CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

Flash Cards with Memory Tricks

Chapter 1 · Nature and Scope of Business Economics · 65 cards

How to use these cards

- Read the **front** and answer **aloud** before you look at the back.
- Then read the **memory trick**. If it does not click, make up your own and write it beside the card.
- Each card carries its **Scanner question numbers**, so you can attempt those MCQs straight after the card.
- Give every card a **second look after 1 day and again after 1 week.**

Reading the stars

★★★	Asked by ICAI 6 or more times. Learn word for word.
★★	Asked 3 to 5 times. Know the key terms and the lists.
★	Asked once or twice. Read once; recognise it in an MCQ.
–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
1.0	Introduction	1.01 – 1.14	14	★★★
1.1	Definitions of Business Economics	1.15	1	★
1.2	Nature of Business Economics	1.16 – 1.29	14	★★★
1.3	Scope of Business Economics	1.30 – 1.33	4	★★
1.4	Difference between Economics and Business Economics	1.34 – 1.35	2	★
2.0	Basic Problems of an Economy	1.36 – 1.43	8	★★★
2.1	Capitalist Economy	1.44 – 1.52	9	★★★
2.2	Socialist Economy	1.53 – 1.60	8	★★★
2.3	The Mixed Economy	1.61 – 1.65	5	★★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 1.01 T 1.0 · MEMORISE

★ OL 1.0.2 · Scanner Q8 · SM p.1.2

FRONT · RECALL ALOUD

Where does the word **"Economics"** come from, and what was it called until the 19th century?

BACK · ANSWER

From the Greek word **'Oikonomia'**, meaning **household**.

Until the 19th century it was known as **'Political Economy'**.

MEMORY TRICK **OIKOS = home.** Economics began at home, managing the household purse. "Political" was its old surname.

CARD 1.02 T 1.0 · MEMORISE

★★★ OL 1.0.1 · Scanner Q1, Q4, Q7 · SM p.1.2

FRONT · RECALL ALOUD

Which book is the **first modern work of Economics**? Who wrote it, and when?

BACK · ANSWER

'An Inquiry into the Nature and Causes of the Wealth of Nations' (1776), usually shortened to **'The Wealth of Nations'**.

Author: **Adam Smith**.

In Q7 the wrong options are Engels, Marx and J.B. Say.

MEMORY TRICK **S**mith **W**rote **W**ealth in **1776**: S-W-W-1776. Marx and Engels belong to a different book, The Communist Manifesto (Unit 2).

CARD 1.03 T 1.0 · MEMORISE

★★ OL 1.0.3, 1.1.4 · Scanner Q2 (also 1.1 Q4, Q6) · SM p.1.3

FRONT · RECALL ALOUD

Which **two fundamental facts** form the subject matter of Economics?

BACK · ANSWER

(i) Human beings have **unlimited wants**.

(ii) The means to satisfy them are **relatively scarce**.

MCQ trap: wants are **unlimited**, never "limited", and resources are **relatively scarce**, never "unlimited" or "abundant".

MEMORY TRICK **Wants Wide, Wallet Weak.** Two facts, one subject.

CARD 1.04 T 1.0 · CONCEPT

SM figure · No direct Q · SM p.1.5

FRONT · RECALL ALOUD

In the "Economic Problem" diagram, what are the features of **ENDS** and of **MEANS**?

BACK · ANSWER

Ends: unlimited in number, of a variety of kinds, and **graded or prioritised** (some are more urgent).

Means: limited, with **alternative uses**.

Ends meeting limited means gives **scarcity of resources**.

MEMORY TRICK Ends are **U-V-G**: Unlimited, Varied, Graded. Means are **L-A**: Limited, Alternative uses.

CARD 1.05 T 1.0 · MCQ TRAP

★★ OL 1.0.4 · Scanner Q3, Q6, Q16 · SM p.1.3

FRONT · RECALL ALOUD

Is scarcity in Economics **absolute** or **relative**? Does the Law of Scarcity apply to rich countries?

BACK · ANSWER

Scarcity is **relative to wants**, never absolute.

Goods are scarce because their quantity is **inadequate for the wants** they must satisfy (Q3).

The Law of Scarcity implies that **all consumer wants will never be completely satisfied** (Q16). It is not limited to poor or socialist economies.

MEMORY TRICK **Scarce means short of WANTS, not short of STUFF.** Even a billionaire faces scarcity.

CARD 1.06 T 1.0 · MCQ TRAP

★★★ OL 1.0.5 · Scanner Q5, Q9 · SM p.1.3

FRONT · RECALL ALOUD

What is **responsible for all economic problems**? What problem arises from it?

