (pensions, scholarships) are excluded.

Q 1 · source not stated · Pg 381	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 381	RECALL	Easy

	30 sec	
Q 1 · source not stated · Pg 382	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 382	RECALL 30 sec	Easy
Q 5 · source not stated · Pg 385	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 386	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Sep · Pg 386 asked 2×	RECALL 30 sec	Easy
Q 3 · PYQ 2024-Sep · Pg 386	RECALL 30 sec	Easy
Q 4 · PYQ 2024-Sep · Pg 387	RECALL 30 sec	Easy
Q 5 · MTP 2024-Dec S1 · Pg 387	RECALL 30 sec	Easy
Q 6 · MTP 2024-Dec S1 · Pg 387	RECALL 30 sec	Easy
Q 7 · MTP 2024-Dec S1 · Pg 387	RECALL 30 sec	Easy
Q 8 · MTP 2024-Dec S1 · Pg 387 asked 3×	RECALL 30 sec	Easy
Q 10 · PYQ 2025-Jan · Pg 388	RECALL 30 sec	Easy
Q 11 · PYQ 2025-Jan · Pg 388	RECALL 30 sec	Easy
Q 13 · MTP 2025-Jan S2 · Pg 389	RECALL 30 sec	Easy
Q 14 · MTP 2025-Jan S2 · Pg 389 asked 2×	RECALL 30 sec	Easy
Q 15 · MTP 2025-Jan S2 · Pg 389	RECALL 30 sec	Easy
Q 16 · PYQ 2026-Jan · Pg 390	RECALL 30 sec	Easy
Q 17 · PYQ 2026-May · Pg 390	RECALL 30 sec	Easy
Q 18 · MTP 2025-Apr S1 · Pg 390	RECALL 30 sec	Easy
Q 19 · MTP 2025-Apr S1 · Pg 390	RECALL 30 sec	Easy
Q 20 · MTP 2025-May S2 · Pg 391	RECALL 30 sec	Easy
Q 21 · MTP 2025-May S2 · Pg 391	RECALL 30 sec	Easy
Q 22 · MTP 2025-Aug S1 · Pg 391	RECALL	Easy

	30 sec	
Q 23 · MTP 2025-Aug S1 · Pg 391	RECALL 30 sec	Easy
Q 24 · MTP 2025-Aug S2 · Pg 391	RECALL 30 sec	Easy
Q 25 · RTP 2025-Sep · Pg 392	RECALL 30 sec	Easy
Q 26 · RTP 2025-Sep · Pg 392	RECALL 30 sec	Easy
Q 27 · MTP 2025-Dec S1 · Pg 392	RECALL 30 sec	Easy
Q 28 · MTP 2025-Apr S1 · Pg 392 asked 2×	RECALL 30 sec	Easy
Q 29 · MTP 2026-Apr S1 · Pg 392	RECALL 30 sec	Easy

COMPUTE 75 sec one formula, straight through · 16 questions Application · Level II

- GVamp drill: Sales 750 + Change in stock (200 - 300 = -100) - Intermediate consumption 250 = 400.
- For 'at factor cost' sums: $GVA_{fc} = GV_{amp} - \text{Net Indirect Taxes}$, i.e. deduct indirect/excise tax and add subsidy after computing GVamp.

Q 1 · source not stated · Pg 382	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 382	COMPUTE 75 sec	Medium
Q 2 · source not stated · Pg 383	COMPUTE 75 sec	Medium
Q 3 · source not stated · Pg 383	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 383	COMPUTE 75 sec	Medium
Q 2 · source not stated · Pg 383	COMPUTE 75 sec	Medium
Q 3 · source not stated · Pg 384	COMPUTE 75 sec	Medium
Q 4 · source not stated · Pg 384	COMPUTE 75 sec	Medium
Q 5 · source not stated · Pg 384	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 384	COMPUTE 75 sec	Medium
Q 2 · source not stated · Pg 385	COMPUTE 75 sec	Medium
Q 3 · source not stated · Pg 385	COMPUTE 75 sec	Medium

Q 4 · source not stated · Pg 385	COMPUTE 75 sec	Medium
Q 9 · MTP 2024-Dec S1 · Pg 388	COMPUTE 75 sec	Medium
Q 12 · PYQ 2025-Jan · Pg 388	COMPUTE 75 sec	Medium
Q 30 · PYQ 2026-Sep · Pg 393	COMPUTE 75 sec	Medium

Topic 1.5: The System of Regional Accounts in India

P4-C5-U1-T05

Read first Read Section 1.5 (The System of Regional Accounts in India) -- NSDP/State Income, per capita state income, the role of the State DESs and CSO, and supra-regional sectors.

RECALL 30 sec know it or move on · 4 questions · Remembering · Level I

- State income = Net State Domestic Product (NSDP); Per Capita State Income = NSDP / mid-year projected population of the state.
- State-level estimates are prepared by the State Income Units of the State Directorates of Economics and Statistics (DESs); the CSO assists on conceptual/methodological problems and compiles/publishes national and regional accounts data.
- Supra-regional sectors (railways, communications, banking and insurance, central government administration) cut across state boundaries -- compiled for the economy as a whole and allocated to states using indicators.
- Per capita income is the component used to assess regional economic performance; the unemployment rate (not labour force participation rate, GDP per capita or poverty ratio) is the correct measure of unemployment.

Q 1 · PYQ 2024-Sep · Pg 393	RECALL 30 sec	Easy
Q 2 · MTP 2024-Dec S1 · Pg 394	RECALL 30 sec	Easy
Q 3 · MTP 2024-Dec S1 · Pg 394	RECALL 30 sec	Easy
Q 4 · MTP 2025-Jan S2 · Pg 394	RECALL 30 sec	Easy

Topic 1.6: GDP and Welfare

P4-C5-U1-T06

Read first Read Section 1.6 (GDP and Welfare) -- the list (a) to (j) of things GDP excludes, which make it an imperfect index of well-being.

RECALL 30 sec know it or move on · 4 questions · Remembering · Level I

- Per Capita Income (GDP per capita, inflation adjusted) is the indicator of a country's standard of living -- not personal income or disposable income.
- GDP measures our ability to obtain many requirements of a better life, yet leaves out many aspects that ensure good quality of life -- so it is NOT a perfect welfare index.

Q 2 · PYQ 2025-May · Pg 395

RECALL
30 sec**Easy**

Q 3 · PYQ 2026-Jan · Pg 395

RECALL
30 sec**Easy**

Q 4 · MTP 2025-May S2 · Pg 395

RECALL
30 sec**Easy**

Q 5 · MTP 2026-Apr S1 · Pg 395

RECALL
30 sec**Easy****RECOGNISE 45 sec** decide which idea applies · 1 question · Understanding · Level I

- GDP omits: income distribution, quality improvements, hidden/illegal production, non-market and volunteer work, leisure, externalities, and includes 'defensive' outputs (police, accident repairs) -- so GDP is not a perfect welfare measure; economic 'bads' excluded from GDP include crime, pollution and traffic congestion.
- If population grows faster than economic growth, saving in the economy is LESSER (lower per capita income -> less saving, investment, employment).

Q 1 · MTP 2024-Dec S1 · Pg 394

RECOGNISE
45 sec**Easy**

Topic 1.7: Limitations and Challenges of National Income Computation

P4-C5-U1-T07

Read first Read Section 1.7 (Limitations and Challenges of National Income Computation) -- conceptual difficulties and practical challenges, especially for developing countries.

RECALL 30 sec know it or move on · 4 questions · Remembering · Level I

Q 1 · source not stated · Pg 396

RECALL
30 sec**Easy**

Q 3 · source not stated · Pg 396

RECALL
30 sec**Easy**

Q 1 · PYQ 2024-Sep · Pg 397

RECALL
30 sec**Easy**

Q 2 · MTP 2026-Apr S1 · Pg 397

RECALL
30 sec**Easy**

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Conceptual difficulties: no agreed definition of national income, distinguishing final vs intermediate goods, treatment of transfer payments, services of durable goods, incorporating income distribution, valuing new goods at constant prices and valuing government services.
- Practical challenges: inadequate/unreliable data, large non-monetised sector, production for self-consumption, unrecorded incomes due to illiteracy, poor occupational classification, estimating consumption of fixed capital.
- MCQs ask which option is NOT a limitation -- anything that IS properly measured (e.g. market sales of final goods) is the odd one out; memorise the two lists to eliminate.

Q 2 · source not stated · Pg 396

RECOGNISE
45 sec**Easy**

Unit 5.2: The Keynesian Theory of Determination of National Income

P4-C5-U2 · Importance C · 6.3 marks a paper · Rank 2 in chapter · Category A · 43.3% of chapter questions · 117 questions

Topic 2.1: Introduction

P4-C5-U2-T01

Read first Read Section 2.1 (Introduction) of Unit 2, Chapter 6: the background of the Great Depression, Keynes' General Theory (1936) and the building blocks of Keynesian macroeconomics.

RECALL 30 sec know it or move on · 8 questions Remembering · Level I

- Keynes' 'General Theory of Employment, Interest and Money' (1936) revolutionised macroeconomics after the Great Depression of the 1930s.
- Per Keynes, national income and employment depend on aggregate effective demand; the Depression's cause was lower aggregate expenditure (deficient demand), and he advocated activist government policies.
- 'Liquidity preference' is Keynes' term for the demand for money.
- Macroeconomics = study of aggregate output, income, employment, consumption, investment and prices of the economy as a whole.

Q 1 · source not stated · Pg 403

RECALL
30 sec**Easy**

Q 1 · PYQ 2024-Sep · Pg 403

RECALL
30 sec**Easy**

Q 4 · MTP 2025-Jan S2 · Pg 404 asked 2×

RECALL
30 sec**Easy**

Q 5 • PYQ 2025-May • Pg 404	RECALL 30 sec	Easy
Q 6 • MTP 2025-Aug S1 • Pg 404	RECALL 30 sec	Easy
Q 7 • MTP 2025-Aug S2 • Pg 404	RECALL 30 sec	Easy
Q 8 • MTP 2026-Apr S1 • Pg 405	RECALL 30 sec	Easy
Q 9 • MTP 2026-Apr S2 • Pg 405	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies • 2 questions Understanding • Level I

Q 2 • PYQ 2023-Dec • Pg 403 asked 3x	RECOGNISE 45 sec	Easy
Q 3 • MTP 2025-Jan S2 • Pg 404	RECOGNISE 45 sec	Easy

Topic 2.2: Circular flow in a Simple Two-Sector Model

P4-C5-U2-T02

Read first Study the two-sector circular flow diagram in Unit 5.2: households and firms only, the two markets that join them, and the identity that the flows must be equal.

RECALL 30 sec know it or move on • 6 questions Remembering • Level I

- The simple model has exactly two sectors — households and firms — with no government, no foreign trade and no saving or investment.
- Two flows run in opposite directions: a real flow of factor services and goods, and a money flow of factor incomes and consumption expenditure.
- Two markets connect them — the factor market (households sell land, labour, capital, enterprise) and the product market (firms sell goods and services).
- The circular flow gives the identity Total Production = Total Income = Total Expenditure, which is why national income can be measured three different ways and still come to the same figure.

Q 1 • source not stated • Pg 405	RECALL 30 sec	Easy
Q 2 • source not stated • Pg 406	RECALL 30 sec	Easy
Q 3 • source not stated • Pg 406	RECALL 30 sec	Easy
Q 1 • source not stated • Pg 407	RECALL 30 sec	Easy
Q 1 • PYQ 2025-Sep • Pg 407	RECALL	Easy

Q 2 · PYQ 2026-Sep · Pg 407

30 sec

RECALL
30 sec**Easy****RECOGNISE 45 sec** decide which idea applies · 1 question Understanding · Level I

- Whatever leaves one sector must arrive at the other, so the flow is continuous only while nothing leaks out — saving, taxes and imports are leakages; investment, government spending and exports are injections.
- The three methods of measuring national income are three readings of the same circle, not three different quantities: a question that asks which method gives the highest figure is testing whether you know they are equal.

Q 1 · source not stated · Pg 406

RECOGNISE
45 sec**Easy****COMPUTE 75 sec** one formula, straight through · 1 question Application · Level II

- In the two-sector model with no leakages, household income equals consumption expenditure equals firms' receipts — given any one figure, the other two follow directly.

Q 1 · source not stated · Pg 406

COMPUTE
75 sec**Medium**

Topic 2.3: Basic Concepts and Functions

P4-C5-U2-T03

Read first Study Section 2.3 (Basic Concepts and Functions): the aggregate demand function $AD = C + I$, the consumption function, saving function, APC/MPC/APS/MPS and aggregate supply.

RECALL 30 sec know it or move on · 16 questions Remembering · Level I

- Consumption function $C = a + bY$: slope $b = MPC$, intercept $a =$ autonomous consumption at zero income.
- $APC = C/Y$ (total consumption / total income); $APS = S/Y$; $MPC = dC/dY$; $MPS = dS/dY$.
- $MPC + MPS = 1$, so $MPS = 1 - MPC$; aggregate supply = national income = consumption + saving ($AS = C + S$).

Q 1 · source not stated · Pg 408

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 409

RECALL
30 sec**Easy**

Q 1 · PYQ 2024-Jun · Pg 410

RECALL
30 sec**Easy**

Q 3 · RTP 2024-Sep · Pg 411

RECALL
30 sec**Easy**

Q 4 · PYQ 2025-Jan · Pg 411 asked 2×	RECALL 30 sec	Easy
Q 6 · PYQ 2025-Jan · Pg 412	RECALL 30 sec	Easy
Q 7 · PYQ 2025-Jan · Pg 412	RECALL 30 sec	Easy
Q 10 · PYQ 2025-May · Pg 413 asked 2×	RECALL 30 sec	Easy
Q 12 · PYQ 2025-Sep · Pg 414	RECALL 30 sec	Easy
Q 13 · PYQ 2026-Jan · Pg 414	RECALL 30 sec	Easy
Q 17 · MTP 2025-Aug S1 · Pg 415	RECALL 30 sec	Easy
Q 18 · MTP 2025-Aug S2 · Pg 415	RECALL 30 sec	Easy
Q 19 · MTP 2025-Aug S2 · Pg 415	RECALL 30 sec	Easy
Q 22 · MTP 2026-Apr S1 · Pg 416	RECALL 30 sec	Easy
Q 23 · MTP 2026-Apr S1 · Pg 416	RECALL 30 sec	Easy
Q 26 · PYQ 2026-Sep · Pg 417	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 5 questions Understanding · Level I

- Keynesian assumption: $0 < MPC < 1$ — consumption rises with income but by less than income; MPC is never >1 or negative.
- Positive intercept 'a' = consumption unaffected by income changes; households dissave at low incomes.
- As income rises APC falls (it can exceed 1 at low income) while MPC stays constant along a linear function.

Q 8 · MTP 2025-Jan S2 · Pg 412	RECOGNISE 45 sec	Easy
Q 9 · PYQ 2025-May · Pg 413	RECOGNISE 45 sec	Easy
Q 20 · MTP 2025-Dec S1 · Pg 416	RECOGNISE 45 sec	Easy
Q 21 · MTP 2026-Apr S1 · Pg 416	RECOGNISE 45 sec	Easy
Q 27 · PYQ 2026-Sep · Pg 417	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 13 questions Application · Level II

- APS drills: $APS = (Y - C)/Y$ ($C = 300$, $Y = 1200$ gives 0.75); saving = APS x income ($0.4 \times ₹25,000 = ₹10,000$).

- APC drills: $Y = C/APC$ ($₹900 \text{ cr} / 0.45 = ₹2,000 \text{ cr}$).
- MPC drills: $MPC = \Delta C/\Delta Y$ between two income levels, or via $k = \Delta Y/\Delta I$ then $MPC = 1 - 1/k$.

Q 1 · source not stated · Pg 408	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 408	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 409	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 409	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 409	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 410	COMPUTE 75 sec	Medium
Q 2 · PYQ 2024-Sep · Pg 410	COMPUTE 75 sec	Medium
Q 5 · PYQ 2025-Jan · Pg 411	COMPUTE 75 sec	Medium
Q 11 · PYQ 2025-Sep · Pg 413	COMPUTE 75 sec	Medium
Q 14 · PYQ 2026-May · Pg 414	COMPUTE 75 sec	Medium
Q 15 · PYQ 2026-May · Pg 415	COMPUTE 75 sec	Medium
Q 16 · PYQ 2026-May · Pg 415	COMPUTE 75 sec	Medium
Q 28 · PYQ 2026-Sep · Pg 417	COMPUTE 75 sec	Medium

REASON 150 sec trace the chain before you answer · 2 questions · Analysis · Level II

- For spending-scenario questions, trace each act separately: depleting savings to consume raises C and lowers S; buying bonds is not consumption; a foreign vacation raises imports, lowering net exports.
- Classify each transaction as consumption, saving or leakage before judging what rises or falls.

Q 24 · MTP 2026-Apr S2 · Pg 417	REASON 150 sec	Medium
Q 25 · MTP 2025-Dec S1 · Pg 417 asked 2×	REASON 150 sec	Medium

Topic 2.4: The Two-Sector Model of Nation Income Determination

P4-C5-U2-T04

Read first Study Section 2.4 (Two-Sector Model of National Income Determination) and 2.4.1: equilibrium via $AD = AS$ on the 45-degree (Keynesian cross) diagram, $S = I$ condition, and

deflationary/inflationary gaps.

RECALL 30 sec know it or move on · 9 questions Remembering · Level I

- Equilibrium condition: $Y = C + I$, i.e. $C + I = C + S$, i.e. $S = I$ (planned saving = planned investment).
- AD less than the full-employment output level = deficient demand = deflationary (recessionary) gap; AD greater than full-employment output = excess demand = inflationary gap.

Q 1 · source not stated · Pg 418	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 418	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 418	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 419	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 419	RECALL 30 sec	Easy
Q 3 · MTP 2024-Dec S1 · Pg 420	RECALL 30 sec	Easy
Q 4 · MTP 2024-Dec S1 · Pg 421	RECALL 30 sec	Easy
Q 8 · MTP 2024-Dec S1 · Pg 422 asked 2×	RECALL 30 sec	Easy
Q 9 · MTP 2025-Aug S1 · Pg 422	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- The point where AD ($C+I$) crosses the 45-degree line is the equilibrium income, which need NOT be the full-employment level.
- An inflationary gap leaves real output unchanged but raises the general price level (demand-pull inflation).
- Excess demand is corrected by contractionary monetary policy — raising repo rate, CRR and margin requirements all qualify.

Q 10 · PYQ 2026-Sep · Pg 422	RECOGNISE 45 sec	Easy
Q 11 · PYQ 2026-Sep · Pg 423	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 6 questions Application · Level II

- Solve $Y = C + I$: with $C = 10 + 0.5Y$ and $I = 200$, $Y = 210/0.5 = 420$; if I also depends on Y ($I = 12 + 0.15Y$), collect Y terms: $Y(1-0.5-0.15) = 42$.

- With a saving function, set $S = I$: $S = -20 + 0.25Y = 100$ gives $Y = 480$; then $C = Y - S$ (e.g. $S = -20 + 0.5Y$, $I = 100$ gives $Y = 240$, $C = 140$).

Q 1 · source not stated · Pg 419	COMPUTE 75 sec	Medium
Q 2 · PYQ 2024-Sep · Pg 420 asked 2×	COMPUTE 75 sec	Medium
Q 5 · PYQ 2025-Sep · Pg 421	COMPUTE 75 sec	Medium
Q 6 · PYQ 2026-Jan · Pg 421	COMPUTE 75 sec	Medium
Q 7 · PYQ 2026-May · Pg 422	COMPUTE 75 sec	Medium
Q 12 · PYQ 2026-Sep · Pg 423	COMPUTE 75 sec	Medium

Topic 2.5: The Investment Multiplier

P4-C5-U2-T05

Read first Study Section 2.5 (The Investment Multiplier): definition and formula of k , its dependence on MPC/MPS, and the eight leakages that weaken the multiplier process.

RECALL 30 sec know it or move on · 10 questions Remembering · Level I

- Investment multiplier $k = \Delta Y / \Delta I = 1 / (1 - MPC) = 1 / MPS$: the rate of increase in national income due to an increase in investment.
- Saving is a withdrawal (leakage) from the circular flow, not an injection.
- Leakages: progressive taxation, high liquidity preference/idle cash, meeting demand from existing stocks or imports, buying existing wealth/securities, undistributed corporate profits, debt repayment, full-employment inflation, scarcity of goods. (Note: it is UNdistributed, not distributed, profits.)

Q 3 · source not stated · Pg 424	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 425	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Jun · Pg 425	RECALL 30 sec	Easy
Q 4 · MTP 2024-Dec S1 · Pg 426	RECALL 30 sec	Easy
Q 6 · PYQ 2025-Jan · Pg 427	RECALL 30 sec	Easy
Q 8 · MTP 2024-Dec · Pg 427 asked 2×	RECALL 30 sec	Easy
Q 10 · PYQ 2026-Jan · Pg 428	RECALL	Easy

	30 sec	
Q 12 · MTP 2025-Aug S1 · Pg 429	RECALL 30 sec	Easy
Q 14 · RTP 2025-Sep · Pg 429	RECALL 30 sec	Easy
Q 15 · MTP 2025-Dec S1 · Pg 430	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 3 questions Understanding · Level I

- Higher MPC means higher multiplier; higher MPS means lower multiplier — k is the reciprocal of MPS.
- Maximum value of the multiplier is infinity when $MPC = 1$; minimum is 1 when $MPC = 0$.
- Leakages reduce the multiplier because income leaking out of the consumption stream generates no further induced spending.

Q 1 · source not stated · Pg 425	RECOGNISE 45 sec	Easy
Q 11 · MTP 2024-Dec S1 · Pg 428 asked 2×	RECOGNISE 45 sec	Easy
Q 18 · PYQ 2026-Sep · Pg 430	RECOGNISE 45 sec	Easy

COMPUTE 75 sec one formula, straight through · 10 questions Application · Level II

- Compute k from data: $k = \Delta Y / \Delta I$ (e.g. $\Delta Y = 12,000$, $\Delta I = 4,000$ gives $k = 3$); then $MPC = 1 - 1/k$ ($k = 3$ gives $MPC = 0.66...$ or with $\Delta Y = 1500$, $\Delta I = 500$, $MPC = 0.66$).
- Compute $\Delta Y = k \times \Delta I$: $MPC = 0.6$ gives $k = 2.5$, so ΔI of ₹300 cr raises income by ₹750 cr.
- From a saving function $S = -60 + 0.2Y$, $MPS = 0.2$ so $k = 1/0.2 = 5$ (multiplier = reciprocal of the Y -coefficient).

Q 1 · source not stated · Pg 423	COMPUTE 75 sec	Medium
Q 2 · source not stated · Pg 423	COMPUTE 75 sec	Medium
Q 1 · source not stated · Pg 424	COMPUTE 75 sec	Medium
Q 2 · source not stated · Pg 424	COMPUTE 75 sec	Medium
Q 3 · PYQ 2024-Jun · Pg 426	COMPUTE 75 sec	Medium
Q 5 · PYQ 2025-Jan · Pg 426 asked 2×	COMPUTE 75 sec	Medium
Q 7 · RTP 2025-Jan · Pg 427	COMPUTE 75 sec	Medium
Q 9 · PYQ 2025-Sep · Pg 428	COMPUTE 75 sec	Medium

Q 13 · MTP 2025-Aug S2 · Pg 429

COMPUTE
75 sec**Medium**

Q 17 · PYQ 2026-Sep · Pg 430

COMPUTE
75 sec**Medium****REASON 150 sec** trace the chain before you answer · 1 question · Analysis · Level II

Q 16 · MTP 2026-Apr S1 · Pg 430

REASON
150 sec**Medium**

Topic 2.6: Determination of Equilibrium Income: Three Sector Model

P4-C5-U2-T06

Read first Study Section 2.6 (Determination of Equilibrium Income: Three Sector Model) and 2.6.1: the closed-economy model with government — taxes, transfers and government purchases — and equilibrium with lump-sum tax.

RECALL 30 sec know it or move on · 5 questions · Remembering · Level I

- Three-sector (closed economy) AD components: Consumption + Investment + Government spending ($C + I + G$); sectors are household, business and government — the foreign sector is excluded.
- Equilibrium: $C + I + G = Y = C + S + T$.
- Income not spent on currently produced consumption goods and services is a 'leakage' (withdrawal) from the income stream.

Q 2 · source not stated · Pg 431

RECALL
30 sec**Easy**

Q 2 · PYQ 2024-Sep · Pg 432

RECALL
30 sec**Easy**

Q 4 · PYQ 2025-May · Pg 433

RECALL
30 sec**Easy**

Q 6 · MTP 2026-Apr S1 · Pg 433

RECALL
30 sec**Easy**

Q 7 · MTP 2026-Apr S1 · Pg 434

RECALL
30 sec**Easy****RECOGNISE 45 sec** decide which idea applies · 1 question · Understanding · Level I

Q 5 · PYQ 2026-May · Pg 433

RECOGNISE
45 sec**Easy****COMPUTE 75 sec** one formula, straight through · 3 questions · Application · Level II

- With lump-sum tax and transfers: $Y_d = Y - T + TR$, $C = a + bY_d$; solve $Y = (a - bT + bTR + I + G)/(1-b)$. E.g. $C = 200 + 0.8Y_d$, $I = 200$, $G = T = 150$, $TR = 75$ gives $Y = 2,450$.

- With balanced budget $G = T$ and no transfers: $Y = (a - bT + I + G)/(1-b)$; e.g. $C = 8 + 0.6Y_d$, $I = 60$, $G = T = 10$ gives $Y = 180$.

Q 1 · source not stated · Pg 431	COMPUTE 75 sec	Medium
Q 1 · PYQ 2024-Jun · Pg 431	COMPUTE 75 sec	Medium
Q 3 · PYQ 2025-Jan · Pg 432	COMPUTE 75 sec	Medium

Topic 2.7: Determination of Equilibrium Income: Four Sector Model

P4-C5-U2-T07

Read first Study Section 2.7 (Determination of Equilibrium Income: Four Sector Model): net exports in AD, the import function $M = M\text{-bar} + mY$, and the foreign trade multiplier.

RECALL 30 sec know it or move on · 7 questions · Remembering · Level I

- Households and firms (business) are the pair of sectors common to all sector- models of the economy.
- Four-sector model adds the foreign sector; import function $M = M_0 + mY$, where m = marginal propensity to import ($\Delta M/\Delta Y$).

Q 2 · source not stated · Pg 434	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 435	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 435	RECALL 30 sec	Easy
Q 5 · PYQ 2026-May · Pg 436	RECALL 30 sec	Easy
Q 6 · MTP 2025-Dec S1 · Pg 437	RECALL 30 sec	Easy
Q 7 · MTP 2026-Apr S1 · Pg 437	RECALL 30 sec	Easy
Q 8 · RTP 2025-May · Pg 437 asked 2x	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 1 question · Understanding · Level I

- Exports are injections, imports are leakages: an autonomous increase in imports has a contractionary effect on equilibrium income; higher exports are expansionary.
- The more open the economy (higher m), the smaller the multiplier, since import spending leaks out of the domestic circular flow each round.

Q 1 · source not stated · Pg 434

RECOGNISE
45 sec

Easy

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- AD in four sectors = $C + I + G + (X - M)$; e.g. $2,000 + 700 + 750 + (150 - 50) = ₹3,550$ cr.
- Foreign trade multiplier = $1/(1 - b + m)$; with MPC 0.6, m 0.04: $1/0.44 = 2.27$.
- Equilibrium: $Y = C + I + G + (X - M)$; with $C = 300 + 0.75Y$, $I = 800$, net imports 100: $Y = (300 + 800 - 100)/0.25 = 4,000$.

Q 2 · MTP 2024-Dec S1 · Pg 435

COMPUTE
75 sec

Medium

Q 3 · PYQ 2026-Jan · Pg 436

COMPUTE
75 sec

Medium

REASON 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 4 · PYQ 2026-Jan · Pg 436

REASON
150 sec

Medium

Topic 2.8: Conclusion

P4-C5-U2-T08

Read first Read the concluding section of Unit 2 summarising the Keynesian message: output and employment are demand-determined in the short run.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- In explaining unemployment, Keynes emphasized deficiency of aggregate demand — not technology, inflationary expectations or bank lending.
- Since wages and prices do not fall readily, output stays below full employment as long as spending is insufficient — the case for government demand management.

Q 1 · RTP 2025-Jan · Pg 437 asked 2x

RECALL
30 sec

Easy

Q 2 · MTP 2025-Apr S1 · Pg 438

RECALL
30 sec

Easy

CHAPTER 6

Business Cycles

1 Unit · 5 Topics · 191 Classified Questions · 4.9 marks a paper · Importance: B

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 32 sec a question on average — **pure recall — read it, do not solve it**

RECALL Remembering	85.3%	30 sec	133 of 156 past-exam questions
RECOGNISE Understanding	14.7%	45 sec	23 of 156 past-exam questions

Topic 6: Introduction

P4-C6-U6-T00

Read first Read Section 5.0 (Introduction -- meaning of business cycles with the UK 1920s boom and China slowdown examples) and the opening of Chapter 5 defining business/trade cycles, plus the boxed examples of real-world cycles.

RECALL 30 sec know it or move on · 8 questions · Remembering · Level I

- Business (trade) cycle = rhythmic fluctuations in aggregate economic activity of an economy over a period of time -- alternate expansion and contraction of overall business activity.
- Dates to memorise: IT/dot-com bubble burst -- 2000; US housing bubble burst -- 2007; Great Depression -- 1930s; China's recent slowdown caused a cycle of decline and panic across the world.
- A variable moving opposite to aggregate activity (down in expansion, up in contraction) is countercyclical; moving with it is procyclical; globalization means rapid integration between countries.

Q 1 · PYQ 2018-May · Pg 442	RECALL 30 sec	Easy
Q 2 · PYQ 2019-Nov · Pg 443	RECALL 30 sec	Easy
Q 3 · PYQ 2021-Jan · Pg 443	RECALL 30 sec	Easy
Q 4 · PYQ 2021-Jul · Pg 443	RECALL 30 sec	Easy
Q 5 · PYQ 2022-Dec · Pg 443	RECALL 30 sec	Easy
Q 7 · RTP 2024-Sep · Pg 444 asked 2×	RECALL 30 sec	Easy
Q 8 · RTP 2024-Sep · Pg 444	RECALL 30 sec	Easy
Q 9 · MTP 2024-Dec S1 · Pg 444	RECALL	Easy

30 sec

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Common thread of the Subprime and Greece crises: high financial leverage, low interest rates and credit expansion together fuelled the bubble ('all of the above' pattern).
- Grasp the story of each example: cheap credit -> over-optimism -> asset bubble -> burst -> downturn spreading worldwide.

Q 6 · RTP 2024-Sep · Pg 443 asked 2×

RECOGNISE
45 sec**Easy****REASON 150 sec** trace the chain before you answer · 1 question Analysis · Level II

Q 10 · MTP 2025-Jan S2 · Pg 444 asked 2×

REASON
150 sec**Medium**

Topic 6.1: Phase of Business Cycle

P4-C6-U6-T01

Read first Read Section 5.1 (Phases of Business Cycle) -- expansion, peak, contraction, trough/depression and recovery with Figure 1 -- plus the discussion of leading, lagging and coincident indicators and the boxed examples (Great Depression 1930, IT bubble 2000, Global Crisis 2008-09).

RECALL 30 sec know it or move on · 91 questions Remembering · Level I

- Four phases: Expansion (boom/upswing), Peak (prosperity), Contraction (downturn/recession), Trough; Depression = severe form of recession/trough with negative growth, rampant unemployment and FALLING interest rates; last stage of recession = depression; recovery follows trough.
- Great Depression: 1930s, started in the USA, the longest, deepest and most widespread depression of the 20th century; global GDP fell about 15% between 1929 and 1932; recovery began 1933.
- Leading indicators change BEFORE real output: stock prices, profit margins, new orders for consumer/capital goods, building permits, consumer confidence, money growth rate. Lagging indicators change AFTER: unemployment, corporate profits, labour cost per unit of output, interest rates, CPI. Coincident (concurrent): GDP, industrial production, inflation, personal income, retail sales.

Q 1 · PYQ 2018-May · Pg 444

RECALL
30 sec**Easy**

Q 2 · PYQ 2018-May · Pg 445 asked 2×

RECALL
30 sec**Easy**

Q 3 · PYQ 2018-May · Pg 445

RECALL
30 sec**Easy**

Q 4 · PYQ 2018-May · Pg 445

RECALL
30 sec**Easy**

Q 5 · PYQ 2018-Nov · Pg 445	RECALL 30 sec	Easy
Q 6 · PYQ 2018-Nov · Pg 445 asked 2×	RECALL 30 sec	Easy
Q 8 · PYQ 2019-May · Pg 446	RECALL 30 sec	Easy
Q 9 · PYQ 2019-May · Pg 446	RECALL 30 sec	Easy
Q 10 · PYQ 2019-May · Pg 446	RECALL 30 sec	Easy
Q 11 · PYQ 2019-May · Pg 446	RECALL 30 sec	Easy
Q 12 · PYQ 2019-May · Pg 447	RECALL 30 sec	Easy
Q 13 · PYQ 2019-May · Pg 447	RECALL 30 sec	Easy
Q 14 · PYQ 2019-Nov · Pg 447	RECALL 30 sec	Easy
Q 15 · PYQ 2019-Nov · Pg 447	RECALL 30 sec	Easy
Q 16 · PYQ 2019-Nov · Pg 447	RECALL 30 sec	Easy
Q 17 · PYQ 2019-Nov · Pg 448	RECALL 30 sec	Easy
Q 18 · PYQ 2019-Nov · Pg 448	RECALL 30 sec	Easy
Q 19 · PYQ 2019-Nov · Pg 448	RECALL 30 sec	Easy
Q 20 · PYQ 2019-Nov · Pg 448	RECALL 30 sec	Easy
Q 21 · PYQ 2019-Nov · Pg 449	RECALL 30 sec	Easy
Q 22 · PYQ 2019-Nov · Pg 449	RECALL 30 sec	Easy
Q 23 · PYQ 2019-Nov · Pg 449	RECALL 30 sec	Easy
Q 24 · PYQ 2020-Nov · Pg 449	RECALL 30 sec	Easy
Q 25 · PYQ 2020-Nov · Pg 449	RECALL 30 sec	Easy
Q 26 · PYQ 2020-Nov · Pg 449	RECALL 30 sec	Easy
Q 28 · PYQ 2020-Nov · Pg 450	RECALL 30 sec	Easy
Q 29 · PYQ 2020-Nov · Pg 450	RECALL 30 sec	Easy

Q 34 · PYQ 2020-Nov · Pg 451 asked 2×	RECALL 30 sec	Easy
Q 35 · PYQ 2021-Jan · Pg 451	RECALL 30 sec	Easy
Q 36 · PYQ 2018-Nov · Pg 451 asked 2×	RECALL 30 sec	Easy
Q 37 · PYQ 2021-Jul · Pg 451	RECALL 30 sec	Easy
Q 38 · PYQ 2021-Jul · Pg 451 asked 3×	RECALL 30 sec	Easy
Q 39 · PYQ 2021-Jul · Pg 452	RECALL 30 sec	Easy
Q 40 · PYQ 2021-Jul · Pg 452	RECALL 30 sec	Easy
Q 41 · PYQ 2019-Nov · Pg 452 asked 2×	RECALL 30 sec	Easy
Q 42 · PYQ 2021-Jul · Pg 452	RECALL 30 sec	Easy
Q 46 · PYQ 2021-Dec · Pg 453	RECALL 30 sec	Easy
Q 47 · PYQ 2021-Dec · Pg 453 asked 3×	RECALL 30 sec	Easy
Q 48 · PYQ 2022-Jun · Pg 453	RECALL 30 sec	Easy
Q 49 · PYQ 2022-Jun · Pg 454	RECALL 30 sec	Easy
Q 50 · PYQ 2022-Jun · Pg 454	RECALL 30 sec	Easy
Q 51 · PYQ 2022-Jun · Pg 454	RECALL 30 sec	Easy
Q 52 · PYQ 2022-Jun · Pg 454	RECALL 30 sec	Easy
Q 53 · PYQ 2022-Jun · Pg 454	RECALL 30 sec	Easy
Q 54 · PYQ 2022-Dec · Pg 454	RECALL 30 sec	Easy
Q 55 · PYQ 2022-Dec · Pg 455	RECALL 30 sec	Easy
Q 56 · PYQ 2022-Dec · Pg 455	RECALL 30 sec	Easy
Q 57 · PYQ 2022-Dec · Pg 455	RECALL 30 sec	Easy
Q 59 · PYQ 2023-Jun · Pg 455	RECALL 30 sec	Easy
Q 61 · PYQ 2023-Jun · Pg 456	RECALL 30 sec	Easy

Q 62 · PYQ 2023-Jun · Pg 456	RECALL 30 sec	Easy
Q 63 · PYQ 2023-Jun · Pg 456	RECALL 30 sec	Easy
Q 64 · PYQ 2023-Jun · Pg 456	RECALL 30 sec	Easy
Q 65 · PYQ 2023-Jun · Pg 456	RECALL 30 sec	Easy
Q 66 · PYQ 2022-Jun · Pg 457 asked 2×	RECALL 30 sec	Easy
Q 67 · PYQ 2023-Dec · Pg 457	RECALL 30 sec	Easy
Q 68 · PYQ 2023-Dec · Pg 457	RECALL 30 sec	Easy
Q 69 · PYQ 2023-Dec · Pg 457	RECALL 30 sec	Easy
Q 70 · PYQ 2024-Jun · Pg 457	RECALL 30 sec	Easy
Q 71 · MTP 2024-Aug · Pg 458	RECALL 30 sec	Easy
Q 72 · MTP 2024-Aug · Pg 458 asked 3×	RECALL 30 sec	Easy
Q 73 · MTP 2024-Aug · Pg 458	RECALL 30 sec	Easy
Q 74 · MTP 2024-Aug · Pg 458	RECALL 30 sec	Easy
Q 75 · PYQ 2024-Sep · Pg 458	RECALL 30 sec	Easy
Q 77 · PYQ 2022-Jun · Pg 459 asked 2×	RECALL 30 sec	Easy
Q 78 · RTP 2024-Sep · Pg 459	RECALL 30 sec	Easy
Q 80 · PYQ 2025-Jan · Pg 460	RECALL 30 sec	Easy
Q 81 · PYQ 2019-Nov · Pg 460 asked 2×	RECALL 30 sec	Easy
Q 82 · MTP 2025-Jan S2 · Pg 460	RECALL 30 sec	Easy
Q 83 · MTP 2025-Jan S2 · Pg 460	RECALL 30 sec	Easy
Q 84 · RTP 2025-Jan · Pg 460 asked 2×	RECALL 30 sec	Easy
Q 86 · PYQ 2025-May · Pg 461	RECALL 30 sec	Easy
Q 87 · PYQ 2025-May · Pg 461	RECALL 30 sec	Easy

Q 89 · PYQ 2025-Sep · Pg 462	RECALL 30 sec	Easy
Q 90 · PYQ 2026-Jan · Pg 462	RECALL 30 sec	Easy
Q 91 · PYQ 2026-Jan · Pg 462	RECALL 30 sec	Easy
Q 92 · PYQ 2026-Jan · Pg 463	RECALL 30 sec	Easy
Q 93 · PYQ 2026-Jan · Pg 463	RECALL 30 sec	Easy
Q 94 · PYQ 2026-May · Pg 463	RECALL 30 sec	Easy
Q 95 · PYQ 2019-May · Pg 463 asked 2×	RECALL 30 sec	Easy
Q 99 · MTP 2025-May S2 · Pg 464	RECALL 30 sec	Easy
Q 100 · MTP 2025-Aug S2 · Pg 465	RECALL 30 sec	Easy
Q 101 · MTP 2025-Aug S1 · Pg 465	RECALL 30 sec	Easy
Q 102 · MTP 2025-Apr S1 · Pg 465 asked 2×	RECALL 30 sec	Easy
Q 103 · MTP 2025-Aug S2 · Pg 465	RECALL 30 sec	Easy
Q 104 · MTP 2025-Dec S1 · Pg 465	RECALL 30 sec	Easy
Q 105 · MTP 2026-Apr S2 · Pg 466	RECALL 30 sec	Easy
Q 106 · MTP 2026-Apr S2 · Pg 466	RECALL 30 sec	Easy
Q 107 · MTP 2026-Apr S1 · Pg 466	RECALL 30 sec	Easy
Q 108 · PYQ 2026-Sep · Pg 466	RECALL 30 sec	Easy
Q 110 · PYQ 2026-Sep · Pg 467	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 19 questions Understanding · Level I

- Phase behaviour: expansion -- output, employment, prices, credit and investment rise until full employment; peak -- demand stagnates and growth reverses; contraction -- supply exceeds demand, investment and employment fall; recession -> unemployment RISES, output FALLS.
- Depression traits: excess capacity in capital/durable goods industries, interest rate FALLS so demand for holding liquid cash rises, bankruptcies mount.
- Recovery: reversal is first felt in the labour market -- pervasive unemployment makes workers accept lower wages; pessimism ends, investment and credit revive.

Q 7 · PYQ 2018-Nov · Pg 445	RECOGNISE 45 sec	Easy
Q 27 · PYQ 2020-Nov · Pg 450	RECOGNISE 45 sec	Easy
Q 30 · PYQ 2020-Nov · Pg 450	RECOGNISE 45 sec	Easy
Q 31 · PYQ 2021-Jan · Pg 450	RECOGNISE 45 sec	Easy
Q 32 · PYQ 2021-Jan · Pg 450	RECOGNISE 45 sec	Easy
Q 33 · PYQ 2019-May · Pg 451 asked 2×	RECOGNISE 45 sec	Easy
Q 43 · PYQ 2021-Jul · Pg 453 asked 2×	RECOGNISE 45 sec	Easy
Q 44 · PYQ 2021-Dec · Pg 453	RECOGNISE 45 sec	Easy
Q 45 · PYQ 2021-Dec · Pg 453	RECOGNISE 45 sec	Easy
Q 58 · PYQ 2022-Dec · Pg 455	RECOGNISE 45 sec	Easy
Q 60 · PYQ 2023-Jun · Pg 456	RECOGNISE 45 sec	Easy
Q 76 · PYQ 2024-Sep · Pg 459	RECOGNISE 45 sec	Easy
Q 79 · PYQ 2025-Jan · Pg 459	RECOGNISE 45 sec	Easy
Q 85 · PYQ 2025-May · Pg 460	RECOGNISE 45 sec	Easy
Q 88 · PYQ 2025-Sep · Pg 462	RECOGNISE 45 sec	Easy
Q 96 · PYQ 2026-May · Pg 464	RECOGNISE 45 sec	Easy
Q 97 · PYQ 2026-May · Pg 464	RECOGNISE 45 sec	Easy
Q 98 · PYQ 2021-Jul · Pg 464 asked 2×	RECOGNISE 45 sec	Easy
Q 109 · PYQ 2026-Sep · Pg 467	RECOGNISE 45 sec	Easy

Topic 6.2: Features of Business Cycle

P4-C6-U6-T02

Read first Read Section 5.2 (Features of Business Cycles) -- the list of eight common features (a) to (h).

RECALL 30 sec know it or move on · 22 questions Remembering · Level I

- Features: occur periodically but WITHOUT the same regularity, duration or intensity; have four distinct phases; originate in free market economies; pervasive across sectors.
- They are contagious and INTERNATIONAL in character -- spread across countries through trade relations; felt simultaneously on all economic variables (output, employment, investment, consumption, interest, trade, prices); serious consequences on society's well-being.
- Capital goods and durable consumer goods industries are disproportionately (most) affected; industrial sector more prone than agriculture.

Q 1 · PYQ 2018-May · Pg 468 asked 2×	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 468	RECALL 30 sec	Easy
Q 3 · PYQ 2018-Nov · Pg 468	RECALL 30 sec	Easy
Q 4 · PYQ 2019-May · Pg 468 asked 2×	RECALL 30 sec	Easy
Q 5 · PYQ 2020-Nov · Pg 468	RECALL 30 sec	Easy
Q 6 · PYQ 2021-Jan · Pg 469	RECALL 30 sec	Easy
Q 7 · PYQ 2021-Jan · Pg 469	RECALL 30 sec	Easy
Q 8 · PYQ 2021-Jul · Pg 469 asked 2×	RECALL 30 sec	Easy
Q 9 · PYQ 2021-Dec · Pg 469	RECALL 30 sec	Easy
Q 10 · PYQ 2022-Jun · Pg 470 asked 2×	RECALL 30 sec	Easy
Q 12 · PYQ 2023-Dec · Pg 470	RECALL 30 sec	Easy
Q 13 · PYQ 2023-Dec · Pg 470	RECALL 30 sec	Easy
Q 14 · PYQ 2023-Dec · Pg 470	RECALL 30 sec	Easy
Q 15 · MTP 2024-Dec S1 · Pg 471 asked 3×	RECALL 30 sec	Easy
Q 16 · PYQ 2025-Jan · Pg 471	RECALL 30 sec	Easy
Q 17 · MTP 2025-Jan S2 · Pg 471	RECALL 30 sec	Easy
Q 18 · PYQ 2025-May · Pg 471	RECALL 30 sec	Easy
Q 19 · PYQ 2025-Sep · Pg 472	RECALL 30 sec	Easy

Q 20 · MTP 2025-Apr S1 · Pg 472 asked 2x	RECALL 30 sec	Easy
Q 21 · MTP 2026-Apr S2 · Pg 473	RECALL 30 sec	Easy
Q 22 · MTP 2026-Apr S1 · Pg 473	RECALL 30 sec	Easy
Q 23 · PYQ 2026-Sep · Pg 473	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Spot the WRONG option: 'regular intervals', 'definite/same duration', 'sporadic', 'local or national in character' are all NOT features -- cycles are recurrent but not regular.
- Cycles are exceedingly complex, without uniform characteristics or causes, hence accurate prediction is difficult; globalization has synchronised business cycles across integrated economies.

Q 11 · PYQ 2023-Jun · Pg 470	RECOGNISE 45 sec	Easy
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Topic 6.3: Causes of Business Cycles

P4-C6-U6-T03

Read first Read Section 5.3 (Causes of Business Cycles) -- the internal (endogenous) and external (exogenous) causes chart and the paragraph on each cause with the economist associated with it.

NOTES

Scenario drill: war ends and rebuilding of houses, roads and bridges begins -> post-war reconstruction pushing up effective demand, output and employment (expansion phase).

For any scenario, first tag the cause internal vs external, then match it to the right economist/theory before choosing the option.

RECALL 30 sec know it or move on · 35 questions Remembering · Level I

- Internal causes: fluctuations in effective demand (Keynes), fluctuations in investment (most volatile component of aggregate demand), variations in government spending, macroeconomic policies, money supply (Hawtrey -- trade cycle is a purely monetary phenomenon), psychological factors (Pigou -- waves of optimism/pessimism based on anticipations of the business community).
- External causes: wars, post-war reconstruction, technology shocks, natural factors (weather/agriculture), population growth.
- Other theories: Schumpeter -- innovations cause trade cycles; Nicholas Kaldor -- cobweb theory (present prices influence future production).

Q 1 · PYQ 2018-May · Pg 473	RECALL 30 sec	Easy
Q 2 · PYQ 2018-Nov · Pg 473	RECALL 30 sec	Easy
Q 3 · PYQ 2018-Nov · Pg 474	RECALL 30 sec	Easy
Q 4 · PYQ 2018-Nov · Pg 474	RECALL 30 sec	Easy
Q 5 · PYQ 2019-May · Pg 474 asked 2×	RECALL 30 sec	Easy
Q 8 · PYQ 2019-Nov · Pg 475	RECALL 30 sec	Easy
Q 9 · PYQ 2020-Nov · Pg 475	RECALL 30 sec	Easy
Q 10 · PYQ 2020-Nov · Pg 475	RECALL 30 sec	Easy
Q 11 · PYQ 2021-Jan · Pg 475	RECALL 30 sec	Easy
Q 12 · PYQ 2021-Jan · Pg 475 asked 2×	RECALL 30 sec	Easy
Q 13 · PYQ 2018-Nov · Pg 476 asked 3×	RECALL 30 sec	Easy
Q 14 · PYQ 2021-Jul · Pg 476	RECALL 30 sec	Easy
Q 15 · PYQ 2021-Dec · Pg 476	RECALL 30 sec	Easy
Q 16 · PYQ 2021-Dec · Pg 476 asked 2×	RECALL 30 sec	Easy
Q 17 · PYQ 2022-Dec · Pg 476	RECALL 30 sec	Easy
Q 18 · PYQ 2021-Jan · Pg 477 asked 2×	RECALL 30 sec	Easy
Q 20 · PYQ 2023-Jun · Pg 477	RECALL 30 sec	Easy
Q 21 · PYQ 2022-Dec · Pg 477 asked 2×	RECALL 30 sec	Easy
Q 22 · PYQ 2023-Dec · Pg 477	RECALL 30 sec	Easy
Q 23 · PYQ 2023-Dec · Pg 478	RECALL 30 sec	Easy
Q 24 · PYQ 2024-Jun · Pg 478	RECALL 30 sec	Easy
Q 25 · PYQ 2024-Jun · Pg 478	RECALL 30 sec	Easy
Q 26 · PYQ 2024-Sep · Pg 478	RECALL 30 sec	Easy

Q 27 · RTP 2024-Sep · Pg 478	RECALL 30 sec	Easy
Q 28 · PYQ 2025-Jan · Pg 479	RECALL 30 sec	Easy
Q 29 · PYQ 2025-Jan · Pg 479	RECALL 30 sec	Easy
Q 30 · PYQ 2025-May · Pg 479	RECALL 30 sec	Easy
Q 31 · PYQ 2025-Sep · Pg 480	RECALL 30 sec	Easy
Q 32 · PYQ 2025-Sep · Pg 480	RECALL 30 sec	Easy
Q 33 · PYQ 2026-May · Pg 480	RECALL 30 sec	Easy
Q 34 · MTP 2025-Apr S1 · Pg 480	RECALL 30 sec	Easy
Q 35 · MTP 2025-Aug S2 · Pg 481	RECALL 30 sec	Easy
Q 36 · MTP 2026-Apr S1 · Pg 481	RECALL 30 sec	Easy
Q 37 · MTP 2026-Apr S1 · Pg 481	RECALL 30 sec	Easy
Q 38 · PYQ 2026-Sep · Pg 481	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 3 questions Understanding · Level I

- Chains: entrepreneurial pessimism -> less investment -> lower employment, income, consumption -> contraction; anti-inflationary measures (higher taxes, higher interest rates, reduced government spending) press aggregate demand down and slow the economy.
- Advent of mobile phones causing the telecom boom = technology shock/disruption, an EXTERNAL cause; expansionary policy and easy money create booms.

Q 6 · PYQ 2019-May · Pg 474	RECOGNISE 45 sec	Easy
Q 7 · PYQ 2019-May · Pg 474	RECOGNISE 45 sec	Easy
Q 19 · PYQ 2022-Dec · Pg 477	RECOGNISE 45 sec	Easy

Topic 6.4: Relevance of Business Cycles in Business Decision Making

P4-C6-U6-T04

Read first Read Section 5.4 (Relevance of Business Cycles in Business Decision Making) -- why the cycle stage matters for expansion/downsizing decisions and the list of cyclical businesses.

NOTES

Classify a given firm: an advertising agency whose future projects track the rate of economic growth = cyclical business.

Test: 'does its demand rise strongly in boom and fall sharply in slump?' -- if yes, cyclical; otherwise seasonal/static/sluggish.

RECALL 30 sec know it or move on · 8 questions Remembering · Level I

- Cyclical business = one whose fortunes are closely linked to the rate of economic growth; examples: fashion retailers, electrical goods, house-builders, restaurants, advertising, overseas tour operators, construction/infrastructure.
- Pigou: modern business activities are based on anticipations/expectations of the business community.