BACK · ANSWER

Scarcity of resources is responsible for all economic problems (Q5).

Scarcity gives rise to **economic problems** (Q9), not social or cultural ones.

The tempting wrong option in Q5 is “Unlimited wants”.

MEMORY TRICK **No scarcity, no Economics.** Wants strike the match; scarcity is the fire.

CARD 1.07 T 1.0 · CONCEPT

★★★ OL 1.0.5, 1.0.6 · Scanner Q12, Q13, Q17 · SM p.1.3

FRONT · RECALL ALOUD

Unlimited ends and limited means present which problem? What does every such choice involve?

BACK · ANSWER

The problem of **CHOICE** (Q17), not distribution or scarcity.

Every choice involves a **trade-off**, giving up one thing to get another. Even taking a nap, going to university or watching football is a trade-off (Q13: all of these).

The “idea of _____ that we have unlimited wants but limited resources” is **Scarcity** (Q12).

MEMORY TRICK **E-C-T: Ends ∞ → Choice → Toll.** Picture the ₹1,000 birthday gift: party, dress, movie or book? Picking one means giving up the others.

CARD 1.08 T 1.0 · CONCEPT

★ OL 1.0.7 · Scanner Q11 · SM p.1.3

FRONT · RECALL ALOUD

What is a **rational choice** (rational decision-making)?

BACK · ANSWER

The alternative that gives the **greatest satisfaction**. The consumer plans to attain the **highest possible level of satisfaction** (Q11, key (d)).

The other options in Q11 (“without error”, “consistent with one’s goal”, “never vary”) are not the key.

MEMORY TRICK **R → S: Rational means Reaching maximum Satisfaction.**

CARD 1.09 T 1.0 · CONCEPT

SM text · No direct Q · SM p.1.3

FRONT · RECALL ALOUD

How does the SM define the **study of Economics**, and when are resources used efficiently?

BACK · ANSWER

Economics studies the **processes by which relatively scarce resources are allocated** to satisfy the competing, unlimited wants of human beings in a society.

Resources are efficiently used when allocated to their **highest valued uses**.

MEMORY TRICK Think of ₹1,000: put it where it gives the **most value**. Same rule, whole economy.

CARD 1.10 T 1.0 · CONCEPT

SM text · No direct Q · SM pp.1.3–1.4

FRONT · RECALL ALOUD

Why is the "scarce resources and unlimited wants" definition **incomplete**? What else does Economics deal with?

BACK · ANSWER

It pictures a society with **fixed resources**. Two modern concerns are missed:

- **Growth** of productive capacity (more population, raw materials, plant, better skills).
- **Fluctuations** in the use of resources: output fell and resources lay idle due to insufficient demand (Global Financial Crisis 2007, Corona Pandemic 2019).

MEMORY TRICK Economics does three jobs: **A-G-S: Allocate · Grow · Steady** (the swings).

CARD 1.11 T 1.0 · CONCEPT

★ OL 1.0.8 · Scanner Q15 · SM p.1.2

FRONT · RECALL ALOUD

What is the purpose of **business**, and what do **Non-Profit Organisations** aim at?

BACK · ANSWER

Business is an economic activity that creates **net value added** (surplus or profit).

NPOs may not aim at private profit, but they aim at **social benefit**.

Q15 key: **medical facilities rendered by a charitable dispensary** is an economic activity.

MEMORY TRICK **Business → Profit. NPO → Public good.** Both are economic activity.

CARD 1.12 T 1.0 · MEMORISE

★★ OL 1.0.9, 1.1.2 · Scanner Q10 (also 1.1 Q2, Q5) · SM p.1.7

FRONT · RECALL ALOUD

What other names does **Business Economics** have, and what does it do? Is it basically Micro or Macro?

BACK · ANSWER

Business Economics = Managerial Economics = Applied Economics.

It **integrates economic theory with business practice**: the application of economic theory and the tools of decision science to examine how an organisation can achieve its aims most efficiently (Q10).

It is basically concerned with **Micro Economics** (1.1 Q5).

MEMORY TRICK **B-M-A: Business = Managerial = Applied.** Three names, one subject, rooted in Micro.

CARD 1.13 T 1.0 · MEMORISE

★ OL 1.1.3 · Scanner Q14 (also 1.1 Q3) · SM p.1.7

FRONT · RECALL ALOUD

Which tools does Business Economics use for **risk and uncertainty**? Name the quantitative techniques.

BACK · ANSWER

Analytical and quantitative tools such as break-even analysis (Q14).

Techniques: **linear programming, regression, capital budgeting, break-even, cost analysis.**

Pure theory alone, guessing and macro policy alone are the wrong options.