Q 1 · PYQ 2018-Nov · Pg 481	RECALL 30 sec	Easy
Q 2 · PYQ 2022-Jun · Pg 482	RECALL 30 sec	Easy
Q 3 · PYQ 2022-Dec · Pg 482	RECALL 30 sec	Easy
Q 4 · PYQ 2023-Jun · Pg 482	RECALL 30 sec	Easy
Q 5 · PYQ 2023-Dec · Pg 482	RECALL 30 sec	Easy
Q 6 · PYQ 2024-Sep · Pg 483	RECALL 30 sec	Easy
Q 8 · PYQ 2026-Jan · Pg 483	RECALL 30 sec	Easy
Q 10 · MTP 2026-Apr S1 · Pg 484	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Agriculture and non-durables (e.g. washing powder) are NOT cyclical; durable consumer goods and capital goods industries are the most sensitive to the cycle.
- In recession, normal goods lose demand while cheaper 'value for money' alternatives may actually benefit; the cycle stage governs decisions on expansion vs down-sizing and level of input (especially labour) use.

Q 7 · MTP 2025-Jan S2 · Pg 483	RECOGNISE 45 sec	Easy
Q 9 · MTP 2026-Apr S2 · Pg 483	RECOGNISE 45 sec	Easy

CHAPTER 7

Public Finance

4 Units · 27 Topics · 259 Classified Questions · 9.4 marks a paper · Importance: C

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 36 sec a question on average — **mostly reading, with a little arithmetic**

RECALL Remembering	76.3%	30 sec	58 of 76 past-exam questions
RECOGNISE Understanding	15.8%	45 sec	12 of 76 past-exam questions
COMPUTE Application	7.9%	75 sec	6 of 76 past-exam questions

Unit 7.1: Fiscal Functions: An Overview, Centre and State Finance

P4-C7-U1 · Importance C · 2.9 marks a paper · Rank 2 in chapter · Category A · 21.2% of chapter questions · 55 questions

Topic 1.1: Introduction

P4-C7-U1-T01

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read the opening page of Unit 7.1: what public finance is, and why a government has an economic role at all in a market economy.

NOTES

Public finance studies the role of government in the economy — how it raises revenue, how it spends, and what those choices do to the allocation of resources, the distribution of income and the stability of output.

Richard Musgrave set out the three fiscal functions the unit goes on to cover: allocation, redistribution and stabilization.

Topic 1.2: The Role of Government in an Economic System

P4-C7-U1-T02

Read first Study Section 1.2 (The Role of Government in an Economic System): the three macroeconomic goals, Adam Smith's view of the state, and Richard Musgrave's three-branch taxonomy

of fiscal functions.

NOTES

Public finance functions cover providing public goods, redistribution for equity and stabilization — general corporate tax relief to boost profits is NOT a public finance function.

Each function corrects a distinct problem: allocation tackles market failure, distribution tackles inequity, stabilization tackles business-cycle fluctuations.

RECALL 30 sec know it or move on · 7 questions Remembering · Level I

- Richard Musgrave ('The Theory of Public Finance', 1959) gave the three-branch taxonomy: resource allocation (efficiency), income redistribution (fairness) and macroeconomic stabilization (price stability).
- Allocation and distribution are primarily MICROeconomic functions; stabilization is a MACROeconomic function.
- Adam Smith's canons of taxation: equality/equity, certainty, convenience and economy (canons like productivity, uniformity, diversity were added later by others).

Q 7 · PYQ 2026-Sep · Pg 488	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 486	RECALL 30 sec	Medium
Q 2 · PYQ 2024-Sep · Pg 487 asked 4x	RECALL 30 sec	Medium
Q 3 · RTP 2024-Sep · Pg 487	RECALL 30 sec	Medium
Q 4 · MTP 2025-May S2 · Pg 487	RECALL 30 sec	Medium
Q 5 · MTP 2026-Apr S2 · Pg 487	RECALL 30 sec	Medium
Q 6 · MTP 2026-Apr S2 · Pg 487	RECALL 30 sec	Medium

Topic 1.3: The Allocation Function

P4-C7-U1-T03

Read first Study Section 1.3 (The Allocation Function): why markets misallocate (market failures), and the instruments — direct production, taxes/subsidies, legislation, regulation — by which government influences resource allocation.

NOTES

Direct government production of goods like electricity and public transport is an example of the **ALLOCATION** function.

Government intervenes to correct market failure and secure the optimal mix of social goods; it acts as a complement to, not a substitute for, the market — it does not maximize profits or replace private producers.

Other allocation instruments: incentives/disincentives via taxes and subsidies, bans and legislation, competition policy and regulation.

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- In a market economy resources are allocated primarily by consumer preferences and demand working through the price mechanism.
- Market failures (monopoly power, public goods, externalities, incomplete information, factor immobility, inequality) are the rationale for the government's allocation function.

Q 1 · source not stated · Pg 488	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 488	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 489 asked 2×	RECALL 30 sec	Easy
Q 2 · PYQ 2025-Jan · Pg 489 asked 2×	RECALL 30 sec	Easy
Q 3 · MTP 2025-Aug S2 · Pg 489	RECALL 30 sec	Easy
Q 4 · MTP 2026-Apr S1 · Pg 490	RECALL 30 sec	Easy

Topic 1.4: The Redistribution Function

P4-C7-U1-T04

Read first Study Section 1.4 (The Redistribution Function): revenue-side redistribution (progressive taxation), expenditure-side redistribution (subsidies, transfers) and the equity-efficiency trade-off.

RECALL 30 sec know it or move on · 9 questions Remembering · Level I

Q 1 · source not stated · Pg 490	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 490	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 491	RECALL 30 sec	Easy

Q 2 · source not stated · Pg 491	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 491	RECALL 30 sec	Easy
Q 1 · PYQ 2025-Jan · Pg 491 asked 2×	RECALL 30 sec	Easy
Q 4 · MTP 2025-May S2 · Pg 493	RECALL 30 sec	Easy
Q 5 · MTP 2026-Apr S2 · Pg 493	RECALL 30 sec	Easy
Q 3 · PYQ 2026-Jan · Pg 492	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- A progressive direct tax makes those with greater ability to pay contribute more — the average tax rate rises with income; the tax burden is deliberately unequal in money terms to be equitable in real terms.
- Using progressive-tax proceeds to supply subsidized food grains to BPL households is a classic redistribution-function example (revenue side financing expenditure side).
- Redistribution causes deadweight (efficiency) losses because high taxes act as a disincentive to work, saving, investment and risk-taking — hence policy must trade off equity against efficiency.

Q 2 · PYQ 2025-Sep · Pg 492	RECOGNISE 45 sec	Easy
Q 6 · PYQ 2026-Sep · Pg 493	RECOGNISE 45 sec	Easy

Topic 1.5: Stabilization Function

P4-C7-U1-T05

Read first Study Section 1.5 (Stabilization Function) and the following 'Centre and State Finance' portion: fiscal/monetary stabilization, fiscal federalism, constitutional Articles 246 and 268-293, the Finance Commission and the 15th Finance Commission's devolution criteria.

RECALL 30 sec know it or move on · 31 questions Remembering · Level I

- Stabilization = key function of fiscal policy aiming to eliminate macroeconomic fluctuations; achieved through BOTH fiscal and monetary policy. Stagflation = inflation and unemployment side by side; three macro goals = growth, high employment, price stability (not universal education).
- Fiscal federalism (term by Musgrave) = division of economic functions and resources among layers of government; stabilization and redistribution rest with the CENTRAL government; the Finance Commission (Article 280) is the constitutional body maintaining fiscal federalism and allocating central taxes to states.

- Articles: 268-281 distribution of finances among states; 268 duties levied by union, collected by states; 269 levied and collected by union, assigned to states; 270 shared taxes; 271 surcharge for the union; 275 statutory grants-in-aid to states; 282 grants for any public purpose; 292-293 borrowing.
- 15th Finance Commission (2021-26): states' share 41%; six criteria = income distance, area, population (2011), demographic performance, forest & ecology, tax & fiscal effort (NOT infrastructure performance, NOT adult literacy). NDP (Net Divisible Pool) = gross tax revenue of the union minus cesses, surcharges and non-tax revenue; state-levied taxes include agricultural income, vehicles, electricity, land and buildings; centre handles defence, foreign affairs, foreign trade; states handle police, health, education, agriculture.

Q 1 · source not stated · Pg 493	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 494	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 494	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 494	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 494	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 495	RECALL 30 sec	Easy
Q 4 · MTP 2024-Dec S1 · Pg 496 asked 2×	RECALL 30 sec	Easy
Q 5 · MTP 2024-Dec S1 · Pg 496 asked 2×	RECALL 30 sec	Easy
Q 6 · MTP 2024-Dec S1 · Pg 496	RECALL 30 sec	Easy
Q 7 · PYQ 2025-Jan · Pg 496	RECALL 30 sec	Easy
Q 8 · PYQ 2025-Jan · Pg 496 asked 2×	RECALL 30 sec	Easy
Q 9 · PYQ 2025-May · Pg 497	RECALL 30 sec	Easy
Q 11 · PYQ 2026-Jan · Pg 497 asked 2×	RECALL 30 sec	Easy
Q 12 · PYQ 2026-Jan · Pg 497	RECALL 30 sec	Easy
Q 13 · PYQ 2026-Jan · Pg 498	RECALL 30 sec	Easy
Q 14 · PYQ 2026-May · Pg 498	RECALL 30 sec	Easy
Q 15 · PYQ 2026-May · Pg 498	RECALL 30 sec	Easy
Q 16 · PYQ 2026-May · Pg 498	RECALL 30 sec	Easy

Q 17 · PYQ 2026-May · Pg 498	RECALL 30 sec	Easy
Q 18 · MTP 2025-Apr S1 · Pg 499	RECALL 30 sec	Easy
Q 19 · MTP 2025-May S2 · Pg 499	RECALL 30 sec	Easy
Q 20 · MTP 2025-Aug S1 · Pg 499	RECALL 30 sec	Easy
Q 21 · MTP 2025-Aug S1 · Pg 499	RECALL 30 sec	Easy
Q 22 · RTP 2025-Sep · Pg 499	RECALL 30 sec	Easy
Q 23 · RTP 2025-Sep · Pg 500	RECALL 30 sec	Easy
Q 24 · RTP 2026-Jan · Pg 500	RECALL 30 sec	Easy
Q 25 · MTP 2026-Apr S1 · Pg 500	RECALL 30 sec	Easy
Q 26 · PYQ 2026-Sep · Pg 500	RECALL 30 sec	Easy
Q 2 · MTP 2024-Aug · Pg 495	RECALL 30 sec	Medium
Q 3 · PYQ 2024-Sep · Pg 495	RECALL 30 sec	Medium
Q 10 · PYQ 2025-Sep · Pg 497	RECALL 30 sec	Medium

Unit 7.2: Market Failure / Government Intervention to Minimize Market Failure

P4-C7-U2 · Importance C · 1.6 marks a paper · Rank 3 in chapter · Category A · 21.2% of chapter questions · 55 questions

Topic 2.1: Introduction

P4-C7-U2-T01

Read first Read Section 2.1 (Introduction) together with Section 2.4 (Public Goods): rational self-interest and efficient markets, plus the definition and characteristics of public goods.

RECALL 30 sec know it or move on · 4 questions · Remembering · Level I

- Paul A. Samuelson introduced the concept of 'collective consumption goods' (1954, 'The Pure Theory of Public Expenditure') — later called public goods.
- Public goods are non-rival in consumption, non-excludable, indivisible and prone to free-riding; 'excludable' is NOT a characteristic of public goods (private goods are rivalrous and excludable).

- Public goods are more vulnerable to externalities, weak property rights and the free-rider problem.

Q 2 · PYQ 2025-May · Pg 503	RECALL 30 sec	Easy
Q 3 · MTP 2025-Aug S1 · Pg 503	RECALL 30 sec	Easy
Q 4 · PYQ 2025-Sep · Pg 503	RECALL 30 sec	Easy
Q 5 · MTP 2025-Dec S1 · Pg 504	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Market failure examples turn on inefficiency: non-exclusion in public goods causes free-riding and under-provision, so profit-seeking firms will not supply them.
- Contrast with the benchmark: perfect competition producing optimal output is efficiency, not failure — firms merely earning profits is not market failure either.

Q 1 · MTP 2025-Jan S2 · Pg 503	RECOGNISE 45 sec	Easy
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Topic 2.2: The Concept of Market Failure

P4-C7-U2-T02

Read first Study Section 2.2 (The Concept of Market Failure): the definition, complete vs partial market failure, and (from Section 2.3.2) how externalities and the private-vs-social cost gap create inefficiency.

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

- Social Cost = Private Cost + External Cost (private costs plus total negative externalities borne by third parties).
- Complete market failure = 'missing market' — the market supplies the product not at all even though people want it (e.g. pure public goods); partial failure = wrong quantity or wrong price.

Q 3 · MTP 2025-Jan S2 · Pg 504	RECALL 30 sec	Easy
Q 5 · PYQ 2025-Sep · Pg 505	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 504	RECALL 30 sec	Medium
Q 2 · MTP 2024-Dec S1 · Pg 504	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Market failure = inefficient allocation causing OVER- or UNDER-production relative to the social optimum; externalities cause it because costs/benefits are not reflected in market prices.
- Education subsidy is justified both because education is a merit good and because it creates positive externalities — the two grounds together.

Q 4 · PYQ 2025-May · Pg 505

RECOGNISE
45 sec**Easy**

Topic 2.3: Why Do Market Fail

P4-C7-U2-T03

Read first Study Section 2.3 (Why Do Markets Fail?) — the four causes: market power, externalities, public goods, incomplete information — and the classification of production/consumption externalities; link to Sections 2.7-2.8 for corrective interventions (direct controls, cap-and-trade, merit-good mandates).

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

- Four major reasons for market failure: market power, externalities, public goods and incomplete information — MCQs often want 'all of the above'.
- Market power lets a firm profitably keep price above marginal cost, restricting output below the competitive level.

Q 3 · MTP 2024-Dec S1 · Pg 506 asked 2×

RECALL
30 sec**Easy**

Q 6 · MTP 2025-Dec S1 · Pg 507

RECALL
30 sec**Medium**

Q 7 · MTP 2026-Apr S1 · Pg 507

RECALL
30 sec**Medium**

Q 8 · MTP 2026-Apr S1 · Pg 507

RECALL
30 sec**Medium****RECOGNISE** 45 sec decide which idea applies · 4 questions Understanding · Level I

- Classify externalities on two axes: initiated in production or consumption, and received in production or consumption — e.g. students shouting and disrupting a teacher's lecture is a negative CONSUMPTION externality affecting production.
- Direct controls (command solutions) prohibit or limit the externality-creating act — a total smoking ban in public places is direct control of a negative CONSUMPTION externality.
- Market-based policies work through prices: Pigouvian pollution taxes and cap- and-trade (tradable emission permits) correct externalities cost-effectively — cap- and-trade is government intervention to correct externalities.

- The RTE Act, 2009 (free and compulsory education for ages 6-14) is government intervention for MERIT goods — compelling consumption of a good with positive externalities.

Q 1 · PYQ 2024-Jun · Pg 505	RECOGNISE 45 sec	Medium
Q 2 · PYQ 2025-Jan · Pg 506	RECOGNISE 45 sec	Medium
Q 4 · PYQ 2025-Sep · Pg 506	RECOGNISE 45 sec	Medium
Q 5 · PYQ 2026-May · Pg 507	RECOGNISE 45 sec	Medium

Topic 2.4: Public Goods

P4-C7-U2-T04

Read first Study Section 2.4 of Unit 7.2: the two defining properties of a public good, the free-rider problem they create, and why the market therefore under-supplies them.

RECALL 30 sec know it or move on · 8 questions Remembering · Level I

- A pure public good is non-rival (one person's use does not reduce what is left for others) and non-excludable (no one can be kept from using it) — national defence, street lighting, a lighthouse.
- A private good is both rival and excludable; a club good is excludable but non-rival; a common resource is rival but non-excludable.
- Non-excludability produces the free-rider problem: people enjoy the good without paying, so no private firm can collect enough revenue to supply it.
- Because of free-riding the market supplies a public good in quantities well below the socially optimal level, or not at all — the classic case for government provision.

Q 1 · source not stated · Pg 508	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 508	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 509	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 509	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 509	RECALL 30 sec	Easy
Q 1 · MTP 2026-Apr S1 · Pg 510	RECALL 30 sec	Easy
Q 2 · RTP 2025-Sep · Pg 510 asked 2×	RECALL 30 sec	Easy

Q 3 · MTP 2026-Apr S2 · Pg 510

RECALL
30 sec**Easy****RECOGNISE 45 sec** decide which idea applies · 1 question Understanding · Level I

- Test any candidate against both properties before you answer: a toll bridge is excludable, so it is not a pure public good however public it sounds; a crowded public road is rival, so it is not one either.

Q 2 · source not stated · Pg 509

RECOGNISE
45 sec**Easy**

Topic 2.5: Incomplete Information

P4-C7-U2-T05

Read first Study Section 2.5 (Incomplete Information) and 2.5.1 (Asymmetric Information): adverse selection, moral hazard, Akerlof's lemons problem, and (Section 2.12) government responses like mandated disclosure.

NOTES

For scenario MCQs ask: who knows more, and does the gap operate before or after the contract?
Before = adverse selection (seller conceals car's accident history); after = moral hazard.

Moral hazard drill: insured person drives recklessly because the insurer bears repair costs — hidden ACTION after purchase, not hidden characteristics.

RECALL 30 sec know it or move on · 13 questions Remembering · Level I

- In Akerlof's 'lemons problem' (used-car market), a 'lemon' means a POOR quality used car.
- Information failure arises from product complexity, difficulty of getting correct information, and deliberate misinformation by interested parties.

Q 3 · PYQ 2025-May · Pg 514

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 511

RECALL
30 sec**Medium**

Q 2 · source not stated · Pg 511

RECALL
30 sec**Medium**

Q 3 · source not stated · Pg 512

RECALL
30 sec**Medium**

Q 1 · source not stated · Pg 512

RECALL
30 sec**Medium**

Q 2 · source not stated · Pg 512

RECALL
30 sec**Medium**

Q 1 · source not stated · Pg 513

RECALL
30 sec**Medium**

Q 2 · source not stated · Pg 513	RECALL 30 sec	Medium
Q 1 · MTP 2024-Aug · Pg 513 asked 2×	RECALL 30 sec	Medium
Q 5 · PYQ 2025-Sep · Pg 515	RECALL 30 sec	Medium
Q 6 · MTP 2025-Aug S1 · Pg 515	RECALL 30 sec	Medium
Q 7 · MTP 2025-Dec S1 · Pg 515	RECALL 30 sec	Medium
Q 8 · MTP 2026-Apr S1 · Pg 516	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- Asymmetric information = one party to a transaction knows a material fact the other does not (seller conceals product risks, insider trading, landlord vs tenant).
- Adverse selection acts BEFORE the transaction (hidden characteristics — high- risk buyers self-select into insurance); moral hazard acts AFTER (hidden action — the insured behaves recklessly since costs fall on the insurer).
- Statutory disclaimers like 'Mutual Fund investments are subject to market risks...' are government-mandated information disclosure to correct information failure.

Q 4 · PYQ 2025-May · Pg 514	RECOGNISE 45 sec	Easy
Q 1 · source not stated · Pg 511	RECOGNISE 45 sec	Medium
Q 1 · source not stated · Pg 513	RECOGNISE 45 sec	Medium
Q 2 · MTP 2025-Jan S2 · Pg 514 asked 3×	RECOGNISE 45 sec	Medium

Topic 2.6: Government Intervention to Minimize Market Power

P4-C7-U2-T06

Read first Study Section 2.6 (Government Intervention to Minimize Market Power): competition legislation (Competition Act, 2002) and pro-competition measures such as deregulation, liberalisation, merger control and price regulation.

NOTES

Policies that encourage competition: deregulation, trade liberalisation (cutting import controls), anti-monopoly/competition laws, merger controls and price capping — a general income-tax cut is NOT a competition policy.

Rationale: monopoly restricts output and raises price above marginal cost, so intervention aims to restore competitive quantity and price.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

Q 1 · MTP 2025-Jan S2 · Pg 516

RECALL
30 sec

Easy

Topic 2.7: Government Intervention to Correct Externalities

P4-C7-U2-T07

Read first Study Section 2.7: what an externality is, the difference between the negative and positive kinds, and the four instruments government uses to correct each.

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- A negative externality (factory pollution) means the private cost is below the social cost, so the market over-produces; a positive externality (vaccination, education) means the private benefit is below the social benefit, so the market under-produces.
- Corrective instruments for a negative externality: a Pigouvian tax equal to the marginal external cost, direct regulation and standards, tradable emission permits, and assignment of property rights (the Coase approach).
- Corrective instruments for a positive externality: subsidies, direct government provision, and regulation that mandates the activity.

Q 2 · MTP 2025-May S2 · Pg 517

RECALL
30 sec

Easy

Q 3 · MTP 2025-May S2 · Pg 517

RECALL
30 sec

Easy

Q 5 · MTP 2026-Apr S2 · Pg 518

RECALL
30 sec

Easy

RECOGNISE 45 sec decide which idea applies · 3 questions Understanding · Level I

- A Pigouvian tax works by internalising the externality — it shifts the private cost curve up until it coincides with the social cost curve, so the market's own equilibrium becomes the socially optimal one.
- Which instrument fits depends on whether the externality is in production or consumption and whether it is positive or negative — most questions here turn on getting that pairing right, not on the definition.
- The Coase theorem says that if property rights are clearly assigned and bargaining is costless, the parties will reach the efficient outcome themselves whichever way the rights were assigned — government intervention is then unnecessary.

Q 1 · MTP 2025-Jan S2 · Pg 517

RECOGNISE
45 sec

Easy

Q 4 · MTP 2025-Aug S2 · Pg 517 asked 2x

RECOGNISE
45 sec

Easy

Q 6 · MTP 2026-Apr S2 · Pg 518

RECOGNISE
45 sec

Easy

Topic 2.8: Government Intervention in The Case of Merit Goods

P4-C7-U2-T08

Read first Study Section 2.8: what makes a good a merit good, why the market under-provides it, and how that differs from a public good.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- A merit good is one society judges people should consume more of than they choose to on their own — education, healthcare, seat belts, insurance.
- Under-consumption arises from imperfect information about the benefit, from short-sightedness about the future, and from the positive externality the consumption confers on others.
- Government intervenes by direct provision, by subsidy, by regulation and compulsion, and by information campaigns.

Q 1 · MTP 2025-Dec S1 · Pg 519

RECALL
30 sec

Easy

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- A merit good is rival and excludable — it is an ordinary private good the market can and does supply; the intervention is about the quantity consumed, not about whether supply is possible. That is what separates it from a public good.
- The mirror image is a demerit good (tobacco, alcohol, gambling), over-consumed for the same reasons and discouraged by tax, regulation and outright prohibition.

Q 1 · source not stated · Pg 518

RECOGNISE
45 sec

Easy

Q 2 · MTP 2026-Apr S2 · Pg 519

RECOGNISE
45 sec

Easy

Topic 2.9: Government Intervention in The Case of Demerit Goods

P4-C7-U2-T09

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read Section 2.9: demerit goods, and the instruments used to discourage them.

NOTES

A demerit good is one whose consumption society judges harmful to the consumer and to others — tobacco, alcohol, narcotics, gambling.

It is over-consumed because consumers misjudge the harm, discount the future too heavily, and do not bear the negative externality they impose.

Instruments: excise and sin taxes, regulation of sale and advertising, licensing, minimum age limits, information and health warnings, and complete prohibition.

Topic 2.10: Government Intervention in The Case of Public Goods

P4-C7-U2-T10

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read Section 2.10: why government has to step in for public goods, and the forms that intervention takes.

NOTES

Because a public good is non-excludable, no private supplier can charge for it, so it must be financed from general taxation and provided directly by government or under government contract.

The government's problem is that it cannot read individual valuations — people understate what a public good is worth to them to keep their tax share down — so the optimal quantity has to be decided politically rather than by price.

Topic 2.11: Price Intervention: Non-Market Pricing

P4-C7-U2-T11

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read Section 2.11: price intervention — price ceilings and price floors, and the shortage or surplus each creates.

NOTES

A price ceiling is a legal maximum set below the equilibrium price (rent control, the issue price of

food grains); it creates excess demand — a shortage — and typically rationing, queues and black markets.

A price floor is a legal minimum set above the equilibrium price (minimum support price, minimum wage); it creates excess supply — a surplus — which the government must buy up or otherwise absorb.

A ceiling set above the equilibrium price and a floor set below it are both non-binding: they change nothing.

Topic 2.12: Government Intervention for Correcting Information Failure

P4-C7-U2-T12

Read first Read Section 2.12: information failure, and how government corrects it.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- Information failure arises when buyers or sellers lack the information needed to judge the benefit or cost of what they are trading; asymmetric information means one side knows more than the other.
- Adverse selection occurs before the contract (the bad risks are the ones who buy insurance); moral hazard occurs after it (the insured take more risk than they otherwise would).
- Remedies: compulsory disclosure and labelling, licensing and accreditation of professionals, consumer protection law, and government-funded information and awareness campaigns.

Q 1 · MTP 2026-Apr S1 · Pg 519

RECALL
30 sec

Easy

Topic 2.13: Government Intervention for Equitable Distribution

P4-C7-U2-T13

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read Section 2.13: why an efficient market outcome can still be an unacceptable one, and the instruments used to redistribute.

NOTES

A market can be perfectly efficient and still produce a distribution of income society regards as inequitable — efficiency says nothing about fairness.

Redistributive instruments: progressive direct taxation, transfer payments and subsidies to the

poor, public provision of merit goods, and employment and social-security programmes.

Unit 7.3: The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public Debt

P4-C7-U3 · Importance C · 3.4 marks a paper · Rank 1 in chapter · Category A · 38.2% of chapter questions · 99 questions

Topic 3.1: Introduction

P4-C7-U3-T01

Read first Read Sections 3.1 and 3.2 of Unit 3 (Public Finance): meaning, need and objectives of the government budget, Article 112 and the Annual Financial Statement, the three budgetary procedures, and terms like Guillotine from 'Budget concepts'.

RECALL 30 sec know it or move on · 19 questions Remembering · Level I

- Article 112: the President shall cause to be laid before both Houses of Parliament a statement of estimated receipts and expenditure for every financial year, called the 'Annual Financial Statement'.
- Correct sequence of the budget process: Drafting/Preparation -> Presentation -> Approval (enactment by Parliament) -> Execution.
- 'Guillotine': once the prescribed time is over, the Speaker of Lok Sabha puts all outstanding demands for grants, whether discussed or not, to the vote of the House.
- Budget documents show receipts and expenditure for: Budget Estimates (BE) of current and ensuing year, Revised Estimates (RE) of the current year, and Actuals of the year preceding the current year - nothing beyond the ensuing year.

Q 1 · MTP 2025-Jan S2 · Pg 527	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 522	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 523	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 523	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 523	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 523	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 524	RECALL 30 sec	Medium

Q 2 · source not stated · Pg 524	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 524	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 525	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 525	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 525	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 526	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 526	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 526	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 527	RECALL 30 sec	Medium
Q 3 · PYQ 2025-May · Pg 527	RECALL 30 sec	Medium
Q 4 · PYQ 2025-May · Pg 528	RECALL 30 sec	Medium
Q 5 · PYQ 2026-Sep · Pg 528	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

Q 2 · PYQ 2025-May · Pg 527	RECOGNISE 45 sec	Medium
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Topic 3.2: The Process of Budget Making

P4-C7-U3-T02

Read first Read Sections 3.2-3.3 and 'Budget concepts': the three parts of government accounts (Consolidated Fund, Contingency Fund, Public Account) and the classification of receipts into revenue vs capital and debt vs non-debt.

RECALL 30 sec know it or move on · 8 questions Remembering · Level I

- Major union taxes: corporation tax, taxes on income, customs duty, union excise duty, GST (with compensation cess); stamp duty and registration is not a major central tax.
- Revenue receipts neither create any liability nor cause any reduction in assets of the government; they comprise tax and non-tax revenue.

- Non-debt capital receipts = recoveries of loans and advances + miscellaneous capital receipts (disinvestment); debt capital receipts = market loans, T-bill borrowings, securities against small savings, state provident fund (net), external debt.
- Article 266(1): the Public Account covers all fund flows where the government acts as a banker (provident funds, small savings); expenditure from it needs no parliamentary approval.

Q 1 · MTP 2024-Dec S1 · Pg 528	RECALL 30 sec	Easy
Q 2 · PYQ 2025-Jan · Pg 529	RECALL 30 sec	Easy
Q 3 · PYQ 2025-Jan · Pg 529	RECALL 30 sec	Easy
Q 4 · PYQ 2025-Sep · Pg 529	RECALL 30 sec	Easy
Q 6 · MTP 2025-May S2 · Pg 530 asked 2×	RECALL 30 sec	Easy
Q 7 · MTP 2025-Apr S1 · Pg 530	RECALL 30 sec	Easy
Q 8 · MTP 2025-Aug S2 · Pg 530	RECALL 30 sec	Easy
Q 9 · MTP 2026-Apr S1 · Pg 530	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

Q 5 · MTP 2025-Apr S1 · Pg 529 asked 2×	RECOGNISE 45 sec	Easy
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Topic 3.3: Sources of Revenue

P4-C7-U3-T03

Read first Study Section 3.3 Sources of Revenue: Department of Revenue with CBDT/CBIC, the list of tax revenues including GST, and the four heads of non-tax revenue.

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- IGST applies to inter-state movement of goods and services and to imports/exports; CGST + SGST apply to intra-state supplies.
- GST is a consumption (destination)-based taxation system; it replaced indirect taxes like VAT, excise duty and service tax, but NOT income tax (a direct tax).
- Non-tax revenue heads: interest receipts, dividends and profits from PSUs plus RBI surplus transfers, other non-tax revenue, and receipts of union territories; GST compensation cess is tax revenue, not non-tax.

- CBDT handles levy and collection of direct taxes; CBIC handles GST, customs, central excise and service tax - both statutory boards under the Department of Revenue, Ministry of Finance.

Q 1 · PYQ 2025-Jan · Pg 531	RECALL 30 sec	Easy
Q 2 · PYQ 2026-Jan · Pg 531	RECALL 30 sec	Easy
Q 3 · PYQ 2026-Jan · Pg 531	RECALL 30 sec	Easy
Q 4 · PYQ 2026-May · Pg 531	RECALL 30 sec	Easy
Q 5 · MTP 2026-Apr S1 · Pg 532	RECALL 30 sec	Medium
Q 6 · PYQ 2026-Sep · Pg 532	RECALL 30 sec	Medium

Topic 3.4: Public Expenditure Management

P4-C7-U3-T04

Read first Read Sections 3.4-3.5 and the 'Budget concepts' pages: definitions and formulas of budgetary, revenue, fiscal and primary deficits, institutions managing public debt, and the Public Debt Management Cell.

RECALL 30 sec know it or move on · 32 questions Remembering · Level I

- Formulas: Fiscal deficit = Total expenditure - Total receipts excluding borrowings; Primary deficit = Fiscal deficit - Net interest liabilities; Revenue deficit = Revenue expenditure - Revenue receipts; Budgetary deficit = Total expenditure - Total receipts (revenue + capital).
- External debt: managed by Department of Economic Affairs (MoF), shown at the exchange rate at the time of CONTRACTING the debt; RBI manages domestic marketable debt.
- Public Debt Management Cell (PDMC) created in 2016 under the DEA; public debt management = managing the government's loans and liabilities.
- T-bills: the money-market instrument used to bridge the budget's revenue- expenditure gap.

Q 8 · MTP 2025-Jan S2 · Pg 537	RECALL 30 sec	Easy
Q 9 · MTP 2025-Jan S2 · Pg 538	RECALL 30 sec	Easy
Q 10 · RTP 2025-Jan · Pg 538	RECALL 30 sec	Easy
Q 11 · MTP 2025-Apr S1 · Pg 538	RECALL 30 sec	Easy
Q 13 · PYQ 2025-Sep · Pg 538	RECALL 30 sec	Easy

Q 1 · source not stated · Pg 532	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 533	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 533	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 534	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 534	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 534	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 535	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 535	RECALL 30 sec	Medium
Q 1 · PYQ 2024-Sep · Pg 536	RECALL 30 sec	Medium
Q 3 · MTP 2024-Dec S1 · Pg 536	RECALL 30 sec	Medium
Q 4 · MTP 2024-Dec S1 · Pg 537	RECALL 30 sec	Medium
Q 5 · MTP 2024-Dec S1 · Pg 537	RECALL 30 sec	Medium
Q 6 · MTP 2024-Dec S1 · Pg 537	RECALL 30 sec	Medium
Q 7 · PYQ 2025-Jan · Pg 537	RECALL 30 sec	Medium
Q 12 · MTP 2025-May S2 · Pg 538	RECALL 30 sec	Medium
Q 16 · MTP 2024-Dec S1 · Pg 540	RECALL 30 sec	Medium
Q 17 · MTP 2025-May S2 · Pg 540	RECALL 30 sec	Medium
Q 18 · MTP 2025-Aug S2 · Pg 540	RECALL 30 sec	Medium
Q 19 · MTP 2025-Aug S2 · Pg 540	RECALL 30 sec	Medium
Q 20 · MTP 2025-Aug S2 · Pg 540	RECALL 30 sec	Medium
Q 21 · MTP 2025-Dec S1 · Pg 541	RECALL 30 sec	Medium
Q 22 · RTP 2026-Jan · Pg 541	RECALL 30 sec	Medium
Q 23 · MTP 2026-Apr S2 · Pg 541	RECALL 30 sec	Medium

Q 24 · MTP 2026-Apr S2 · Pg 541	RECALL 30 sec	Medium
Q 25 · MTP 2026-Apr S2 · Pg 542	RECALL 30 sec	Medium
Q 26 · PYQ 2026-Sep · Pg 542	RECALL 30 sec	Medium
Q 27 · PYQ 2026-Sep · Pg 542	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Debt-to-GDP ratio evaluates the proportion of debt relative to the country's economic output - the debt-sustainability indicator.
- To contribute to capital formation, the revenue surplus must be positive.
- High fiscal deficit means higher government borrowing, which can fuel inflation - the major issue with India's fiscal deficit.

Q 2 · source not stated · Pg 533	RECOGNISE 45 sec	Medium
Q 2 · source not stated · Pg 535	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 5 questions Application · Level II

- $FD = \text{Primary deficit} + \text{Net interest liabilities}$ (e.g., ₹20,500 cr + ₹3,500 cr = ₹24,000 cr).
- Revenue deficit sums: $RD = \text{Revenue expenditure} - \text{Revenue receipts}$; use only revenue-account items from the table.
- Budgetary deficit sums: total expenditure (revenue + capital) minus total receipts (revenue + capital, including borrowings).

Q 2 · source not stated · Pg 535	COMPUTE 75 sec	Medium
Q 2 · PYQ 2024-Sep · Pg 536	COMPUTE 75 sec	Medium
Q 14 · PYQ 2026-Jan · Pg 539	COMPUTE 75 sec	Medium
Q 15 · PYQ 2026-Jan · Pg 539	COMPUTE 75 sec	Medium
Q 28 · PYQ 2026-Sep · Pg 542	COMPUTE 75 sec	Medium

Topic 3.5: Public Debt Management

P4-C7-U3-T05

Read first Study Section 3.5: FRBM Act 2003 (objectives and the two mandated statements), Consolidated Fund of India, the Department of Expenditure's nodal role, and fiscal-deficit computation

from budget data.

RECALL 30 sec know it or move on · 23 questions Remembering · Level I

- FRBM Act 2003 mandated statements: Macro-Economic Framework Statement and Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement; its thrust was eliminating revenue deficit and reducing debt to sustainable levels (inter- generational equity, macro stability, fiscal-monetary coordination, transparency).
- All revenues received, loans raised and moneys received in repayment of loans are credited to the Consolidated Fund of India; spending from it needs parliamentary appropriation.
- Department of Expenditure (Ministry of Finance) is the nodal department for the public financial management system of the central government and matters connected with state finances; fiscal deficit is the key operational target in the Budget.
- Debt-management institutions: RBI (domestic marketable debt - dated securities, T-bills, cash management bills), DEA/Ministry of Finance (external debt); SEBI has NO role in public debt management.

Q 2 · PYQ 2024-Sep · Pg 545	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 543	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 543	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 543	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 544	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 544	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 544	RECALL 30 sec	Medium
Q 1 · MTP 2024-Aug · Pg 544	RECALL 30 sec	Medium
Q 3 · MTP 2024-Dec S1 · Pg 545	RECALL 30 sec	Medium
Q 4 · MTP 2024-Dec S1 · Pg 545	RECALL 30 sec	Medium
Q 5 · MTP 2025-Jan S2 · Pg 545	RECALL 30 sec	Medium
Q 6 · PYQ 2025-May · Pg 545	RECALL 30 sec	Medium
Q 9 · PYQ 2026-May · Pg 547	RECALL 30 sec	Medium

Q 10 · MTP 2025-May S2 · Pg 547 asked 2×	RECALL 30 sec	Medium
Q 11 · MTP 2025-Aug S2 · Pg 547	RECALL 30 sec	Medium
Q 12 · MTP 2025-Aug S2 · Pg 547	RECALL 30 sec	Medium
Q 13 · MTP 2025-Aug S2 · Pg 547	RECALL 30 sec	Medium
Q 14 · MTP 2025-Aug S2 · Pg 548	RECALL 30 sec	Medium
Q 15 · MTP 2026-Apr S1 · Pg 548	RECALL 30 sec	Medium
Q 16 · MTP 2026-Apr S1 · Pg 548	RECALL 30 sec	Medium
Q 17 · MTP 2026-Apr S2 · Pg 548	RECALL 30 sec	Medium
Q 18 · MTP 2026-Apr S2 · Pg 548	RECALL 30 sec	Medium
Q 19 · PYQ 2026-Sep · Pg 549	RECALL 30 sec	Medium

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- Fiscal deficit = (Revenue expenditure + Capital expenditure) - (Revenue receipts + Capital receipts excluding borrowings); e.g., $(12,000 + 5,000) - (10,000 + 2,000) = ₹5,000$ crore.
- Alternate route: Fiscal deficit = Revenue deficit + (Capital expenditure - Capital receipts excluding borrowings); e.g., $5,000 + (45,000 - 42,500) = ₹7,500$ crore.
- In such sums, always exclude borrowings from receipts - borrowing itself is what the fiscal deficit measures.

Q 7 · PYQ 2025-Sep · Pg 546	COMPUTE 75 sec	Medium
Q 8 · PYQ 2026-May · Pg 546	COMPUTE 75 sec	Medium

Unit 7.4: Fiscal Policy

P4-C7-U4 · Importance C · 1.5 marks a paper · Rank 4 in chapter · Category C · 19.3% of chapter questions · 50 questions

Topic 4.1: Introduction

P4-C7-U4-T01

Read first Read Sections 4.1-4.2 of Unit 4 (Fiscal Policy): definition and tools of fiscal policy, who formulates it, the classical vs Keynesian view, and the four common objectives; also note 'fiscal reforms'

phrasing.

RECALL 30 sec know it or move on · 13 questions Remembering · Level I

- Fiscal policy = deliberate use of taxation, public expenditure, public debt and the budget (deficit financing) to influence aggregate demand, output and employment; it is a demand-side policy formulated by the Finance Ministry.
- Tools of fiscal policy: taxes, government expenditure, public debt, budget - interest rate and money supply are monetary-policy tools, NOT fiscal.
- Common objectives: full employment, price stability, acceleration of economic development, equitable distribution of income and wealth ('promotion of exports and imports' is not listed); fiscal federalism in India is maintained by the Finance Commission.
- Fiscal reforms = stable and transparent tax structure, better tax compliance, reduction of subsidies and encouragement of private-sector participation.

Q 1 · PYQ 2023-Dec · Pg 554	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Jun · Pg 555	RECALL 30 sec	Easy
Q 3 · MTP 2024-Aug · Pg 555	RECALL 30 sec	Easy
Q 4 · PYQ 2024-Sep · Pg 555	RECALL 30 sec	Easy
Q 5 · MTP 2024-Dec S1 · Pg 555	RECALL 30 sec	Easy
Q 6 · PYQ 2020-Nov · Pg 555 asked 2×	RECALL 30 sec	Easy
Q 8 · MTP 2024-Dec S1 · Pg 556	RECALL 30 sec	Easy
Q 9 · MTP 2025-Jan S2 · Pg 556	RECALL 30 sec	Easy
Q 10 · MTP 2025-Apr S1 · Pg 556	RECALL 30 sec	Easy
Q 12 · MTP 2025-Aug S2 · Pg 557	RECALL 30 sec	Easy
Q 14 · PYQ 2026-Jan · Pg 557	RECALL 30 sec	Easy
Q 15 · MTP 2025-Aug S1 · Pg 558	RECALL 30 sec	Easy
Q 11 · PYQ 2025-May · Pg 557	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies • 1 question Understanding • Level I

- Deficit financing (creating new money to fund the deficit) increases money supply; disinvestment or World Bank loans do not.
- An economy already at full employment does not require fiscal-policy action; a substantial rise in capital or revenue expenditure widens the fiscal deficit.
- Public debt burdens future generations because debts plus interest must be repaid by them.
- Fiscal policy reduces income inequality via progressive taxation combined with targeted welfare spending on the poor.

Q 13 • PYQ 2025-Sep • Pg 557

RECOGNISE
45 sec**Easy****REASON** 150 sec trace the chain before you answer • 1 question Analysis • Level II

Q 7 • MTP 2024-Dec S1 • Pg 555

REASON
150 sec**Easy**

Topic 4.2: Objectives of Fiscal Policy

P4-C7-U4-T02

Read first Study Sections 4.2-4.3: how fiscal policy influences $GDP = C + I + G + NX$, and the mechanics of expansionary vs contractionary (counter-cyclical) fiscal policy, including pump priming.

RECALL 30 sec know it or move on • 8 questions Remembering • Level I

- Contractionary fiscal policy restrains economic activity during the inflationary phase: reduce government spending and/or increase taxes.
- Expansionary fiscal policy stimulates a contracting economy: increase government spending and/or cut taxes (closes the recessionary gap).
- Pump priming = a one-shot injection of government expenditure into a depressed economy to boost business confidence and encourage larger private investment.

Q 5 • MTP 2025-Jan S2 • Pg 559 asked 2×

RECALL
30 sec**Easy**

Q 6 • MTP 2025-Jan S2 • Pg 559

RECALL
30 sec**Easy**

Q 1 • PYQ 2024-Jun • Pg 558

RECALL
30 sec**Medium**

Q 3 • MTP 2024-Dec S1 • Pg 559

RECALL
30 sec**Medium**

Q 4 • MTP 2024-Dec S1 • Pg 559

RECALL
30 sec**Medium**

Q 7 · PYQ 2025-Sep · Pg 560	RECALL 30 sec	Medium
Q 8 · MTP 2025-Dec S1 · Pg 560	RECALL 30 sec	Medium
Q 9 · MTP 2026-Apr S2 · Pg 560	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- In sluggish periods with under-utilised resources, fiscal policy compensates the deficiency in effective demand by boosting aggregate spending.
- Aggregate demand shifts right with an increase in G, a tax cut, or a tax cut combined with higher public expenditure - MCQs often want 'all of the above'.
- Counter-cyclical policy in recession = cutting taxes AND increasing government spending; the reverse pair is for inflation.

Q 2 · PYQ 2024-Jun · Pg 558	RECOGNISE 45 sec	Medium
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Topic 4.3: Types of Fiscal Policy

P4-C7-U4-T03

Read first Read Sections 4.3-4.4 on discretionary anti-inflationary/anti-recession measures and grasp the idea of automatic stabilizers versus discretionary action.

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

Q 1 · PYQ 2024-Sep · Pg 560	RECALL 30 sec	Easy
Q 4 · MTP 2025-Jan S2 · Pg 561	RECALL 30 sec	Easy
Q 5 · MTP 2025-Aug S1 · Pg 562	RECALL 30 sec	Easy
Q 6 · MTP 2025-Aug S1 · Pg 562	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- During inflation: levy new taxes, raise existing tax rates and cut government spending to wipe off surplus purchasing power; subsidies and tax cuts would worsen inflation.
- Automatic stabilizers act without fresh government decisions - progressive taxation and unemployment benefits; discretionary spending and infrastructure investment are NOT automatic stabilizers.
- Statement pairs: in recession the government raises expenditure or cuts taxes; deficit budgets stimulate economic activity while surplus budgets slow it down - both statements are correct together (budget deficit = net injection into aggregate demand, budget surplus = net leakage).

Q 3 · PYQ 2026-Jan · Pg 561

RECOGNISE
45 sec**Easy**

Q 2 · RTP 2025-Jan · Pg 561

RECOGNISE
45 sec**Medium****REASON** 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 7 · MTP 2026-Apr S2 · Pg 562

REASON
150 sec**Medium**

Topic 4.4: The Instruments of Fiscal Policy

P4-C7-U4-T04

Read first Skim Sections 4.4.1-4.4.4 on the instruments (expenditure, taxes, public debt, budget) and focus on Section 4.4.7 Limitations of Fiscal Policy - the four policy lags.

RECALL 30 sec know it or move on · 17 questions Remembering · Level I

- Four fiscal-policy lags in order: recognition lag (delay in recognising the need for a policy change from macro data), decision lag (time to evaluate alternative policies and decide), implementation lag (delays in legislation and bureaucratic execution), impact lag.
- Impact lag = when the outcomes of a policy are not visible for some time - the exact exam phrasing; do not confuse it with implementation lag, which is delay in putting the chosen policy into effect.

Q 1 · source not stated · Pg 562

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 563

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 563

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 563

RECALL
30 sec**Easy**

Q 2 · source not stated · Pg 563

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 564

RECALL
30 sec**Easy**

Q 2 · source not stated · Pg 564

RECALL
30 sec**Easy**

Q 1 · PYQ 2025-Jan · Pg 564

RECALL
30 sec**Easy**

Q 2 · MTP 2025-Apr S1 · Pg 565

RECALL
30 sec**Easy**

Q 3 · MTP 2025-Aug S1 · Pg 565

RECALL
30 sec**Easy**

Q 4 · MTP 2025-Aug S1 · Pg 565	RECALL 30 sec	Easy
Q 5 · MTP 2025-Aug S1 · Pg 565	RECALL 30 sec	Easy
Q 6 · MTP 2025-Aug S1 · Pg 565	RECALL 30 sec	Easy
Q 8 · MTP 2025-Dec S1 · Pg 566	RECALL 30 sec	Easy
Q 10 · MTP 2026-Apr S1 · Pg 566	RECALL 30 sec	Easy
Q 11 · MTP 2026-Apr S2 · Pg 567	RECALL 30 sec	Easy
Q 12 · PYQ 2026-Sep · Pg 567	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

Q 7 · MTP 2025-Aug S1 · Pg 566	RECOGNISE 45 sec	Easy
Q 9 · MTP 2025-Dec S1 · Pg 566	RECOGNISE 45 sec	Easy

CHAPTER 8

Money Market

3 Units · 19 Topics · 201 Classified Questions · 9.9 marks a paper · Importance: C

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 48 sec a question on average — **a chapter to work with a pen**

RECALL Remembering	56.6%	30 sec	43 of 76 past-exam questions
RECOGNISE Understanding	10.5%	45 sec	8 of 76 past-exam questions
COMPUTE Application	30.3%	75 sec	23 of 76 past-exam questions
REASON Analysis	2.6%	150 sec	2 of 76 past-exam questions

Unit 8.1: The Concept of Money Demand: Important Theories

P4-C8-U1 · Importance C · 2.8 marks a paper · Rank 1 in chapter · Category A · 36.3% of chapter questions · 73 questions

Topic 1.1: Introduction

P4-C8-U1-T01

Read first Read Section 1.1 of Unit 1 (Money Market): the three roles of money, fiat money, the list of general characteristics of money, and how money is measured (broad vs narrow money).

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

- Functions of money: medium of exchange, unit of account / common measure of value, and store of value (also standard of deferred payments).
- Characteristics of money: generally acceptable, durable, effortlessly recognizable, difficult to counterfeit (NOT easily reproducible by people), relatively scarce with elasticity of supply, easily transportable, uniform, divisible without losing value.
- Frequent 'not a characteristic' options: 'easily reproducible by people' and 'perishable' - money must be the opposite (hard to copy, durable).
- Store of value = the ability of money to hold its value over time; fiat money is materially worthless but valued because the nation collectively agrees to ascribe value to it.

Q 1 · PYQ 2024-Sep · Pg 570

RECALL
30 sec

Easy

Q 2 · PYQ 2025-Jan · Pg 571

RECALL
30 sec

Easy

Q 3 · PYQ 2026-May · Pg 571	RECALL 30 sec	Easy
Q 4 · MTP 2025-Aug S2 · Pg 571	RECALL 30 sec	Easy
Q 5 · MTP 2026-Apr S1 · Pg 571	RECALL 30 sec	Easy

Topic 1.2: The Demand for Money

P4-C8-U1-T02

Read first Read Section 1.2 The Demand for Money: money demand as derived demand for real balances, and the variables it depends on (income, price level, interest rate, financial innovation).

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- Real money = nominal money adjusted to the price level; the demand for money is a demand for real balances.
- Money demand is a derived demand - money is wanted for its purchasing power, i.e., for liquidity and to store value.

Q 1 · PYQ 2024-Sep · Pg 572	RECALL 30 sec	Easy
Q 2 · MTP 2025-Jan S2 · Pg 572 asked 2×	RECALL 30 sec	Medium
Q 3 · RTP 2025-May · Pg 572	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Direct determinants: level of income/output (positive), price level (positive), interest rate (negative - it is the opportunity cost of holding cash), and financial innovation (reduces cash holding); the government's fiscal deficit is NOT a direct determinant.
- Chain to grasp: higher interest rate → higher opportunity cost of holding money → lower demand for money.

Q 4 · PYQ 2026-Sep · Pg 572	RECOGNISE 45 sec	Medium
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Topic 1.3: Theories of Demand for money

P4-C8-U1-T03

Read first Study Section 1.3: Fisher's Quantity Theory (equation of exchange and its expanded form), the Cambridge cash-balance approach ($M_d = kPY$), and Keynes' liquidity preference theory - three motives and the liquidity trap.

RECALL 30 sec know it or move on · 32 questions Remembering · Level I

- Fisher's equation of exchange: $MV = PT$; expanded version including bank/credit money: $MV + M'V' = PT$ (M' = credit money, V' = its velocity).
- Cambridge approach = cash balance approach: $M_d = kPY$, where k = proportion of nominal income (PY) held as cash balances, Y = REAL national income, P = price level.
- Keynes' transactions demand: $L_r = kY$ - a direct proportional and positive function of the level of income (not of interest rate).
- Liquidity trap: speculative demand becomes perfectly elastic with respect to the interest rate; the speculative money-demand curve is parallel to the X-axis.

Q 13 · PYQ 2026-May · Pg 582	RECALL 30 sec	Easy
Q 14 · PYQ 2026-May · Pg 583	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 573	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 573	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 573	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 574	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 574	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 575	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 575	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 575	RECALL 30 sec	Medium
Q 3 · source not stated · Pg 576	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 576	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 577	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 577	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 578	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 578	RECALL 30 sec	Medium
Q 1 · PYQ 2024-Jun · Pg 579	RECALL 30 sec	Medium

Q 2 · PYQ 2024-Jun · Pg 579	RECALL 30 sec	Medium
Q 3 · MTP 2024-Dec S1 · Pg 579	RECALL 30 sec	Medium
Q 4 · MTP 2024-Dec S1 · Pg 580	RECALL 30 sec	Medium
Q 5 · MTP 2024-Dec S1 · Pg 580	RECALL 30 sec	Medium
Q 9 · PYQ 2025-May · Pg 581	RECALL 30 sec	Medium
Q 10 · PYQ 2024-Jun · Pg 581 asked 2×	RECALL 30 sec	Medium
Q 12 · PYQ 2026-Jan · Pg 582	RECALL 30 sec	Medium
Q 15 · MTP 2025-May S2 · Pg 583	RECALL 30 sec	Medium
Q 16 · MTP 2025-May S2 · Pg 583	RECALL 30 sec	Medium
Q 17 · MTP 2025-Aug S1 · Pg 583 asked 3×	RECALL 30 sec	Medium
Q 18 · MTP 2025-Dec S1 · Pg 584	RECALL 30 sec	Medium
Q 19 · MTP 2026-Apr S1 · Pg 584	RECALL 30 sec	Medium
Q 20 · MTP 2026-Apr S1 · Pg 584	RECALL 30 sec	Medium
Q 21 · MTP 2026-Apr S2 · Pg 584	RECALL 30 sec	Medium
Q 22 · MTP 2026-Apr S2 · Pg 584	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- QTM cause-effect: money supply up, with velocity and output constant, means price level rises proportionately; per Cambridge, the value of money depends on both demand for and supply of money.
- Distinguish the three motives: transactions (receipts-expenditure mismatch), precautionary (unforeseen contingencies), speculative (cash held to exploit attractive investment opportunities; inversely related to interest rate).
- Liquidity trap: interest rates near zero, people prefer holding cash over bonds - the extreme effect of monetary policy, which becomes powerless.
- Two media for storing value (money and an interest-bearing asset) is the central assumption of the Inventory Theoretic approach; a cut in reserve requirement immediately increases money supply.

Q 6 · MTP 2025-Jan S2 · Pg 580 asked 2×

RECOGNISE
45 sec

Easy

Q 11 · PYQ 2025-Sep · Pg 582

RECOGNISE
45 sec

Easy

Q 1 · source not stated · Pg 574

RECOGNISE
45 sec

Medium

Q 2 · source not stated · Pg 577

RECOGNISE
45 sec

Medium

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

Q 23 · PYQ 2026-Sep · Pg 585

COMPUTE
75 sec

Medium

REASON 150 sec trace the chain before you answer · 6 questions Analysis · Level II

Q 7 · MTP 2025-Jan S2 · Pg 580 asked 4×

REASON
150 sec

Easy

Q 8 · MTP 2025-Jan S2 · Pg 580

REASON
150 sec

Easy

Q 1 · source not stated · Pg 573

REASON
150 sec

Medium

Q 2 · source not stated · Pg 576

REASON
150 sec

Medium

Q 2 · source not stated · Pg 576

REASON
150 sec

Medium

Q 2 · source not stated · Pg 578

REASON
150 sec

Medium

Topic 1.4: Post-Keynesian Developments in the Theory of Demand for Money

P4-C8-U1-T04

Read first Read Section 1.4: Baumol-Tobin inventory approach (Square Root Rule), Friedman's restatement of the quantity theory (four determinants), and Tobin's risk-aversion / portfolio (liquidity preference) theory.

RECALL 30 sec know it or move on · 16 questions Remembering · Level I

- Milton Friedman treated demand for money as an application of a more general theory of demand for CAPITAL ASSETS; its drivers are permanent income (wealth) and relative returns on assets.
- 'Aversion of risk' concept is propounded by James Tobin; his liquidity preference function frames the relationship between the rate of interest and the demand for money (as an asset).
- Baumol's Square Root Rule for optimal cash withdrawal: $C = \sqrt{2bY/r}$, b = broker's fee, Y = income, r = interest rate.

Q 1 · source not stated · Pg 585

RECALL
30 sec

Easy

Q 1 · source not stated · Pg 585	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 585	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 586	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 586	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 586	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 587	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 587	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 587	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Sep · Pg 588	RECALL 30 sec	Easy
Q 2 · MTP 2024-Aug S2 · Pg 588 asked 2x	RECALL 30 sec	Easy
Q 3 · PYQ 2025-Sep · Pg 588	RECALL 30 sec	Easy
Q 4 · PYQ 2026-Jan · Pg 589	RECALL 30 sec	Easy
Q 6 · MTP 2025-Aug S1 · Pg 589	RECALL 30 sec	Easy
Q 8 · MTP 2025-Aug S1 · Pg 590	RECALL 30 sec	Easy
Q 5 · PYQ 2026-Jan · Pg 589	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 3 questions Understanding · Level I

- Friedman's four determinants of nominal money demand: function of total wealth; POSITIVELY related to the price level (a rise in P raises money demand); rises when returns on bonds/stocks decline; positive inflation raises the opportunity cost of holding money - a 'negatively related to price level' option is the odd one out.
- Baumol-Tobin optimal average money holding: positive function of income, price level and transaction cost, but a NEGATIVE function of the nominal interest rate.

Q 7 · MTP 2025-Aug S1 · Pg 590	RECOGNISE 45 sec	Easy
Q 9 · PYQ 2026-Sep · Pg 590	RECOGNISE 45 sec	Easy
Q 10 · PYQ 2026-Sep · Pg 590	RECOGNISE 45 sec	Easy

Topic 1.5: Conclusion

P4-C8-U1-T05

Read first Read the closing page of Unit 8.1: what the competing theories of money demand have in common and where they part company.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- All the theories agree that money is demanded for transactions; they differ over whether it is also held as an asset, and over how sensitive that holding is to the rate of interest.
- The classical and Fisher versions make money demand a function of income alone; Keynes adds the speculative motive and makes it a function of income and the rate of interest; the post-Keynesian developments treat money as one asset in a portfolio.

Q 1 · source not stated · Pg 591

RECALL
30 sec

Easy

Q 1 · MTP 2025-Aug S2 · Pg 591 **asked 2×**

RECALL
30 sec

Easy

Unit 8.2: The Concept of Money Supply

P4-C8-U2 · Importance C · 4.4 marks a paper · Rank 2 in chapter · Category A · 33.8% of chapter questions · 68 questions

Topic 2.1: Introduction

P4-C8-U2-T01

Read first Read Section 2.1 of Unit 2 (Concept of Money Supply): the three functions of money (medium of exchange, unit of account, store of value) and money defined as a set of liquid financial assets; revise Fisher's equation of exchange from the demand-for-money unit, since numericals here use $MV = PT$.

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

Q 1 · source not stated · Pg 595

RECALL
30 sec

Easy

Q 1 · source not stated · Pg 595

RECALL
30 sec

Easy

Q 2 · MTP 2025-Aug S1 · Pg 596

RECALL
30 sec

Easy

Q 3 · MTP 2025-Aug S1 · Pg 597 **asked 2×**

RECALL
30 sec

Easy

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

- Drill $MV = PT$ rearrangements: $M = PT/V$. E.g. $V = 20$, $P = 120$, $T = 150$ crores gives $M = (120 \times 150)/20 = ₹900$ crores.
- For price level: $P = MV/T$. E.g. $M = ₹500$ crores, $V = 5$, $T = 10,000$ gives $P = 2,500/10,000$ units; always compute MV first, then divide by T .
- Check units (crores vs lakhs) in the data before matching answer options.

Q 1 · PYQ 2024-Jun · Pg 595 asked 2×

COMPUTE
75 sec**Medium**

Topic 2.2: Rationale of Measuring Money Supply

P4-C8-U2-T02

Read first Study Section 2.2 (two reasons why empirical measurement of money supply matters) along with the definition of 'public' given at the end of Section 2.1.

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

- 'Public' = all economic units (households, firms, institutions) EXCEPT the producers of money, i.e. the government and the banking system; it does include local authorities, NBFIs, foreign central banks and the IMF.
- Excluded from money supply: money held by government and banks — currency held by the central bank, cash in hand with banks, and inter-bank deposits. Demand and savings deposits of the public with banks ARE part of money supply.
- Two reasons for measuring money supply: (i) analyse monetary developments/causes of money growth, (ii) evaluate from a monetary policy angle whether the money stock is consistent with price stability.

Q 1 · source not stated · Pg 597

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 597

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 598

RECALL
30 sec**Easy**

Q 1 · PYQ 2025-Jan · Pg 598

RECALL
30 sec**Easy**

Q 2 · MTP 2025-Jan S2 · Pg 598 asked 2×

RECALL
30 sec**Easy**

Topic 2.3: The Sources of Money Supply

P4-C8-U2-T03

Read first Study Section 2.3: the central bank and the commercial banking system as the two sources of money supply, fiat money vs credit money, the minimum reserve system, and the notes on

CBDC (Digital Rupee ₹) and cryptocurrencies.

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- The central bank is the primary source of money supply in all countries; in India the RBI regulates money supply. High-powered money issued by the monetary authority is the source of all other forms of money.
- Currency issued by the central bank is 'fiat money' — backed by supporting reserves, its value guaranteed by the sovereign; currency notes (not gold/silver coins) are fiat money.
- Money created by commercial banks through borrowing-lending is 'credit money' — the second major source of money supply.
- Under the 'minimum reserve system' the central bank can issue currency to any extent keeping only a minimum reserve of gold and foreign securities; CBDC is legal tender in digital form, while cryptocurrencies are not legally recognised as currency in India.

Q 1 · PYQ 2024-Jun · Pg 599	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Sep · Pg 599	RECALL 30 sec	Easy
Q 3 · PYQ 2025-Jan · Pg 599	RECALL 30 sec	Easy
Q 4 · PYQ 2025-Jan · Pg 599	RECALL 30 sec	Easy
Q 5 · RTP 2025-Jan · Pg 600	RECALL 30 sec	Easy
Q 8 · MTP 2026-Apr S1 · Pg 600	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

Q 6 · RTP 2025-May · Pg 600	RECOGNISE 45 sec	Easy
Q 7 · RTP 2025-May · Pg 600	RECOGNISE 45 sec	Easy

Topic 2.4: Measurement of Money Supply

P4-C8-U2-T04

Read first Study Section 2.4: the four RBI monetary aggregates M1--M4 published since April 1977 on the recommendation of the Second Working Group on Money Supply, and the components of broad money.

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- M1 = Currency with public + demand deposits with banking system + 'other' deposits with RBI. Time (term) deposits are NOT in M1.
- M2 = M1 + savings deposits with post office savings banks; M3 (broad money) = M1 + net time deposits with the banking system; M4 = M3 + total post office deposits (excluding NSCs).
- Broad money includes deposits with agreed maturity up to 2 years, deposits redeemable at notice up to 3 months, repos, money market fund units and debt securities up to 2 years.

Q 6 · RTP 2024-Sep · Pg 603 asked 3x	RECALL 30 sec	Easy
Q 9 · PYQ 2025-May · Pg 604	RECALL 30 sec	Medium
Q 11 · MTP 2026-Apr S1 · Pg 605	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

Q 8 · PYQ 2025-May · Pg 604	RECOGNISE 45 sec	Medium
Q 10 · RTP 2025-May · Pg 604	RECOGNISE 45 sec	Medium

COMPUTE 75 sec one formula, straight through · 9 questions Application · Level II

- Currency with public = Notes in circulation + rupee coins + small coins – cash on hand with banks. Always SUBTRACT bank-held cash/coins.
- For M1 numericals, add only currency with public, demand deposits and other deposits with RBI — drop time deposits and post office savings figures given as distractors.
- For M3, take M1 and add time deposits with banks only (ignore post office deposits).

Q 3 · MTP 2024-Dec S1 · Pg 602	COMPUTE 75 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 601	COMPUTE 75 sec	Medium
Q 2 · PYQ 2024-Jun · Pg 601	COMPUTE 75 sec	Medium
Q 4 · PYQ 2025-Sep · Pg 602	COMPUTE 75 sec	Medium
Q 5 · PYQ 2025-Jan · Pg 602	COMPUTE 75 sec	Medium
Q 7 · PYQ 2025-May · Pg 603	COMPUTE 75 sec	Medium
Q 12 · PYQ 2026-Sep · Pg 605	COMPUTE 75 sec	Medium

Q 13 · PYQ 2026-Sep · Pg 605

COMPUTE
75 sec**Medium**

Q 14 · PYQ 2026-Sep · Pg 605

COMPUTE
75 sec**Medium**

Topic 2.5: Determinants of Money Supply

P4-C8-U2-T05

Read first Study Sections 2.5 and 2.6 (money multiplier concept, monetary base, excess reserves) plus the Credit Multiplier box at the end of the unit — this is the heaviest numerical zone of the chapter.

RECALL 30 sec know it or move on · 7 questions Remembering · Level I

- Money multiplier $m = \text{Money supply} / \text{Monetary base}$; it relates the change in money supply to a given change in the monetary base ($M = m \times MB$).
- Credit (deposit) multiplier = $1 / \text{Required Reserve Ratio}$; Excess Reserves = Total Reserves – Required Reserves.

Q 1 · PYQ 2024-Jun · Pg 606

RECALL
30 sec**Easy**

Q 2 · MTP 2024-Aug · Pg 606 asked 2x

RECALL
30 sec**Medium**

Q 6 · MTP 2024-Dec S1 · Pg 608

RECALL
30 sec**Medium**

Q 7 · MTP 2024-Dec S1 · Pg 608

RECALL
30 sec**Medium**

Q 10 · MTP 2024-Dec S1 · Pg 608

RECALL
30 sec**Medium**

Q 18 · PYQ 2026-Jan · Pg 612

RECALL
30 sec**Medium**

Q 21 · MTP 2026-Apr S2 · Pg 613

RECALL
30 sec**Medium**

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Money supply varies directly with monetary base (H) and multiplier (m), and inversely with r, e and c — so a smaller currency ratio means a larger multiplier.
- If banks reduce excess reserve holdings, money supply increases (more lending from the same base).
- A higher TD/DD ratio gives banks more free reserves, enlarging deposit expansion; cryptocurrencies lack legislative recognition and are not legally recognised in India.

Q 15 · PYQ 2025-Sep · Pg 611

RECOGNISE
45 sec**Medium**

Q 20 · MTP 2026-Apr S2 · Pg 613

RECOGNISE
45 sec**Medium****COMPUTE** 75 sec one formula, straight through · 11 questions Application · Level II

- $m = M/MB$: e.g. ₹1,000 cr supply on ₹250 cr base gives $m = 4$; also $MB = \Delta M/m$ ($\Delta M = ₹600$ cr, $m = 1.5$ gives $MB = ₹400$ cr).
- $\Delta \text{Money supply} = (1/R) \times \Delta \text{Reserves}$: $R = 0.10$, $\Delta \text{Reserves} = ₹1,000$ gives ₹10,000.
- Credit creation = Initial deposit $\times 1/RRR$ (₹12,00,000 at 15% gives ₹80,00,000); reversed, $RRR = \text{Initial deposit} / \text{credit created}$.
- Use $m = (1+c)/(r+e+c)$ when currency and excess-reserve data are given; a bank's excess reserves = deposits – required reserves.

Q 3 · PYQ 2024-Sep · Pg 606

COMPUTE
75 sec**Medium**

Q 4 · PYQ 2024-Sep · Pg 607

COMPUTE
75 sec**Medium**

Q 5 · PYQ 2024-Sep · Pg 607

COMPUTE
75 sec**Medium**

Q 8 · MTP 2024-Dec S1 · Pg 608

COMPUTE
75 sec**Medium**

Q 9 · MTP 2024-Dec S1 · Pg 608

COMPUTE
75 sec**Medium**

Q 11 · PYQ 2025-Jan · Pg 609

COMPUTE
75 sec**Medium**

Q 12 · PYQ 2025-Jan · Pg 609

COMPUTE
75 sec**Medium**

Q 14 · PYQ 2025-Sep · Pg 610

COMPUTE
75 sec**Medium**

Q 16 · PYQ 2025-Sep · Pg 611

COMPUTE
75 sec**Medium**

Q 17 · PYQ 2026-Jan · Pg 612

COMPUTE
75 sec**Medium**

Q 19 · PYQ 2026-May · Pg 612

COMPUTE
75 sec**Medium****REASON** 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 13 · PYQ 2025-May · Pg 610

REASON
150 sec**Medium**

Topic 2.6: The concept of Money Multiplier

P4-C8-U2-T06

Read first Study Section 2.6: what the money multiplier is, the two ratios that determine it, and the

formula that connects reserve money to money supply.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- The money multiplier m is the ratio of money supply to reserve money (high-powered money): $M = m \times H$, so $m = M / H$.
- Its two determinants are the currency-deposit ratio c held by the public and the reserve-deposit ratio r held by banks: $m = (1 + c) / (c + r)$.
- The multiplier is greater than one and moves inversely with both ratios — a rise in either shrinks it.

Q 1 · MTP 2025-Aug S2 · Pg 613

RECALL
30 sec

Easy

Q 2 · MTP 2025-Aug S2 · Pg 613

RECALL
30 sec

Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- In the special case where the public holds no currency ($c = 0$) the formula collapses to the simple deposit multiplier $1 / r$, which is why $1/r$ and $(1+c)/(c+r)$ are offered as alternative options in the same question.

Q 3 · MTP 2026-Apr S1 · Pg 614

RECOGNISE
45 sec

Easy

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

- Given c and r , compute $m = (1 + c) / (c + r)$ and then $M = m \times H$; given M and H , invert it to read off the multiplier.

Q 4 · MTP 2026-Apr S2 · Pg 614

COMPUTE
75 sec

Medium

Topic 2.7: The Money multiplier Approach to Supply of Money

P4-C8-U2-T07

Read first Study Section 2.7 (Friedman--Schwartz money multiplier approach): the behaviour of the central bank (H), commercial banks (r, e) and the public (c), and the formula $m = (1+c)/(r+e+c)$.

NOTES

A change in the reserve ratio directly changes the supply of money: lowering CRR raises banks' lending capacity and expands money supply; raising it contracts supply.

To DECREASE money supply the central bank sells securities in the open market or raises the reserve ratio/discount rate — open market purchases and rate cuts do the opposite.

The multiplier is jointly determined by central bank (r), banks (e) and public (c); the lower these ratios, the larger m .

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- The currency--deposit ratio ($c = C/D$) measures the degree of adoption of banking habits by the public.
- $m = (1+c)/(r+e+c)$; with no currency or excess reserves it collapses to $1/r$.

Q 1 · MTP 2025-Jan S2 · Pg 614 asked 3×	RECALL 30 sec	Easy
Q 3 · RTP 2025-Jan · Pg 615	RECALL 30 sec	Easy
Q 5 · RTP 2025-May · Pg 615 asked 2×	RECALL 30 sec	Easy
Q 6 · MTP 2025-Aug S1 · Pg 615	RECALL 30 sec	Easy
Q 7 · PYQ 2026-Sep · Pg 616	RECALL 30 sec	Easy
Q 4 · PYQ 2026-May · Pg 615	RECALL 30 sec	Medium

REASON 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 2 · MTP 2025-Jan S2 · Pg 614	REASON 150 sec	Easy
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Topic 2.8: Monetary Policy and Money Supply

P4-C8-U2-T08

Read first Study Section 2.8: how open market operations change high-powered money and the credit creation that follows.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- In an OMO, the central bank PURCHASES government securities to inject high-powered money (reserves) into the system; an open market sale absorbs reserves and reduces money supply.
- $\Delta \text{Money supply} = (1/R) \times \Delta \text{Reserves}$; the multiplier can even be zero if interest rates are so low that banks hold the injected reserves entirely as excess reserves.

Q 1 · PYQ 2026-Jan · Pg 616	RECALL 30 sec	Easy
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REASON 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 2 · MTP 2026-Apr S1 · Pg 616

REASON
150 sec**Medium**

Topic 2.9: Effect of Government Expenditure on Money Supply

P4-C8-U2-T09

Read first Study Section 2.9 (Ways and Means Advances/Overdraft creating excess reserves) and the numerical illustrations on currency with the public and the credit multiplier at the end of the unit.

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- Currency with public = notes in circulation + rupee coins + small coins – cash on hand with banks; e.g. 35,50,000 + 25,550 + 750 – cash with banks.
- $RRR = 1 / \text{credit multiplier}$: if credit multiplier = 4, $RRR = 25\%$; keep the reciprocal relation ready both ways.
- Remember the mechanism: RBI lending to government under WMA/OD creates excess reserves of banks, which can expand money supply via the multiplier.

Q 1 · MTP 2025-Apr S1 · Pg 617 asked 3×

COMPUTE
75 sec**Medium**

Q 2 · PYQ 2026-May · Pg 617

COMPUTE
75 sec**Medium**

Unit 8.3: Monetary Policy

P4-C8-U3 · Importance C · 2.8 marks a paper · Rank 3 in chapter · Category B · 29.9% of chapter questions · 60 questions

Topic 3.1: Introduction

P4-C8-U3-T01

Read first Read Section 3.1 of Unit 3 (Monetary Policy) on why the RBI manipulates policy rates to manage liquidity; note the economists' views on trade cycles referred to in this context.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- According to Hawtrey, the trade (business) cycle is a purely MONETARY phenomenon — caused by changes in the flow of money/credit.
- The RBI occasionally manipulates policy rates to manoeuvre liquidity conditions in the economy, notifying the reasons explicitly.

Q 1 · source not stated · Pg 622

RECALL
30 sec**Easy**

Q 1 • MTP 2024-Aug • Pg 623 asked 3×

RECALL
30 sec

Easy

Topic 3.2: Monetary Policy Defined

P4-C8-U3-T02

Read first Study Section 3.2: the definition of monetary policy, who implements it in India, and how it works through interest rates in the short run.

RECALL 30 sec know it or move on • 2 questions Remembering • Level I

- Monetary policy in India is implemented by the RBI (the central bank) — not SEBI, SBI or commercial banks; it is THE policy central banks use to manage the business cycle.
- It works by adjusting the supply of money, usually via buying/selling securities in the open market, to achieve price stability (low and stable inflation).
- In the short run monetary policy is directed at directly influencing the INTEREST RATE, which then affects spending on goods and services; lowering rates = easing, raising rates = tightening.

Q 2 • MTP 2024-Aug • Pg 623

RECALL
30 sec

Easy

Q 3 • RTP 2024-Sep • Pg 623 asked 2×

RECALL
30 sec

Easy

RECOGNISE 45 sec decide which idea applies • 1 question Understanding • Level I

Q 1 • PYQ 2021-Dec • Pg 623

RECOGNISE
45 sec

Easy

Topic 3.3: The Monetary Policy Framework

P4-C8-U3-T03

Read first Study Sections 3.3.1--3.3.3 thoroughly: objectives, the four transmission channels, and the operating instruments — quantitative tools, qualitative tools and the policy rates (repo, reverse repo, MSF).

RECALL 30 sec know it or move on • 36 questions Remembering • Level I

- Primary objective: judicious balance between price stability and economic growth (regulating money supply for macro goals).
- Four transmission channels: saving & investment, cash-flow, asset prices & wealth, exchange rate. 'International trade' and 'open market' channels are NOT channels — classic wrong options.
- Quantitative tools: CRR, SLR, OMO, LAF, bank rate (LAF came from the Narasimham Committee; OMOs check temporary liquidity mismatches from foreign capital flows). Qualitative: margin requirements,

moral suasion (persuading banks to hold G-secs), selective credit control (not lending to speculative sectors). Tax changes are fiscal, not monetary.

- Reverse Repo = Repo - 1; MSF = Repo + 1 (penal rate; banks may use max 1% of SLR securities). 6% CPI (upper tolerance) is the maximum tolerable rate under the MPFA.

Q 1 · PYQ 2024-Jun · Pg 624	RECALL 30 sec	Easy
Q 3 · PYQ 2024-Jun · Pg 624	RECALL 30 sec	Easy
Q 7 · PYQ 2025-Jan · Pg 625	RECALL 30 sec	Easy
Q 13 · PYQ 2025-May · Pg 627	RECALL 30 sec	Easy
Q 14 · PYQ 2025-May · Pg 627 asked 2×	RECALL 30 sec	Easy
Q 15 · PYQ 2025-May · Pg 627	RECALL 30 sec	Easy
Q 20 · PYQ 2026-Jan · Pg 629	RECALL 30 sec	Easy
Q 21 · PYQ 2026-Jan · Pg 629	RECALL 30 sec	Easy
Q 22 · PYQ 2026-May · Pg 629	RECALL 30 sec	Easy
Q 23 · PYQ 2026-May · Pg 629	RECALL 30 sec	Easy
Q 24 · MTP 2025-Aug S1 · Pg 630	RECALL 30 sec	Easy
Q 25 · MTP 2025-Aug S1 · Pg 630	RECALL 30 sec	Easy
Q 26 · MTP 2025-Aug S1 · Pg 630	RECALL 30 sec	Easy
Q 27 · MTP 2025-Aug S1 · Pg 630	RECALL 30 sec	Easy
Q 28 · MTP 2025-Aug S1 · Pg 630	RECALL 30 sec	Easy
Q 29 · MTP 2025-Aug S1 · Pg 631	RECALL 30 sec	Easy
Q 31 · MTP 2025-May S2 · Pg 631 asked 2×	RECALL 30 sec	Easy
Q 32 · MTP 2025-Aug S2 · Pg 631	RECALL 30 sec	Easy
Q 33 · MTP 2025-Dec S1 · Pg 632	RECALL 30 sec	Easy
Q 34 · MTP 2025-Dec S1 · Pg 632	RECALL 30 sec	Easy

Q 36 · MTP 2026-Apr S1 · Pg 632	RECALL 30 sec	Easy
Q 37 · MTP 2026-Apr S2 · Pg 632 asked 2×	RECALL 30 sec	Easy
Q 38 · MTP 2026-Apr S1 · Pg 633	RECALL 30 sec	Easy
Q 39 · MTP 2026-Apr S1 · Pg 633	RECALL 30 sec	Easy
Q 40 · MTP 2026-Apr S1 · Pg 633	RECALL 30 sec	Easy
Q 41 · MTP 2025-Aug S2 · Pg 633 asked 2×	RECALL 30 sec	Easy
Q 42 · MTP 2026-Apr S2 · Pg 633	RECALL 30 sec	Easy
Q 44 · PYQ 2026-Sep · Pg 634	RECALL 30 sec	Easy
Q 4 · PYQ 2024-Sep · Pg 625	RECALL 30 sec	Medium
Q 5 · MTP 2024-Dec S1 · Pg 625	RECALL 30 sec	Medium
Q 8 · MTP 2025-Jan S2 · Pg 625 asked 2×	RECALL 30 sec	Medium
Q 9 · MTP 2025-Jan S2 · Pg 626	RECALL 30 sec	Medium
Q 11 · MTP 2025-Jan S2 · Pg 626 asked 2×	RECALL 30 sec	Medium
Q 16 · PYQ 2025-Sep · Pg 628	RECALL 30 sec	Medium
Q 17 · PYQ 2025-Sep · Pg 628	RECALL 30 sec	Medium
Q 19 · PYQ 2025-Sep · Pg 629	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- OMO purchase by RBI INCREASES reserves and money supply; OMO sale absorbs liquidity — OMOs are the most effective tool for short-term fluctuations.
- A Bank Rate rise makes RBI borrowing costlier, discouraging lending; reverse repo gives banks interest income and is raised to curb inflation.

Q 6 · PYQ 2025-Jan · Pg 625	RECOGNISE 45 sec	Easy
Q 30 · MTP 2025-Aug S2 · Pg 631	RECOGNISE 45 sec	Easy
Q 10 · MTP 2025-Jan S2 · Pg 626	RECOGNISE 45 sec	Medium

Q 12 · MTP 2025-Jan S2 · Pg 626

RECOGNISE
45 sec

Medium

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- Anti-inflation package: raise repo/CRR/reserve requirements, sell G-secs — anything reducing money supply; expansionary policy is the mirror image.
- In a scenario, first decide whether liquidity must be absorbed or injected, then pick the matching tool direction.

Q 43 · PYQ 2026-Sep · Pg 634

COMPUTE
75 sec

Easy

Q 18 · PYQ 2025-Sep · Pg 628

COMPUTE
75 sec

Medium

REASON 150 sec trace the chain before you answer · 2 questions Analysis · Level II

Q 2 · PYQ 2024-Jun · Pg 624

REASON
150 sec

Easy

Q 35 · MTP 2025-Dec S1 · Pg 632

REASON
150 sec

Easy

Topic 3.4: The Organisational Structure for Monetary Policy Decisions

P4-C8-U3-T04

Read first Study Section 3.4: the 2016 amendment to the RBI Act, the Monetary Policy Framework Agreement (MPFA), the Monetary Policy Committee (MPC) and India's flexible inflation targeting numbers.

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- RBI Act, 1934 was amended on June 27, 2016 giving statutory backing to the MPFA and setting up the six-member MPC, which decides the policy rate by majority vote.
- The inflation target is set by the Central Government in consultation with the RBI, once every five years; notified target = 4% CPI inflation for Aug 5, 2016-- Mar 31, 2021, with tolerance band 2%--6%.
- RBI must publish a Monetary Policy Report every SIX months explaining sources of inflation and giving inflation forecasts for the coming 6--18 months.
- Failure = average inflation above upper (6%) or below lower (2%) tolerance level for any three consecutive quarters.

Q 2 · MTP 2024-Dec S1 · Pg 634

RECALL
30 sec

Easy

Q 1 · PYQ 2024-Sep · Pg 634

RECALL
30 sec

Medium

Q 3 · PYQ 2026-Jan · Pg 635	RECALL 30 sec	Medium
Q 5 · MTP 2025-May S2 · Pg 635	RECALL 30 sec	Medium
Q 6 · MTP 2025-Aug S1 · Pg 635 asked 2×	RECALL 30 sec	Medium
Q 7 · MTP 2025-Dec S1 · Pg 635	RECALL 30 sec	Medium

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

Q 4 · PYQ 2026-May · Pg 635	COMPUTE 75 sec	Medium
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Topic 3.5: Conclusion

P4-C8-U3-T05

Read first Read the closing page of Unit 8.3: what the monetary policy framework is meant to achieve and how its parts fit together.

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

- India's framework is flexible inflation targeting: the target is CPI inflation at 4 per cent with a band of plus or minus 2 per cent, set by the Government in consultation with the RBI.
- The Monetary Policy Committee has six members — three from the RBI including the Governor as chair, and three appointed by the Government — and decides by majority, with the Governor holding a casting vote.
- The policy repo rate is the single operating instrument; the liquidity adjustment facility and the corridor around the repo rate are how the decision is transmitted to the market.
- Failure to hold inflation inside the band for three consecutive quarters obliges the RBI to report to the Government on why, and what it will do about it.

Q 1 · MTP 2025-May S2 · Pg 636	RECALL 30 sec	Easy
Q 2 · MTP 2025-May S2 · Pg 636	RECALL 30 sec	Easy
Q 3 · MTP 2025-Aug S1 · Pg 636	RECALL 30 sec	Easy
Q 4 · RTP 2025-May · Pg 636	RECALL 30 sec	Easy

CHAPTER 9

International Trade

5 Units · 32 Topics · 257 Classified Questions · 10.0 marks a paper · Importance: C

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 37 sec a question on average — **mostly reading, with a little arithmetic**

RECALL Remembering	78.8%	30 sec	63 of 80 past-exam questions
RECOGNISE Understanding	13.8%	45 sec	11 of 80 past-exam questions
COMPUTE Application	5.0%	75 sec	4 of 80 past-exam questions
REASON Analysis	2.5%	150 sec	2 of 80 past-exam questions

Unit 9.1: Theories of International Trade

P4-C9-U1 · Importance C · 1.3 marks a paper · Rank 5 in chapter · Category C · 9.3% of chapter questions · 24 questions

Topic 1.1: Introduction

P4-C9-U1-T01

Read first Study Section 1.1 of Unit 1 (Theories of International Trade): the nine benefits of international trade and the seven arguments against trade openness; also learn the assumptions of Adam Smith's Absolute Advantage theory from Section 1.2.2, which get tested here.

NOTES

Be able to sort statements into 'benefit' vs 'not a benefit': benefits include stimulus to innovative services (banking, insurance, logistics), access to new markets and materials, efficiency and productivity gains, export diversification.

Arguments AGAINST trade (used as the 'not a benefit' option): unequal gains between nations, economic exploitation of underprivileged countries by global corporations, environmental damage, rapid transmission of trade cycles, risky dependence impairing sovereignty.

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- Assumptions of Absolute Advantage theory: two countries--two commodities, NO transportation cost, costs measured in relative labour (labour theory of value), labour mobile within a country but immobile between countries.

- 'Existence of transportation cost' is NOT an assumption — the theory assumes it away; watch this reversal in options.

Q 1 · PYQ 2026-Jan · Pg 638	RECALL 30 sec	Easy
Q 3 · MTP 2025-May S2 · Pg 639	RECALL 30 sec	Easy
Q 2 · PYQ 2026-May · Pg 639	RECALL 30 sec	Medium

Topic 1.2: Important Theories of International Trade

P4-C9-U1-T02

Read first Study Sections 1.2.1--1.2.5: Mercantilism, Adam Smith's Absolute Advantage, Ricardo's Comparative Advantage, the Heckscher-Ohlin (Factor Endowment/Modern) theory with the comparison Table 4.1.3, and the New Trade Theory (Krugman, economies of scale, network effects).

RECALL 30 sec know it or move on · 19 questions · Remembering · Level I

- Name--theory pairs: Mercantilism = aggressive exports over imports to accumulate wealth; Adam Smith = Absolute Cost Advantage (export goods of greatest absolute advantage, import those where it is less); David Ricardo = Comparative Advantage; Heckscher--Ohlin = Factor Endowment/Modern theory.
- Ricardo based comparative advantage on the LABOUR THEORY OF VALUE (Haberler later restated it in opportunity-cost terms).
- Heckscher-Ohlin is a 2-factor model: labour and capital.

Q 3 · MTP 2024-Aug · Pg 640	RECALL 30 sec	Easy
Q 4 · PYQ 2024-Sep · Pg 640	RECALL 30 sec	Easy
Q 5 · MTP 2024-Dec S1 · Pg 640 asked 2×	RECALL 30 sec	Easy
Q 6 · MTP 2024-Dec S1 · Pg 641	RECALL 30 sec	Easy
Q 7 · PYQ 2025-Jan · Pg 641	RECALL 30 sec	Easy
Q 8 · PYQ 2025-Jan · Pg 641	RECALL 30 sec	Easy
Q 9 · MTP 2025-Jan S2 · Pg 641 asked 3×	RECALL 30 sec	Easy
Q 10 · MTP 2025-Jan S2 · Pg 642 asked 3×	RECALL 30 sec	Easy
Q 13 · PYQ 2026-May · Pg 643	RECALL 30 sec	Easy

Q 14 · MTP 2025-May S2 · Pg 643	RECALL 30 sec	Easy
Q 16 · MTP 2025-Aug S1 · Pg 644 asked 2×	RECALL 30 sec	Easy
Q 17 · MTP 2025-Aug S2 · Pg 644	RECALL 30 sec	Easy
Q 18 · MTP 2026-Apr S2 · Pg 644	RECALL 30 sec	Easy
Q 19 · MTP 2026-Apr S2 · Pg 644	RECALL 30 sec	Easy
Q 20 · MTP 2026-Apr S2 · Pg 644	RECALL 30 sec	Easy
Q 21 · MTP 2026-Apr S2 · Pg 645	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 639	RECALL 30 sec	Medium
Q 2 · PYQ 2024-Jun · Pg 640 asked 3×	RECALL 30 sec	Medium
Q 12 · PYQ 2025-Sep · Pg 643	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Comparative costs theory is **NORMATIVE** and does **NOT** consider factor price differences; the Modern (H-O) theory is **POSITIVE**, based on money cost, treats international trade as only a special case of inter-regional trade, and explains comparative advantage by factor endowments — Table 4.1.3 contrasts are direct MCQ fodder.
- H-O proposition: a country exports goods that intensively use its **ABUNDANT** factor (capital-rich exports capital-intensive goods; labour-rich exports labour-intensive goods).
- Distinguish: absolute advantage = greater output from the same resources; comparative advantage = lower **OPPORTUNITY** cost; trade under comparative advantage is a positive-sum game benefiting both countries.

Q 11 · PYQ 2025-May · Pg 642

RECOGNISE
45 sec

Easy

Q 15 · MTP 2025-May S2 · Pg 643

RECOGNISE
45 sec

Easy

Unit 9.2: The Instruments of Trade Policy

P4-C9-U2 · Importance C · 3.6 marks a paper · Rank 4 in chapter · Category B · 17.1% of chapter questions · 44 questions

Topic 2.1: Introduction

P4-C9-U2-T01

Read first Read Section 2.1 of Unit 2 (The Instruments of Trade Policy): definitions of free trade, protectionism and trade liberalization, and the broad split of trade policy into price-related (tariff) and non-tariff measures.

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- Protectionism = state policy protecting domestic producers against foreign competition through tariffs, quotas and non-tariff instruments.
- Free trade = voluntary trade with minimum state interference; trade liberalization = opening domestic markets by bringing down trade barriers.
- Trade policy instruments are classified into price-related measures (tariffs) and non-price/non-tariff measures (NTMs).

Q 1 · source not stated · Pg 650

RECALL
30 sec

Easy

Q 2 · source not stated · Pg 651

RECALL
30 sec

Easy

Q 1 · PYQ 2026-Jan · Pg 651

RECALL
30 sec

Easy

Topic 2.2: Tariffs

P4-C9-U2-T02

Read first Master Section 2.2.1 (forms of import tariffs — the most heavily tested list in the unit) and Section 2.2.2 (effects of tariffs), including the 'trigger-price' duties.

RECALL 30 sec know it or move on · 20 questions Remembering · Level I

- Specific = fixed money per physical unit/weight; Ad valorem = constant PERCENTAGE of value; Mixed = ad valorem OR specific, whichever yields more (or least) revenue; Compound = ad valorem PLUS specific; Technical = duty on specific contents/components.
- Bound tariff = WTO legal commitment not to raise the rate above a level; Applied = duty actually charged (MFN basis); Escalated = higher rates on manufactures than raw materials; Prohibitive = so high no imports enter; Variable = brings import price up to the domestic support price; TRQ = quotas + tariffs; Preferential = below MFN (NAFTA: USA, Canada, Mexico).
- Countervailing duties neutralise EXPORT SUBSIDIES; anti-dumping duties offset prices below FAIR MARKET VALUE.

Q 3 · MTP 2024-Aug · Pg 652

RECALL
30 sec

Easy

Q 4 · PYQ 2024-Sep · Pg 652	RECALL 30 sec	Easy
Q 5 · PYQ 2024-Sep · Pg 652	RECALL 30 sec	Easy
Q 9 · PYQ 2025-May · Pg 653	RECALL 30 sec	Easy
Q 10 · PYQ 2025-May · Pg 654	RECALL 30 sec	Easy
Q 12 · PYQ 2026-Jan · Pg 654	RECALL 30 sec	Easy
Q 13 · PYQ 2026-Jan · Pg 655	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 651	RECALL 30 sec	Medium
Q 2 · PYQ 2024-Jun · Pg 651	RECALL 30 sec	Medium
Q 6 · PYQ 2025-Jan · Pg 652	RECALL 30 sec	Medium
Q 7 · PYQ 2025-Jan · Pg 653	RECALL 30 sec	Medium
Q 8 · PYQ 2025-Jan · Pg 653	RECALL 30 sec	Medium
Q 14 · PYQ 2026-May · Pg 655	RECALL 30 sec	Medium
Q 15 · PYQ 2026-May · Pg 655	RECALL 30 sec	Medium
Q 16 · MTP 2025-Aug S1 · Pg 655	RECALL 30 sec	Medium
Q 17 · MTP 2025-Aug S2 · Pg 655	RECALL 30 sec	Medium
Q 18 · MTP 2025-Aug S2 · Pg 656	RECALL 30 sec	Medium
Q 19 · MTP 2025-Aug S2 · Pg 656	RECALL 30 sec	Medium
Q 20 · MTP 2026-Apr S1 · Pg 656	RECALL 30 sec	Medium
Q 22 · PYQ 2026-Sep · Pg 657	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Effects of tariffs: government revenue **INCREASES** (a fall in revenue is the 'not an outcome' option); volume of trade falls while the world price stays unaffected.
- Domestic producers gain producer surplus, output and employment; domestic consumers lose consumer surplus and pay higher prices.

Q 11 · PYQ 2025-Sep · Pg 654

RECOGNISE
45 sec

Medium

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

- Classify a worded duty: '5% ad valorem OR ₹800 per tonne, whichever is higher' = Mixed tariff; '5% PLUS ₹100 per kg' = Compound.
- Duty fixed per component or content of the good (e.g. per solar panel plus per kg of battery) = Technical tariff.

Q 21 · PYQ 2026-Sep · Pg 656

COMPUTE
75 sec

Medium

Topic 2.3: Non-Tariff Measures (NTMs)

P4-C9-U2-T03

Read first Study Section 2.3: NTMs vs NTBs, technical measures (SPS, TBT) in Section 2.3.1, and the non-technical measures in Section 2.3.2 (quotas, financial measures, safeguards, embargos, etc.).

NOTES

NTBs are the discriminatory, protectionist SUBSET of NTMs — not every NTM is a barrier.

Countervailing duty is a tariff-type (duty) response, so it is NOT a non-tariff barrier — a repeat trick option; documentation requirements and pre-shipment inspection ARE NTBs.

Classify scenarios by objective: requiring importers to pay 25% of goods' value three months in advance regulates access to foreign exchange/terms of payment, hence a FINANCIAL measure.

Exclusive import rights to one agency = measure affecting competition; a temporary, non-discriminatory curb after an import surge = safeguard measure.

RECALL 30 sec know it or move on · 17 questions Remembering · Level I

- SPS measures protect human, animal or plant life from additives, pests, contaminants, toxins, disease-causing organisms and protect biodiversity; TBT covers BOTH food and non-food products (quality standards, eco-labelling, organic certification) — import quotas are NOT a TBT.
- Technical measures = product characteristics, technical specifications, PRODUCTION PROCESSES; non-technical = shipping requirements, customs formalities, hard measures (price/quantity control), threat measures (anti-dumping, safeguards), trade-related finance and investment.
- Embargo = total ban on imports/exports to a country/region for a specified or indefinite period; import quota and non-automatic licensing/prohibitions limit QUANTITY irrespective of source; safeguards are TEMPORARY, non-discriminatory curbs against injurious import surges.
- Dumping = selling abroad below home-market price/cost; anti-dumping duty targets prices below fair market value.

Q 1 · PYQ 2024-Jun · Pg 657	RECALL 30 sec	Easy
Q 3 · RTP 2024-Sep · Pg 657	RECALL 30 sec	Easy
Q 5 · PYQ 2025-Jan · Pg 658	RECALL 30 sec	Easy
Q 6 · PYQ 2025-Jan · Pg 658	RECALL 30 sec	Easy
Q 7 · RTP 2025-Jan · Pg 658 asked 2×	RECALL 30 sec	Easy
Q 8 · PYQ 2025-Sep · Pg 658	RECALL 30 sec	Easy
Q 9 · PYQ 2025-Sep · Pg 659	RECALL 30 sec	Easy
Q 10 · PYQ 2025-Sep · Pg 659	RECALL 30 sec	Easy
Q 14 · MTP 2025-Dec S1 · Pg 660	RECALL 30 sec	Easy
Q 15 · MTP 2025-Aug S2 · Pg 660	RECALL 30 sec	Easy
Q 16 · MTP 2025-Dec S1 · Pg 660 asked 2×	RECALL 30 sec	Easy
Q 17 · PYQ 2026-Sep · Pg 661	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Sep · Pg 657	RECALL 30 sec	Medium
Q 4 · MTP 2024-Dec S1 · Pg 658	RECALL 30 sec	Medium
Q 11 · PYQ 2026-Jan · Pg 659	RECALL 30 sec	Medium
Q 12 · PYQ 2026-May · Pg 660	RECALL 30 sec	Medium
Q 13 · PYQ 2026-May · Pg 660	RECALL 30 sec	Medium

Topic 2.4: Export-Related Measures

P4-C9-U2-T04

Read first Read Section 2.4 of Unit 9.2: the measures a government applies to its own exports, as opposed to the tariffs and NTMs it applies to imports.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- Export-related measures include export subsidies, export taxes and duties, export quotas, export prohibitions and voluntary export restraints.

- An export subsidy lowers the price foreign buyers pay and raises the price at home; an export tax does the reverse.

Q 1 · MTP 2026-Apr S2 · Pg 661

RECALL
30 sec

Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- A voluntary export restraint is imposed by the EXPORTING country at the importing country's request — it looks like an import measure and is regularly offered as one in the options.

Q 2 · PYQ 2026-Sep · Pg 661

RECOGNISE
45 sec

Easy

Unit 9.3: Trade Negotiations

P4-C9-U3 · Importance C · 1.9 marks a paper · Rank 2 in chapter · Category A · 24.1% of chapter questions · 62 questions

Topic 3.1: Introduction

P4-C9-U3-T01

Read first Read the opening page of Unit 9.3: what trade negotiations are for and the institutions that host them.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- Trade negotiations are the process by which countries agree to reduce tariffs and other barriers on a reciprocal basis, bilaterally, regionally or multilaterally.
- UNCTAD promotes the development-friendly integration of developing countries into the world economy; the WTO administers the multilateral rules themselves.

Q 1 · MTP 2026-Apr S2 · Pg 667

RECALL
30 sec

Easy

Topic 3.2: Taxonomy of Regional Trade Agreements (RTAs)

P4-C9-U3-T02

Read first Study Section 3.2 'Taxonomy of Regional Trade Agreements (RTAs)' - the definition of RTAs and the eight-type ladder from unilateral trade agreements up to economic and monetary union, with the examples given for each.

NOTES

For scenario questions, first place the grouping on the integration ladder using its features (common external tariff? factor mobility? common currency?) before picking the label.

Policy-effect scenarios (e.g. targeting key exporting industries): trace the chain export promotion - > higher exports -> sectoral growth/trade surplus; reject options with no direct causal link (national debt, budget).

RECALL 30 sec know it or move on · 4 questions Remembering · Level I

- RTA = grouping of countries (not necessarily same region) formed to reduce trade barriers among members; 339 RTAs in force as of 1 Feb 2021.
- Ladder with examples: Unilateral (GSP), Bilateral - free trade between two countries/blocs by eliminating barriers (EU-South Africa FTA), Regional Preferential (GSTP), Trading bloc (Arab League, EFTA), Free-trade area (ASEAN- India FTA), Customs union (EU, Gulf Cooperation Council, MERCOSUR), Common market (free factor movement), Economic and Monetary Union (common currency, e.g. Eurozone).
- Key discriminators: FTA members keep their own external tariffs; trading bloc/customs union apply a common external tariff; common market adds free flow of labour and capital; EMU adds a single currency.

Q 1 · MTP 2025-Jan S2 · Pg 667 asked 2×	RECALL 30 sec	Easy
Q 2 · MTP 2025-Jan S2 · Pg 667	RECALL 30 sec	Easy
Q 6 · MTP 2025-Aug S1 · Pg 669	RECALL 30 sec	Easy
Q 4 · PYQ 2025-Sep · Pg 668	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

Q 3 · MTP 2025-Jan S2 · Pg 668	RECOGNISE 45 sec	Easy
Q 5 · PYQ 2026-May · Pg 668	RECOGNISE 45 sec	Medium

Topic 3.3: The General Agreement on Tariffs and Trade (GATT)

P4-C9-U3-T03

Read first Study Section 3.3: what GATT was, the principles it established, and how it became the WTO.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- GATT — the General Agreement on Tariffs and Trade — came into force in 1948 as a provisional agreement, not an organisation, and ran eight rounds of negotiation until 1994.
- Its core principles were most-favoured-nation treatment (no discrimination between trading partners), national treatment (no discrimination against imports once inside the border), and reciprocity in tariff concessions.
- GATT covered trade in goods only; the Uruguay Round (1986-94) extended the rules to services and intellectual property and replaced GATT with the WTO from 1 January 1995.

Q 1 · source not stated · Pg 669

RECALL
30 sec**Easy**

Q 1 · MTP 2026-Apr S2 · Pg 670

RECALL
30 sec**Easy**

Topic 3.4: The Uruguay Round and the Establishment of WTO

P4-C9-U3-T04

Read first Read Sections 3.3 and 3.4 - why GATT lost relevance by the 1980s and how the Uruguay Round culminated in the WTO; also the USMCA reference in the introduction.

NOTES

Why GATT lost relevance by the 1980s: services and intellectual property not covered, international investments expanded substantially, agriculture liberalisation efforts FAILED, weak dispute settlement, not a treaty (binding only if consistent with domestic rules).

MCQs flip these reasons (e.g. 'agricultural liberalisation was successful' or 'investments did not expand' are wrong options) - remember the correct direction of each cause.

RECALL 30 sec know it or move on · 10 questions Remembering · Level I

- GATT established 1948; governed world trade 1948-1994; covered trade in goods only.
- Uruguay Round = 8th and largest round: began Punta del Este, Sept 1986; completed Dec 1993 (7 years, 123 countries); agreement signed 15 April 1994; WTO born in 1995 to implement the Final Act of the Uruguay Round of GATT.
- USMCA (successor of NAFTA, 2020) = United States, Mexico, Canada.

Q 1 · MTP 2025-Aug S1 · Pg 670

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 670

RECALL
30 sec**Easy**

Q 2 · source not stated · Pg 671

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 671	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 671	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 671	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 671	RECALL 30 sec	Easy
Q 2 · RTP 2025-Jan · Pg 672	RECALL 30 sec	Easy
Q 3 · PYQ 2025-May · Pg 672	RECALL 30 sec	Medium
Q 4 · PYQ 2025-May · Pg 672	RECALL 30 sec	Medium

Topic 3.5: The World Trade Organisation (WTO)

P4-C9-U3-T05

Read first Focus on Section 3.5 - the WTO's six objectives, three-tier structure, membership numbers, and the guiding principles (MFN and National Treatment), plus the TRIPS/GATS agreement names.

RECALL 30 sec know it or move on · 37 questions Remembering · Level I

- MFN (introduced by GATT, Article 1): countries cannot normally discriminate between trading partners - a favour to one member must be extended to all. National Treatment Principle: imported and domestic goods treated equally once the foreign good has entered the market.
- Facts: WTO has 164 members (117 developing), covers about 95% of world trade; HQ Geneva; three tiers - Ministerial Conference (meets at least once every two years) -> General Council -> Goods/Services/TRIPS Councils; 339 RTAs in force as of 1 Feb 2021.
- TRIPS = Trade-Related Aspects of Intellectual Property Rights; trading bloc = countries with an FTA among themselves that may apply a common external tariff (EU is a customs union/trading bloc).
- Six WTO objectives include setting/enforcing trade rules, resolving disputes, forum for liberalisation, TRANSPARENCY of decision-making - 'maintaining secrecy' is the classic NOT-an-objective option.

Q 1 · source not stated · Pg 673	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 673	RECALL 30 sec	Easy
Q 1 · MTP 2025-Apr S1 · Pg 673	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 674	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 674	RECALL	Easy

	30 sec	
Q 1 · source not stated · Pg 674	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 675	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 675	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 675	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 676	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 676	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 676	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 677	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 677	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 677	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 677	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 678	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 678	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 678	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 679	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 679	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 679	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 679	RECALL 30 sec	Easy
Q 5 · MTP 2024-Dec S1 · Pg 681	RECALL 30 sec	Easy
Q 6 · MTP 2024-Dec S1 · Pg 681	RECALL 30 sec	Easy
Q 7 · MTP 2024-Dec S1 · Pg 681	RECALL 30 sec	Easy
Q 9 · PYQ 2026-Jan · Pg 681	RECALL 30 sec	Easy
Q 10 · MTP 2025-Jan S2 · Pg 682	RECALL	Easy

	30 sec	
Q 11 · RTP 2026-Jan · Pg 682	RECALL 30 sec	Easy
Q 12 · MTP 2025-Aug S1 · Pg 682	RECALL 30 sec	Easy
Q 13 · MTP 2025-Aug S2 · Pg 682	RECALL 30 sec	Easy
Q 14 · MTP 2026-Apr S2 · Pg 683	RECALL 30 sec	Easy
Q 15 · PYQ 2026-Sep · Pg 683	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 680	RECALL 30 sec	Medium
Q 2 · PYQ 2024-Jun · Pg 680	RECALL 30 sec	Medium
Q 3 · PYQ 2024-Sep · Pg 680	RECALL 30 sec	Hard
Q 4 · PYQ 2024-Sep · Pg 680 asked 2×	RECALL 30 sec	Hard

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Objective of multilateral trade talks = mutually reducing barriers/liberalising trade, not raising tariffs or protecting domestic industry.
- Keep free-trade area vs customs union vs trading bloc distinctions clear - the common external tariff is the deciding feature repeatedly tested.

Q 2 · source not stated · Pg 676	RECOGNISE 45 sec	Easy
Q 8 · PYQ 2025-Jan · Pg 681	RECOGNISE 45 sec	Medium

Topic 3.6: The Doha Round

P4-C9-U3-T06

Read first Read Section 3.6 on the Doha Round (Doha Development Agenda) - its launch, coverage and sticking points.

RECALL 30 sec know it or move on · 3 questions Remembering · Level I

- Doha Round = 9th round since WWII; launched at WTO's Fourth Ministerial Conference, Doha, Qatar, November 2001.
- Negotiations span 20 areas (agriculture, services, NAMA, trade facilitation, environment, geographical indications, IP issues).
- Most controversial topic of the Doha Development Agenda = agriculture trade.

Q 2 · MTP 2026-Apr S2 · Pg 683

RECALL
30 sec

Easy

Q 3 · PYQ 2026-Sep · Pg 684

RECALL
30 sec

Easy

Q 1 · PYQ 2025-May · Pg 683 asked 2×

RECALL
30 sec

Medium

Topic 3.7: G 20 Economies: Facilitating Trade

P4-C9-U3-T07

Read first Skim Section 3.7 for the G20 trade monitoring discussion and memorise the G20 membership list given at the end.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

- G20 members: Argentina, Australia, Brazil, Canada, China, EU, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkiye, UK, USA - countries like Tunisia are NOT members.
- WTO trade monitoring reports on G20 prepared by the WTO Secretariat since 2009; export restrictions cause shortages, price volatility and uncertainty.

Q 1 · PYQ 2025-Jan · Pg 684

RECALL
30 sec

Easy

Unit 9.4: Exchange Rate and Its Economic Effects

P4-C9-U4 · Importance C · 1.8 marks a paper · Rank 1 in chapter · Category A · 26.1% of chapter questions · 67 questions

Topic 4.1: Introduction

P4-C9-U4-T01

Read first Read the opening page of Unit 9.4: what an exchange rate is and the two ways of quoting one.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

- The exchange rate is the price of one currency in terms of another — the rate at which one is exchanged for the other in the foreign exchange market.
- Direct quotation states the domestic currency per unit of foreign currency (Rs 84 per US dollar); indirect quotation states the foreign currency per unit of domestic currency. Each is the reciprocal of the other.

Q 1 · source not stated · Pg 687

RECALL
30 sec**Easy**

Q 1 · source not stated · Pg 687

RECALL
30 sec**Easy****COMPUTE 75 sec** one formula, straight through · 1 question Application · Level II

- Convert between the two by taking the reciprocal, and check the direction before you answer: a rise in a direct quote is a depreciation of the home currency, a rise in an indirect quote is an appreciation.

Q 1 · source not stated · Pg 687

COMPUTE
75 sec**Medium**

Topic 4.2: The Exchange Rate

P4-C9-U4-T02

Read first Read Section 4.2: spot and forward rates, and the two-way price a dealer quotes.**RECALL 30 sec** know it or move on · 1 question Remembering · Level I

- The spot rate applies to delivery within two business days; the forward rate is agreed today for delivery on a stated future date.
- A dealer quotes two prices — the bid at which the dealer buys and the ask (or offer) at which the dealer sells; the difference is the spread.

Q 1 · MTP 2025-Dec S1 · Pg 688

RECALL
30 sec**Easy**

Topic 4.3: The Exchange Rate Regimes

P4-C9-U4-T03

Read first Study Section 4.3 - floating vs fixed regimes, managed float, soft peg vs hard peg, and the listed advantages/disadvantages of each regime.**RECALL 30 sec** know it or move on · 15 questions Remembering · Level I

- Exchange rate regime = system by which a country manages its currency vis-a-vis foreign currencies; two extremes: floating (flexible) and fixed (pegged).
- Managed float = government/central bank participation (buying/selling own currency) in a floating system; RBI's interventions in India are 'managed floats'. Soft peg (market determines rate within limits) vs hard peg (fixed unchanging value); per IMF classification the largest number of members follow a soft peg.
- Fixed-rate advantages: avoids fluctuations, eliminates exchange risk/transaction costs, enhances trade and investment, monetary discipline and lower inflation, policy credibility.

Q 2 · MTP 2024-Dec S1 · Pg 692	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 688	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 689	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 689	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 689	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 690	RECALL 30 sec	Medium
Q 3 · source not stated · Pg 690	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 690	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 691	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 691	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 692	RECALL 30 sec	Medium
Q 1 · RTP 2024-Sep · Pg 692 asked 2×	RECALL 30 sec	Medium
Q 3 · PYQ 2025-Sep · Pg 692	RECALL 30 sec	Medium
Q 4 · MTP 2025-Aug S1 · Pg 693	RECALL 30 sec	Medium
Q 5 · MTP 2025-Aug S2 · Pg 693	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- A fixed regime REDUCES speculation (if everyone believes rates will not change) - 'an increase in speculation' is the standard not-an-advantage option.
- Trade-off: fixed = stability and credibility but no flexibility and needs large forex reserves for intervention; floating = independent monetary policy, no reserve obligation, but volatile and adds risk premium to cross-border trade.

Q 6 · MTP 2026-Apr S1 · Pg 693	RECOGNISE 45 sec	Medium
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Topic 4.4: Nominal verses Real Exchange Rates

P4-C9-U4-T04

Read first Study Section 4.4 - definitions of nominal and real exchange rates, the RER formula with price indices, and the meaning of REER.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

Q 4 · MTP 2025-Dec S1 · Pg 695

RECALL
30 sec

Medium

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Nominal rate = rate at which one currency trades for another; real rate = rate at which goods/services of one country trade for those of another - key determinant of net exports.
- REER = nominal effective exchange rate (value against a weighted basket of currencies) divided by a price deflator/index of costs.
- A rise in REER makes exports more expensive and imports cheaper, i.e. a LOSS of trade competitiveness - the most repeated inference.

Q 5 · MTP 2026-Apr S1 · Pg 695

RECOGNISE
45 sec

Medium

Q 6 · MTP 2026-Apr S1 · Pg 695

RECOGNISE
45 sec

Medium

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- Formula: Real exchange rate = Nominal exchange rate x (Domestic price index / Foreign price index). E.g. Nominal 15, DPI 250, FPI 200 $\rightarrow$ RER = $15 \times 250/200 = 18.75$.
- Rearrange when RER is given: Nominal = RER x (Foreign price index / Domestic price index). Always check which index goes in the numerator.

Q 2 · PYQ 2026-Jan · Pg 694

COMPUTE
75 sec

Medium

Q 3 · PYQ 2026-May · Pg 695

COMPUTE
75 sec

Medium

REASON 150 sec trace the chain before you answer · 1 question Analysis · Level II

Q 1 · PYQ 2024-Jun · Pg 694 asked 2×

REASON
150 sec

Medium

Topic 4.5: The Foreign Exchange Market

P4-C9-U4-T05

Read first Read Section 4.5 - forex market participants (market makers vs passive players), spot vs forward transactions, and the vehicle currency concept.

RECALL 30 sec know it or move on · 7 questions Remembering · Level I

- Vehicle currency = a currency widely used to denominate international contracts even when it is NOT the national currency of either party; the US dollar is the vehicle currency of the forex market.
- Spot market = current transactions with immediate delivery (settlement about two days); forward/futures markets = contracts for future delivery; forward rate above spot = forward premium, below spot = forward discount.
- Commercial banks and brokerage houses that quote their own prices are 'market makers'; passive players trade at others' quotations.

Q 1 · source not stated · Pg 696	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 696	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 696	RECALL 30 sec	Easy
Q 1 · MTP 2024-Aug · Pg 697	RECALL 30 sec	Easy
Q 2 · PYQ 2026-Jan · Pg 697	RECALL 30 sec	Easy
Q 3 · MTP 2026-Apr S2 · Pg 697	RECALL 30 sec	Easy
Q 4 · PYQ 2026-Sep · Pg 697	RECALL 30 sec	Medium

Topic 4.6: Determination of Nominal Exchange Rate

P4-C9-U4-T06

Read first Study Section 4.6: how demand for and supply of foreign exchange settle the nominal exchange rate, and what shifts each curve.

RECALL 30 sec know it or move on · 6 questions Remembering · Level I

- The demand for foreign exchange comes from imports, outbound tourism and investment abroad, and slopes downward against the exchange rate; the supply comes from exports, inbound tourism, remittances and foreign investment inflows, and slopes upward.
- Under a floating regime the equilibrium rate is where the two curves cross; under a fixed regime the central bank buys or sells reserves to hold the rate at the declared parity.

- Depreciation is a fall in the value of a currency under floating rates; devaluation is a deliberate reduction of the declared parity under fixed rates.

Q 1 · source not stated · Pg 699	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 699	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 699	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 700	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 700	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 701	RECALL 30 sec	Easy

COMPUTE 75 sec one formula, straight through · 1 question Application · Level II

- Given the two schedules, find the rate at which quantity demanded equals quantity supplied — and read off the shortage or surplus of foreign exchange at any other quoted rate.

Q 2 · source not stated · Pg 699	COMPUTE 75 sec	Medium
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REASON 150 sec trace the chain before you answer · 3 questions Analysis · Level II

- Work these in two steps: decide which curve the event moves and in which direction, then read the new intersection. A rise in imports shifts demand right and depreciates the rupee; a surge in FDI inflow shifts supply right and appreciates it.
- When two events are given together, take them one at a time — if they push the rate the same way the direction is certain and the size is not; if they push opposite ways the size decides, and the answer is indeterminate unless the question tells you which effect dominates.

Q 1 · source not stated · Pg 698	REASON 150 sec	Medium
Q 2 · source not stated · Pg 698	REASON 150 sec	Medium
Q 1 · source not stated · Pg 700	REASON 150 sec	Medium

Topic 4.7: Changes in Exchange Rates

P4-C9-U4-T07

Read first Study Section 4.7 - currency appreciation/depreciation and the demand- supply diagrams showing how shifts move the equilibrium exchange rate.

RECALL 30 sec know it or move on · 1 question Remembering · Level I

Q 1 · source not stated · Pg 701

RECALL
30 sec**Easy****COMPUTE 75 sec** one formula, straight through · 1 question Application · Level II

- Rule: if MORE units of home currency are needed per unit of foreign currency (1 EUR moves from Rs 80 to Rs 85), the home currency (INR) has DEPRECIATED and the foreign currency appreciated; the reverse means appreciation.
- Diagram logic: rightward shift of demand for foreign currency (supply constant) raises the exchange rate -> domestic currency depreciates; rightward shift of supply of foreign currency lowers the rate -> domestic currency appreciates.
- When one currency depreciates against another, the other must simultaneously appreciate - use this to eliminate contradictory options.

Q 1 · PYQ 2024-Sep · Pg 702

COMPUTE
75 sec**Medium****REASON 150 sec** trace the chain before you answer · 1 question Analysis · Level II

Q 1 · source not stated · Pg 701

REASON
150 sec**Medium**

Topic 4.8: Devaluation Vs Depreciation

P4-C9-U4-T08

Read first Read Section 4.8 distinguishing official devaluation/revaluation under fixed regimes from market-driven depreciation/appreciation, plus the effects of depreciation in Section 4.9.

NOTES

Depreciation effects: lowers the relative price of exports, RAISES the relative price of imports, diverts spending to domestic goods, leads to output expansion, encourages economic activity, improves trade balance - 'lowers the relative price of imports' is the classic NOT-associated option.

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

- Devaluation = deliberate official downward adjustment of the par value under a FIXED (or nearly fixed) exchange rate regime; revaluation = its opposite, an official increase - both apply to fixed exchange rates.
- Depreciation/appreciation = fall/rise in currency value due to market demand- supply under a FLOATING regime, without policy action.

Q 1 · source not stated · Pg 702	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 703	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 703	RECALL 30 sec	Easy
Q 1 · MTP 2024-Dec S1 · Pg 703	RECALL 30 sec	Easy
Q 2 · PYQ 2026-May · Pg 703	RECALL 30 sec	Medium

Topic 4.9: Impacts of Exchange Rate Fluctuation on Domestic Economy

P4-C9-U4-T09

Read first Study Section 4.9 on how depreciation and appreciation affect exports, imports, inflation, debt and investment, plus the Summary's direct quote/indirect quote, cross rate and arbitrage definitions.

RECALL 30 sec know it or move on · 10 questions Remembering · Level I

- Indirect quote = number of units of FOREIGN currency per one unit of LOCAL currency (direct quote is the reverse, e.g. Rs 65/US\$); cross rate = rate between Y and Z derived from the rates of X-Y and X-Z pairs.
- Arbitrage (risk-less profit from price differences) ensures all markets have the same exchange rate for a currency at any time.
- Current account deficit (CAD) = excess of imports over exports.

Q 1 · source not stated · Pg 704	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 705	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 706	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 706	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Sep · Pg 706	RECALL 30 sec	Easy
Q 3 · MTP 2024-Dec S1 · Pg 706	RECALL 30 sec	Easy
Q 4 · MTP 2025-Jan S2 · Pg 706 asked 2×	RECALL 30 sec	Easy
Q 8 · RTP 2025-May · Pg 708	RECALL 30 sec	Easy
Q 9 · MTP 2026-Apr S2 · Pg 708	RECALL 30 sec	Easy

Q 5 · MTP 2025-Jan S2 · Pg 707

RECALL
30 sec**Medium****RECOGNISE 45 sec** decide which idea applies · 2 questions Understanding · Level I

- Depreciation: foreigners find exports cheaper -> exports rise; imports costlier for residents; expansionary but can add to inflation. Appreciation/revaluation: imports cheaper for consumers, exports dearer -> export demand and competitiveness fall.
- A strong/appreciating currency is more VALUABLE and exchanges for a LARGER amount of foreign currency - watch fill-in-the-blank wording.

Q 7 · PYQ 2025-May · Pg 707

RECOGNISE
45 sec**Easy**

Q 10 · PYQ 2026-Sep · Pg 708

RECOGNISE
45 sec**Easy****REASON 150 sec** trace the chain before you answer · 4 questions Analysis · Level II

Q 1 · source not stated · Pg 704

REASON
150 sec**Easy**

Q 1 · source not stated · Pg 705

REASON
150 sec**Easy**

Q 2 · source not stated · Pg 705

REASON
150 sec**Easy**

Q 6 · PYQ 2024-Jun · Pg 707 asked 4x

REASON
150 sec**Easy**

Unit 9.5: International Capital Movements

P4-C9-U5 · Importance C · 1.5 marks a paper · Rank 3 in chapter · Category A · 23.3% of chapter questions · 60 questions

Topic 5.1: Introduction

P4-C9-U5-T01

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read the opening page of Unit 9.5: what international capital movement means and why it is treated separately from trade in goods.

NOTES

International capital movement is the flow of financial assets across borders — direct investment,

portfolio investment, loans and banking capital — as distinct from the trade in goods and services. It is recorded in the capital and financial account of the balance of payments, not the current account.

Topic 5.2: Type of Foreign Capital

P4-C9-U5-T02

Read first Read Section 5.2 listing the components of foreign capital: foreign aid, borrowings, NRI deposits and investments (FPI and FDI).

RECALL 30 sec know it or move on · 5 questions · Remembering · Level I

- Components of foreign capital: (1) foreign aid - bilateral or multilateral, tied or untied, grants; (2) borrowings - direct inter-government loans, loans from international institutions (World Bank, IMF, ADB), soft loans (e.g. IDA), external commercial borrowings, trade credit; (3) NRI deposits; (4) investments - FPI and FDI.
- World Bank is also known as the International Bank for Reconstruction and Development (IBRD); IDA is its soft-loan affiliate.

Q 1 · source not stated · Pg 711	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 711	RECALL 30 sec	Easy
Q 1 · RTP 2025-Jan · Pg 712	RECALL 30 sec	Easy
Q 2 · MTP 2025-May S2 · Pg 712	RECALL 30 sec	Easy
Q 3 · MTP 2026-Apr S2 · Pg 712 asked 2x	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 1 question · Understanding · Level I

Q 2 · source not stated · Pg 711	RECOGNISE 45 sec	Easy
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Topic 5.3: Foreign Direct Investment (FDI)

P4-C9-U5-T03

Read first Study Section 5.3 - the IMF definition of FDI, the 10% threshold, the three components of FDI, and the horizontal/vertical/conglomerate/two-way classification.

NOTES

What creates FDI: acquiring a controlling interest, opening subsidiaries/branches, joint ventures, greenfield projects; external commercial borrowing or buying <10% financial securities does NOT give rise to FDI.

RECALL 30 sec know it or move on · 7 questions Remembering · Level I

- FDI (IMF): investment with a long-term relationship, lasting interest and control; acquisition of at least 10% of ordinary shares/voting power qualifies as FDI (India follows the same).
- Three components of FDI: equity capital, reinvested earnings and intra-company loans - PORTFOLIO investment is NOT a component.
- Types: horizontal (same business abroad), vertical (different but supplementary activity, e.g. carmaker buying a foreign parts supplier), conglomerate (unrelated business, usually a joint venture as the investor has no experience), two-way direct foreign investment = reciprocal investments between countries.

Q 2 · PYQ 2025-Jan · Pg 713	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 713	RECALL 30 sec	Medium
Q 3 · PYQ 2026-Jan · Pg 713	RECALL 30 sec	Medium
Q 4 · PYQ 2026-May · Pg 713	RECALL 30 sec	Medium
Q 5 · MTP 2025-Dec S1 · Pg 714	RECALL 30 sec	Medium
Q 6 · MTP 2026-Apr S1 · Pg 714	RECALL 30 sec	Medium
Q 7 · MTP 2026-Apr S1 · Pg 714	RECALL 30 sec	Medium

Topic 5.4: Foreign Portfolio Investment (FPI)

P4-C9-U5-T04

Read first Study Section 5.4 and Table 4.5.1 comparing FDI with FPI point by point.

NOTES

Core contrast: FDI creates physical/real assets with long-term interest, control and technology transfer; FPI is investment in financial assets (stocks, bonds) with stake below 10%, no control, no technology transfer and no direct employment impact.

For match-the-following: long-term interest -> FDI; speculative in nature -> FPI; easy to withdraw -

> FPI; difficult to withdraw -> FDI; helps create productive capacity -> FDI.

RECALL 30 sec know it or move on · 10 questions Remembering · Level I

- FPI = flow of 'financial capital' seeking remunerative return, safety and appreciation; short-term, shifts quickly across countries and can trigger financial crises when confidence falls.
- FPI describes capital moving from one country to another to exploit investment opportunities in securities via the capital market mechanism.

Q 1 · source not stated · Pg 715	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 715	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 715	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 716	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 716	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 716	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 716	RECALL 30 sec	Easy
Q 2 · PYQ 2025-May · Pg 717	RECALL 30 sec	Easy
Q 3 · RTP 2025-May · Pg 718	RECALL 30 sec	Easy
Q 1 · MTP 2024-Dec S1 · Pg 717	RECALL 30 sec	Medium

Topic 5.5: Reason for Foreign Direct Investment

P4-C9-U5-T05

Read first Read Section 5.5 - the profit/higher-return motive, the long list of reasons for FDI and Table 4.5.2 on host-country determinants (market-, resource- and efficiency-seeking FDI).

NOTES

Scenario drill: match the described motive to the category - e.g. investing in India for tax breaks and comparatively lower salaries = FDI attracted by investment privileges/efficiency-seeking, not portfolio investment.

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

Q 1 · source not stated · Pg 718	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 719	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 719	RECALL 30 sec	Easy
Q 2 · MTP 2025-Jan S2 · Pg 720	RECALL 30 sec	Easy
Q 3 · MTP 2025-Dec S1 · Pg 720	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

- Chief motive = expectation of a higher rate of return than at home; firms also seek new markets and resources, economies of scale, risk diversification, tariff- jumping ('getting behind the tariff wall'), low wages and tax incentives.
- Host-country determinants: market-seeking (market size, growth), resource/asset-seeking (raw materials, cheap labour), efficiency-seeking (input costs) plus policy framework and business facilitation.

Q 1 · source not stated · Pg 719	RECOGNISE 45 sec	Easy
Q 1 · PYQ 2024-Sep · Pg 720	RECOGNISE 45 sec	Medium

Topic 5.6: Modes of Foreign Direct Investment (FDI)

P4-C9-U5-T06

Read first Read Section 5.6 listing the seven modes of FDI, focusing on greenfield vs brownfield investment.

RECALL 30 sec know it or move on · 7 questions Remembering · Level I

- Greenfield investment = establishing a NEW overseas affiliate - creation of fresh assets and production facilities from scratch.
- Brownfield investment = FDI using EXISTING infrastructure through merging, acquiring or leasing instead of building new (e.g. 100% FDI under automatic route in brownfield airport projects in India).
- Other modes: opening a subsidiary/associate, equity injection, acquiring a controlling interest, mergers and acquisitions, joint venture.

Q 1 · source not stated · Pg 721	RECALL 30 sec	Easy
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Q 2 · source not stated · Pg 722	RECALL 30 sec	Easy
Q 1 · MTP 2024-Aug · Pg 722	RECALL 30 sec	Easy
Q 2 · PYQ 2026-Jan · Pg 722	RECALL 30 sec	Easy
Q 3 · MTP 2025-Aug S2 · Pg 722 asked 2×	RECALL 30 sec	Easy
Q 4 · MTP 2026-Apr S1 · Pg 723	RECALL 30 sec	Easy
Q 5 · MTP 2026-Apr S2 · Pg 723	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

Q 1 · source not stated · Pg 721	RECOGNISE 45 sec	Easy
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Topic 5.7: Benefits of Foreign Direct Investment

P4-C9-U5-T07

Read first Study Section 5.7's fifteen benefits of FDI to the host country (and skim Section 5.8's problems to spot wrong options).

NOTES

Benefits: fosters competition -> cost-reducing, quality-improving innovation and lower prices; finances investment beyond domestic savings; brings technology transfer, management skills and human capital; generates direct and indirect employment through backward/forward linkages and multiplier effects; better access to foreign markets, new tax revenue and favourable balance of payments.

Eliminate options that describe COSTS (crowding out, regional disparity, repatriation strain) or absurd effects (higher inflation from government spending, reduced technology transfer) when asked for a 'potential benefit'.

RECALL 30 sec know it or move on · 2 questions Remembering · Level I

Q 1 · MTP 2025-Jan S2 · Pg 723	RECALL 30 sec	Easy
Q 2 · MTP 2025-Dec S1 · Pg 724	RECALL 30 sec	Easy

Topic 5.8: Potential Problems Associated with Foreign Direct Investment

P4-C9-U5-T08

Read first Study Section 5.8: what can go wrong with foreign direct investment, from the host country's point of view.

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

- FDI can crowd out domestic firms and concentrate market power in the hands of a few multinationals.
- Profits, dividends and royalties repatriated to the parent can, over time, exceed the capital originally brought in, worsening the balance of payments.
- Technology transferred may be inappropriate to local factor endowments — capital-intensive where labour is abundant — and the higher-value functions stay at headquarters.
- Other risks: transfer pricing that shifts taxable profit out of the host country, pressure to dilute labour and environmental standards, extraction of concessions and tax holidays, and loss of policy autonomy in strategic sectors.

Q 1 · source not stated · Pg 724	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 724	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 725	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 725	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 725	RECALL 30 sec	Easy

RECOGNISE 45 sec decide which idea applies · 1 question Understanding · Level I

- Read the direction of the question before answering: the same fact — repatriation of profits, say — is a benefit to the home country and a problem for the host.

Q 4 · PYQ 2026-Sep · Pg 725	RECOGNISE 45 sec	Medium
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Topic 5.9: Foreign Direct Investment in India (FDI)

P4-C9-U5-T09

Read first Read Section 5.9 on FDI in India and memorise the current sectoral FDI caps/routes highlighted by ICAI (telecom, defence, airports, food products, insurance).

NOTES

Classify scenarios by FDI type: a US cell-phone service provider offering the SAME service in India = horizontal FDI; supplying inputs to the main business = vertical; unrelated business via JV = conglomerate.

RECALL 30 sec know it or move on · 7 questions Remembering · Level I

- Sector caps: telecom raised to 100% (automatic route); 100% FDI under automatic route in BROWNFIELD airport projects; 100% FDI in marketing of food products and food-product e-commerce under automatic route; defence production 49% (automatic; beyond via government route); insurance 74%.
- FDI is prohibited in atomic energy, lottery, betting and gambling, and (multibrand) retail trade; FDI is a key NON-DEBT financial resource for India, attracted by tax breaks and comparatively lower salaries.
- India's FDI inflows hit a record US\$ 81,973 million in 2020-21; India ranked eighth among major FDI recipients in 2020 (World Investment Report 2022).

Q 1 · source not stated · Pg 726	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 726	RECALL 30 sec	Medium
Q 3 · source not stated · Pg 726	RECALL 30 sec	Medium
Q 2 · RTP 2025-Jan · Pg 727	RECALL 30 sec	Medium
Q 3 · PYQ 2025-Sep · Pg 727	RECALL 30 sec	Medium
Q 5 · PYQ 2026-May · Pg 728	RECALL 30 sec	Medium
Q 1 · PYQ 2019-May · Pg 727	RECALL 30 sec	Hard

RECOGNISE 45 sec decide which idea applies · 2 questions Understanding · Level I

Q 4 · PYQ 2025-Sep · Pg 727	RECOGNISE 45 sec	Medium
Q 6 · PYQ 2026-Sep · Pg 728	RECOGNISE 45 sec	Medium

Topic 5.10: Overseas Direct Investment by Indian Companies

P4-C9-U5-T10

Read first Read Section 5.10: outward FDI by Indian companies — the routes, the limits and the motives.

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

- Overseas Direct Investment by an Indian company is made through the Automatic Route within the prescribed ceiling, or through the Approval Route of the RBI beyond it.
- The financial commitment permitted under the Automatic Route is capped as a percentage of the Indian party's net worth on the date of its last audited balance sheet.
- The motives are market access, access to raw materials and technology, brand acquisition, and the establishment of a global value chain.

Q 1 · source not stated · Pg 728	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 729	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 729	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 729	RECALL 30 sec	Easy
Q 3 · source not stated · Pg 730	RECALL 30 sec	Easy

CHAPTER 10

Indian Economy

1 Unit · 8 Topics · 178 Classified Questions · 10.0 marks a paper · Importance: A

WHAT THIS CHAPTER ASKS FOR mostly **RECALL** · 32 sec a question on average — **pure recall — read it, do not solve it**

RECALL Remembering	87.8%	30 sec	72 of 82 past-exam questions
RECOGNISE Understanding	11.0%	45 sec	9 of 82 past-exam questions
COMPUTE Application	1.2%	75 sec	1 of 82 past-exam questions

Topic 10.1: Status of Indian Economy: Pre Independence Period (1850-1947)

P4-C10-U10-T01

Read first Study Section 10.1 - the pre-British prosperity, the two sub-periods of British rule, discriminatory tariffs, destruction of handicrafts, and the lopsided colonial industrialisation.

RECALL 30 sec know it or move on · 5 questions · Remembering · Level I

- During the British period the modern industrial sector grew lopsidedly, dominated by COTTON and JUTE industries (cotton mills: 9 million spindles, 5th globally in the 1930s; jute mills around Calcutta were the world's largest by late 19th century).
- British rule: East India Company 1757-1858, British government 1858-1947; discriminatory tariffs made Indian finished-good exports costlier and imports cheaper; manufacturing share of NDP barely 7% even in 1946.

Q 1 · source not stated · Pg 735	RECALL 30 sec	Easy
Q 2 · source not stated · Pg 735	RECALL 30 sec	Easy
Q 3 · MTP 2025-May S2 · Pg 736	RECALL 30 sec	Easy
Q 4 · MTP 2025-May S2 · Pg 736	RECALL 30 sec	Easy
Q 2 · MTP 2025-Jan S2 · Pg 736	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 2 questions · Understanding · Level I

- Economic growth is driven by availability of resources (labour, capital), technology and productivity - a mere increase in POPULATION SIZE is not itself a growth contributor (classic NOT option).

- Causal chain: destruction of handicrafts -> unemployment -> pressure on land -> fragmentation, subsistence farming, low productivity and rural poverty.

Q 1 · PYQ 2025-Jan · Pg 736

RECOGNISE
45 sec

Easy

Q 5 · PYQ 2026-Sep · Pg 737

RECOGNISE
45 sec

Easy

Topic 10.2: Indian Economy: Post Independence (1947-1991)

P4-C10-U10-T02

Read first Read the opening of Section 10.1 on the ancient/medieval economy and Section 10.2 on the Nehruvian strategy, Planning Commission and the two guiding philosophies of the 1950s.

RECALL 30 sec know it or move on · 13 questions Remembering · Level I

- Pre-British/ancient-medieval India: prosperous, SELF-RELIANT economy of self-sufficient villages and cities that were centres of commerce, pilgrimage and administration; controlled one-third to one-fourth of world wealth.
- Post-independence policy guided by two philosophies: Nehruvian - socialistic society with heavy industry and state-led planning; GANDHIAN - small scale and cottage industry and village republics.
- Industrial Policy Resolution 1948: state monopoly in atomic energy, arms and ammunition, railways; 'Hindu growth rate' about 3.5% (1950-80); Green Revolution followed the 1966-67 droughts.

Q 1 · source not stated · Pg 737

RECALL
30 sec

Easy

Q 1 · source not stated · Pg 737

RECALL
30 sec

Easy

Q 2 · source not stated · Pg 738

RECALL
30 sec

Easy

Q 2 · PYQ 2025-Sep · Pg 738

RECALL
30 sec

Easy

Q 3 · PYQ 2026-May · Pg 738

RECALL
30 sec

Easy

Q 4 · MTP 2025-Apr S1 · Pg 739

RECALL
30 sec

Easy

Q 6 · MTP 2025-May S2 · Pg 739

RECALL
30 sec

Easy

Q 7 · MTP 2025-May S2 · Pg 740

RECALL
30 sec

Easy

Q 8 · MTP 2025-Aug S2 · Pg 740

RECALL
30 sec

Easy

Q 10 · MTP 2025-Dec S1 · Pg 740

RECALL
30 sec

Easy

Q 11 · MTP 2026-Apr S2 · Pg 740

RECALL
30 sec**Easy**

Q 12 · MTP 2026-Apr S1 · Pg 741

RECALL
30 sec**Easy**

Q 5 · MTP 2025-May S2 · Pg 739

RECALL
30 sec**Medium****RECOGNISE** 45 sec decide which idea applies · 1 question Understanding · Level I

Q 1 · PYQ 2025-May · Pg 738

RECOGNISE
45 sec**Easy****COMPUTE** 75 sec one formula, straight through · 1 question Application · Level II

Q 9 · MTP 2025-Aug S2 · Pg 740

COMPUTE
75 sec**Easy**

Topic 10.3: The Era of Reforms

P4-C10-U10-T03

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read Section 10.3: the pressures through the 1980s that ended in the 1991 crisis and made reform unavoidable.

NOTES

The 1980s combined a widening fiscal deficit, a growing current account deficit and heavy external commercial borrowing at rising cost.

The Gulf War of 1990-91 pushed up oil prices and cut remittances from West Asia at the same time; by mid-1991 foreign exchange reserves covered only about two weeks of imports.

India approached the IMF for a standby arrangement, pledged gold to raise foreign exchange, devalued the rupee in two steps in July 1991, and launched the reform programme of liberalisation, privatisation and globalisation.

Topic 10.4: The Economic Reforms of 1991

P4-C10-U10-T04

Read first Study Sections 10.3 and 10.4 thoroughly - the 1980s 'early liberalization', causes of the 1991 crisis, and the fiscal, monetary/financial, capital market, New Industrial Policy and trade policy reforms.

RECALL 30 sec know it or move on · 63 questions Remembering · Level I

- New Industrial Policy: 24 July 1991; reforms = Liberalisation, Privatisation, Globalisation (NOT socialisation); 1980s 'early liberalization' - delicensing, BROAD-BANDING (product-mix changes without fresh licence), MODVAT, SEBI set up 1988 (statutory 1992); demonetization was NOT a 1980s reform; managed floating exchange rate from 1993.
- MRTP Act 1969 regulated LARGE firms with LARGE market power; nationalization = government take-over of private assets; public sector now limited to railway transport and atomic energy; FDI not permissible in atomic energy; 100% FDI in food-product marketing/e-commerce under AUTOMATIC route.
- DPIIT = Department for Promotion of Industry and Internal Trade; FIPB abolished May 2017 -> Foreign Investment Facilitation Portal; RoDTEP replaced MEIS (2021); GST = 101st Constitutional Amendment Act 2016 (May 2022 SC verdict: equal, simultaneous powers); Article 275 = statutory grants-in-aid; Narasimham Committee -> prudential norms, interest-rate liberalization.

Q 2 · PYQ 2023-Dec · Pg 746	RECALL 30 sec	Easy
Q 12 · MTP 2024-Dec S1 · Pg 748	RECALL 30 sec	Easy
Q 13 · MTP 2024-Dec S1 · Pg 749	RECALL 30 sec	Easy
Q 14 · MTP 2024-Dec S1 · Pg 749	RECALL 30 sec	Easy
Q 15 · PYQ 2025-Jan · Pg 749	RECALL 30 sec	Easy
Q 16 · PYQ 2025-Jan · Pg 749	RECALL 30 sec	Easy
Q 17 · PYQ 2025-Jan · Pg 749 asked 2x	RECALL 30 sec	Easy
Q 18 · PYQ 2025-Jan · Pg 750	RECALL 30 sec	Easy
Q 31 · PYQ 2026-May · Pg 753	RECALL 30 sec	Easy
Q 32 · PYQ 2026-May · Pg 753	RECALL 30 sec	Easy
Q 1 · source not stated · Pg 741	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 741	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 742	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 742	RECALL 30 sec	Medium
Q 3 · MTP 2025-Aug S1 · Pg 742	RECALL 30 sec	Medium

Q 1 · source not stated · Pg 742	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 742	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 743	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 743	RECALL 30 sec	Medium
Q 3 · source not stated · Pg 743	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 743	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 744	RECALL 30 sec	Medium
Q 3 · source not stated · Pg 744	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 744	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 745	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 745	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 745	RECALL 30 sec	Medium
Q 1 · source not stated · Pg 745	RECALL 30 sec	Medium
Q 2 · source not stated · Pg 745	RECALL 30 sec	Medium
Q 1 · PYQ 2022-Dec · Pg 746	RECALL 30 sec	Medium
Q 3 · PYQ 2024-Jun · Pg 746	RECALL 30 sec	Medium
Q 4 · PYQ 2024-Jun · Pg 747	RECALL 30 sec	Medium
Q 6 · MTP 2024-Aug · Pg 747	RECALL 30 sec	Medium
Q 7 · MTP 2024-Aug · Pg 747	RECALL 30 sec	Medium
Q 8 · MTP 2024-Aug · Pg 748 asked 2×	RECALL 30 sec	Medium
Q 19 · RTP 2025-Jan · Pg 750	RECALL 30 sec	Medium
Q 20 · PYQ 2025-May · Pg 750	RECALL 30 sec	Medium
Q 21 · PYQ 2025-May · Pg 751	RECALL 30 sec	Medium

Q 22 · PYQ 2025-May · Pg 751	RECALL 30 sec	Medium
Q 23 · PYQ 2025-May · Pg 751	RECALL 30 sec	Medium
Q 24 · PYQ 2025-May · Pg 751	RECALL 30 sec	Medium
Q 25 · PYQ 2025-Sep · Pg 751	RECALL 30 sec	Medium
Q 26 · PYQ 2025-Sep · Pg 752	RECALL 30 sec	Medium
Q 27 · PYQ 2025-Sep · Pg 752	RECALL 30 sec	Medium
Q 28 · PYQ 2026-Jan · Pg 752	RECALL 30 sec	Medium
Q 29 · PYQ 2026-Jan · Pg 752	RECALL 30 sec	Medium
Q 30 · PYQ 2026-Jan · Pg 753	RECALL 30 sec	Medium
Q 33 · RTP 2025-May · Pg 754	RECALL 30 sec	Medium
Q 34 · MTP 2025-May S2 · Pg 754	RECALL 30 sec	Medium
Q 35 · MTP 2025-Aug S1 · Pg 754	RECALL 30 sec	Medium
Q 36 · MTP 2025-Dec S1 · Pg 754	RECALL 30 sec	Medium
Q 37 · MTP 2025-Dec S1 · Pg 755	RECALL 30 sec	Medium
Q 38 · MTP 2025-Dec S1 · Pg 755	RECALL 30 sec	Medium
Q 39 · MTP 2026-Apr S2 · Pg 755	RECALL 30 sec	Medium
Q 40 · MTP 2026-Apr S2 · Pg 755	RECALL 30 sec	Medium
Q 41 · MTP 2026-Apr S1 · Pg 755	RECALL 30 sec	Medium
Q 42 · MTP 2026-Apr S1 · Pg 756	RECALL 30 sec	Medium
Q 43 · MTP 2026-Apr S1 · Pg 756	RECALL 30 sec	Medium
Q 45 · PYQ 2026-Sep · Pg 756	RECALL 30 sec	Medium
Q 47 · PYQ 2026-Sep · Pg 757	RECALL 30 sec	Medium
Q 9 · PYQ 2024-Sep · Pg 748	RECALL 30 sec	Hard

Q 10 · PYQ 2024-Sep · Pg 748

RECALL
30 sec

Hard

Q 11 · PYQ 2024-Sep · Pg 748

RECALL
30 sec

Hard

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

- Causes of 1991 reforms: fiscal deficit financed by huge domestic/external debt, Gulf-war oil shock, BoP strain, forex at its LOWEST (\$1.2 bn, two weeks of imports - not highest), IMF conditions; NEP = rethinking markets vs the state.
- Liberalisation = decontrol, deregulation, freedom to do business (PSU DISINVESTMENT is privatisation); sort measures into fiscal (tax compliance, expenditure curbs) vs trade (removing import licensing) vs monetary/financial (restricting foreign investment in banks was NOT a focus); ISI = reduce dependence on foreign goods; Make in India raises aggregate demand.

Q 5 · PYQ 2024-Jun · Pg 747

RECOGNISE
45 sec

Easy

Q 1 · source not stated · Pg 746

RECOGNISE
45 sec

Medium

Q 44 · MTP 2026-Apr S1 · Pg 756

RECOGNISE
45 sec

Medium

Q 46 · PYQ 2026-Sep · Pg 757

RECOGNISE
45 sec

Medium

Topic 10.5: GDP Growth Rates Post 1991 Reforms

P4-C10-U10-T05

Read first See Section 10.5's table of GDP growth rates 1991-2021 (World Bank data) and note the inflation-measurement fact tested alongside.

RECALL 30 sec know it or move on · 5 questions Remembering · Level I

- Inflation in India is commonly measured by the Consumer Price Index (CPI), not GDP/PPI.
- Post-reform growth has been commendable except the pandemic year 2020 (- 6.6%); 2021 rebounded to about 8.7%.

Q 1 · source not stated · Pg 757

RECALL
30 sec

Easy

Q 2 · source not stated · Pg 758

RECALL
30 sec

Easy

Q 1 · source not stated · Pg 758

RECALL
30 sec

Easy

Q 2 · MTP 2024-Dec S1 · Pg 759

RECALL
30 sec

Easy

Q 3 · MTP 2025-May S2 · Pg 759

RECALL

Easy

30 sec

COMPUTE 75 sec one formula, straight through · 2 questions Application · Level II

- Averages numerical: average growth = sum of yearly rates / number of years; if the average of the previous two years and one year's rate are given, missing year = 2 x average - known year. Drill quick mental arithmetic with decimals.

Q 1 · source not stated · Pg 758

COMPUTE
75 sec**Medium**

Q 1 · PYQ 2024-Jun · Pg 758

COMPUTE
75 sec**Hard**

Topic 10.6: NITI Aayog: A Bold Step for Transforming India

P4-C10-U10-T06

Read first Study Section 10.6 - the replacement of the Planning Commission, NITI Aayog's objectives, its key initiatives, and its criticisms.

NOTES

Assertion-Reason drills on the New Economic Policy: judge A and R independently (liberalisation, tariff relaxation, deregulation, opening to foreign investment expanded the economy), then test whether R correctly EXPLAINS A before choosing.

RECALL 30 sec know it or move on · 14 questions Remembering · Level I

- Planning Commission (64 years old) replaced by NITI Aayog on 1st JANUARY 2015; a government 'Think Tank' to spur innovative thinking and promote COOPERATIVE FEDERALISM.
- Objectives: shared national vision with states, credible plans at VILLAGE level aggregated progressively at higher levels, monitoring programmes, knowledge/innovation support - it does NOT formulate five-year plans or control expenditure.
- Initiatives: LiFE; NDAP - facilitates and improves access to Indian government data; Shooonya - improve air quality by accelerating EV deployment; E-AMRIT - one-stop destination for all EV information; India Policy Insights; Methanol Economy; Transforming India's Gold Market; Atal Tinkering Labs are a NITI Aayog (AIM) initiative.
- Five-Year Plans (Planning Commission era) aimed at balanced economic growth across regions.

Q 1 · PYQ 2024-Jun · Pg 759

RECALL
30 sec**Easy**

Q 2 · PYQ 2024-Sep · Pg 760

RECALL
30 sec**Easy**

Q 4 · MTP 2024-Dec S1 · Pg 760

RECALL
30 sec**Easy**

Q 6 · MTP 2024-Dec S1 · Pg 761	RECALL 30 sec	Easy
Q 8 · MTP 2025-Jan S2 · Pg 761 asked 4×	RECALL 30 sec	Easy
Q 10 · PYQ 2026-Jan · Pg 761	RECALL 30 sec	Easy
Q 11 · MTP 2025-Apr S1 · Pg 762 asked 2×	RECALL 30 sec	Easy
Q 12 · MTP 2025-Aug S1 · Pg 762	RECALL 30 sec	Easy
Q 13 · MTP 2025-Aug S2 · Pg 762	RECALL 30 sec	Easy
Q 14 · MTP 2025-Dec S1 · Pg 762	RECALL 30 sec	Easy
Q 15 · MTP 2025-Dec S1 · Pg 762	RECALL 30 sec	Easy
Q 17 · MTP 2026-Apr S1 · Pg 763	RECALL 30 sec	Easy
Q 18 · PYQ 2026-Sep · Pg 763	RECALL 30 sec	Easy
Q 9 · PYQ 2025-May · Pg 761	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 4 questions Understanding · Level I

Q 3 · PYQ 2024-Sep · Pg 760	RECOGNISE 45 sec	Easy
Q 7 · PYQ 2025-Jan · Pg 761	RECOGNISE 45 sec	Easy
Q 16 · MTP 2026-Apr S2 · Pg 763	RECOGNISE 45 sec	Easy
Q 5 · MTP 2024-Dec S1 · Pg 760	RECOGNISE 45 sec	Medium

Topic 10.7: The current state of the Indian Economy: A brief overview

P4-C10-U10-T07

Read first Study Section 10.7's sector-wise survey - primary (agriculture schemes and problems), secondary (industrial policies, core industries) and tertiary (services) - concentrating on the scheme-to-purpose mappings.

RECALL 30 sec know it or move on · 54 questions Remembering · Level I

- Agriculture: 47% of population depends on it; agri GVA 18.8%; MSP = 1.5 times cost of production, 23 mandated crops, declared by Cabinet Committee on Economic Affairs; FCI keeps buffer stock; APEDA =

Agricultural & Processed Food Products Export Development Authority; Green Revolution = HYV seeds + intensive water, fertilizer, pesticides (food grains: wheat, rice).

- Agri schemes: PM KISAN - income support; PMFBY - crop-loss insurance; PKVY - organic farming/soil health; PDMC - water use efficiency; E-NAM - pan-India electronic portal networking APMC mandis into one national agri market; Kisan Rail - farm produce logistics.
- Industry schemes: Make in India - local manufacturing + FDI (2.0 = 15 manufacturing + 12 service sectors); Udyami Bharat - MSME empowerment; PM Gati Shakti - data-based multimodal infrastructure planning cutting logistics cost; PM MITRA - textiles; FAME India - electric/hybrid vehicles; PLI - now covers white goods (ACs, LED lights); National Manufacturing Policy - manufacturing 25% of GDP by 2025; ECLGS = Emergency Credit Line Guarantee Scheme.
- Eight core industries (40.27% of IIP): coal, crude oil, natural gas, refinery products, fertilizers, steel, cement, electricity (NOT textiles/pharma/IT); milk = primary sector; transport, real estate, public administration, education = tertiary; services = fastest-growing post-1991, highest labour productivity, largest FDI recipient.

Q 5 · PYQ 2024-Jun · Pg 764	RECALL 30 sec	Easy
Q 12 · MTP 2024-Dec S1 · Pg 766	RECALL 30 sec	Easy
Q 13 · MTP 2024-Dec S1 · Pg 766	RECALL 30 sec	Easy
Q 14 · MTP 2024-Dec S1 · Pg 766	RECALL 30 sec	Easy
Q 15 · PYQ 2025-Jan · Pg 766	RECALL 30 sec	Easy
Q 16 · PYQ 2025-Jan · Pg 767	RECALL 30 sec	Easy
Q 17 · PYQ 2025-Jan · Pg 767	RECALL 30 sec	Easy
Q 18 · PYQ 2025-Jan · Pg 767 asked 2×	RECALL 30 sec	Easy
Q 19 · MTP 2025-Jan S2 · Pg 767	RECALL 30 sec	Easy
Q 20 · MTP 2025-Jan S2 · Pg 768	RECALL 30 sec	Easy
Q 21 · MTP 2025-Jan S2 · Pg 768	RECALL 30 sec	Easy
Q 22 · MTP 2025-Jan S2 · Pg 768 asked 3×	RECALL 30 sec	Easy
Q 23 · RTP 2025-Jan · Pg 768	RECALL 30 sec	Easy
Q 24 · PYQ 2025-May · Pg 769	RECALL 30 sec	Easy
Q 25 · PYQ 2025-May · Pg 769	RECALL 30 sec	Easy

Q 34 · PYQ 2026-May · Pg 771	RECALL 30 sec	Easy
Q 35 · PYQ 2026-May · Pg 771	RECALL 30 sec	Easy
Q 36 · PYQ 2026-May · Pg 771	RECALL 30 sec	Easy
Q 37 · PYQ 2026-May · Pg 772	RECALL 30 sec	Easy
Q 38 · PYQ 2026-May · Pg 772	RECALL 30 sec	Easy
Q 39 · PYQ 2026-May · Pg 772	RECALL 30 sec	Easy
Q 40 · RTP 2025-May · Pg 772	RECALL 30 sec	Easy
Q 41 · MTP 2025-May S2 · Pg 772	RECALL 30 sec	Easy
Q 43 · MTP 2025-May S2 · Pg 773	RECALL 30 sec	Easy
Q 44 · MTP 2025-Jan S2 · Pg 773 asked 3×	RECALL 30 sec	Easy
Q 45 · MTP 2025-Aug S2 · Pg 773	RECALL 30 sec	Easy
Q 46 · MTP 2025-Aug S2 · Pg 773	RECALL 30 sec	Easy
Q 47 · MTP 2025-Dec S1 · Pg 774	RECALL 30 sec	Easy
Q 48 · MTP 2026-Apr S2 · Pg 774	RECALL 30 sec	Easy
Q 49 · MTP 2026-Apr S1 · Pg 774	RECALL 30 sec	Easy
Q 50 · MTP 2026-Apr S1 · Pg 774	RECALL 30 sec	Easy
Q 51 · MTP 2026-Apr S1 · Pg 774	RECALL 30 sec	Easy
Q 52 · MTP 2026-Apr S1 · Pg 775	RECALL 30 sec	Easy
Q 54 · PYQ 2026-Sep · Pg 775	RECALL 30 sec	Easy
Q 55 · PYQ 2026-Sep · Pg 775	RECALL 30 sec	Easy
Q 56 · PYQ 2026-Sep · Pg 776	RECALL 30 sec	Easy
Q 57 · PYQ 2026-Sep · Pg 776	RECALL 30 sec	Easy
Q 1 · PYQ 2024-Jun · Pg 763	RECALL 30 sec	Medium

Q 2 · PYQ 2024-Jun · Pg 764	RECALL 30 sec	Medium
Q 3 · PYQ 2024-Jun · Pg 764	RECALL 30 sec	Medium
Q 4 · PYQ 2024-Jun · Pg 764	RECALL 30 sec	Medium
Q 6 · PYQ 2024-Jun · Pg 765	RECALL 30 sec	Medium
Q 7 · PYQ 2024-Sep · Pg 765 asked 2×	RECALL 30 sec	Medium
Q 8 · PYQ 2024-Sep · Pg 765	RECALL 30 sec	Medium
Q 9 · PYQ 2024-Sep · Pg 765	RECALL 30 sec	Medium
Q 11 · PYQ 2024-Sep · Pg 766	RECALL 30 sec	Medium
Q 26 · PYQ 2025-Sep · Pg 769	RECALL 30 sec	Medium
Q 27 · PYQ 2025-Sep · Pg 769	RECALL 30 sec	Medium
Q 28 · PYQ 2025-Sep · Pg 769	RECALL 30 sec	Medium
Q 29 · PYQ 2025-Sep · Pg 770	RECALL 30 sec	Medium
Q 30 · PYQ 2026-Jan · Pg 770	RECALL 30 sec	Medium
Q 31 · PYQ 2026-Jan · Pg 770	RECALL 30 sec	Medium
Q 32 · PYQ 2026-Jan · Pg 770	RECALL 30 sec	Medium
Q 33 · PYQ 2026-Jan · Pg 771	RECALL 30 sec	Medium

RECOGNISE 45 sec decide which idea applies · 3 questions Understanding · Level I

- Agriculture's challenges: small fragmented holdings, low productivity and subsistence farming (little marketable surplus, weak market/export participation), low technology and irrigation, monsoon dependence.
- Small-scale industry is promoted via financial and technical assistance, not subsidies to MNCs; Green Revolution = HYV seeds and scientific cultivation, not land redistribution.

Q 42 · MTP 2025-May S2 · Pg 773	RECOGNISE 45 sec	Easy
Q 53 · PYQ 2026-Sep · Pg 775	RECOGNISE 45 sec	Easy
Q 10 · PYQ 2024-Sep · Pg 765	RECOGNISE 45 sec	Medium

Topic 10.8: Conclusion

P4-C10-U10-T08

Read first Read Section 10.8 (India Development Update) together with the tertiary-sector discussion and the industrial indicators (GII, PMI) in Section 10.7.

NOTES

India's unique growth trajectory: shift from agriculture DIRECTLY to the services sector, bypassing the usual manufacturing stage.

Poverty persists despite growth mainly because of high inequality in the distribution of income/growth benefits.

RECALL 30 sec know it or move on · 7 questions Remembering · Level I

- Tertiary/services sector makes the MAXIMUM contribution to India's GVA (about 54%).
- India Development Update (IDU), November 2022, is published by the WORLD BANK; India's Global Innovation Index rank improved to 40th in 2022 (from 81st in 2015).
- PMI = Purchasing Managers' Index (manufacturing PMI 55.4 in Jan 2023).

Q 1 · PYQ 2024-Jun · Pg 776	RECALL 30 sec	Easy
Q 6 · PYQ 2026-Jan · Pg 777	RECALL 30 sec	Easy
Q 2 · PYQ 2024-Sep · Pg 776	RECALL 30 sec	Medium
Q 3 · MTP 2025-Jan S2 · Pg 777	RECALL 30 sec	Medium
Q 4 · PYQ 2025-May · Pg 777	RECALL 30 sec	Medium
Q 5 · PYQ 2025-Sep · Pg 777	RECALL 30 sec	Medium
Q 7 · MTP 2025-Dec S1 · Pg 778	RECALL 30 sec	Medium