MEMORY TRICK **L-R-C-B-C: "Large Rabbits Chew Big Carrots."**

CARD 1.14 T 1.0 · RECALL CHAIN

★★★ All of 1.0 · Scanner Q1–Q17 · SM pp.1.2–1.7

FRONT · RECALL ALOUD

Recite the whole Topic 1.0 in **one chain**, from the origin of Economics to Business Economics.

BACK · ANSWER

Oikonomia (household) → **Adam Smith, 1776** → **unlimited wants + scarce means** → **scarcity** → **choice** → **trade-off** → **rational choice** (maximum satisfaction) → **Business Economics** (applied, Micro-based).

MEMORY TRICK **Story:** In his household (Oikonomia), Adam Smith in 1776 wanted everything but had a scarce purse, so he had to choose, trading one thing off against another. He picked the rational option for most satisfaction, and then applied it to business.

CARD 1.15 T 1.1 · MEMORISE

★ OL 1.1.1 · Scanner Q1 · SM p.1.7

FRONT · RECALL ALOUD

Who gave the concept of **Business Economics**, and how did he define it?

BACK · ANSWER

Joel Dean (Q1). The wrong options are Alfred Marshall, Adam Smith and L. Robbins.

He defined it as the **use of economic analysis in the formulation of business policies**.

SM definition: the use of economic analysis to make business decisions involving the **best use of an organisation's scarce resources**.

MEMORY TRICK **Dean = Decisions.** D for Dean, D for Decisions: economic analysis sits behind every business decision.

CARD 1.16 T 1.2 · COMPARE

★★★ OL 1.2.1, 1.2.2 · Scanner Q1, Q7, Q9, Q11, Q12, Q14, Q25 · SM p.1.8

FRONT · RECALL ALOUD

Economics is divided into which two parts? Distinguish **Micro** from **Macro Economics**.

BACK · ANSWER

Economics = **Micro + Macro** (Q25). Family structure is a sociological concept, not part of Economics (Q1).

- **Micro:** behaviour of **individual units** (consumers, firms) and how they allocate scarce resources; also called **price theory** (Q9, Q12, Q14; allocation of resources, Q7).
- **Macro:** the **economy as a whole**, through large aggregates such as output, employment, total consumption, saving and investment; also called **aggregate economics** (Q11).

Micro looks at a small number of units, so it does not explain the wider economic environment.

MEMORY TRICK **Micro = one tree. Macro = the whole forest.**

CARD 1.17 T 1.2 · MEMORISE

★★★ OL 1.2.3 · Scanner Q18, Q26, Q29, Q42, Q46 · SM p.1.8

FRONT · RECALL ALOUD

List the **six areas** studied in Micro Economics.

BACK · ANSWER

- **Product pricing**; **consumer behaviour**; **factor pricing**
- **Economic conditions of a section of people**; **behaviour of firms**; **location of industry**

Q46 key: product pricing and factor pricing are both Micro. Wages of steel workers, location of a firm and the price of a product are Micro items too (Q18).

MEMORY TRICK **P-C-F-C-B-L:** Please Check Final Costs Before Leasing = Pricing of product, Consumer, Factor pricing, Conditions of a section, Behaviour of firms, Location.

CARD 1.18 T 1.2 · MEMORISE

★★★ OL 1.2.4 · Scanner Q15, Q19, Q29, Q36, Q44 · SM p.1.9

FRONT · RECALL ALOUD

List the **six areas** that come under Macro Economics.

BACK · ANSWER

- **National income and national output**; **general price level and interest rates**
- **Balance of trade (BoT) and balance of payments (BoP)**; **external value of currency**
- **Overall level of savings and investment**; **level of employment and rate of economic growth**

Keys: general price level and interest rates (Q19); BoT and BoP (Q36); external value of currency (Q44); overall savings and investment (Q29). In Q15, national income, price level and employment are Macro.

MEMORY TRICK **N-G-B-E-S-E:** National income, General price level, Balance of trade/payments, External value of currency, Savings and investment, Employment and growth. Picture a national dashboard with six dials.

CARD 1.19 T 1.2 · MCQ TRAP

★★★ OL 1.2.3, 1.2.4 · Scanner Q15, Q18, Q26, Q37, Q38, Q41, Q42 · SM pp.1.8–1.9

FRONT · RECALL ALOUD

In "NOT Micro" and "NOT Macro" MCQs, which tempting items are the intruders?

BACK · ANSWER

NOT Macro (the item is Micro): **consumer behaviour** (Q15) and **behaviour of firms** (Q41).

NOT Micro (the item is Macro): **general price level** (Q18), **general price level and interest rates** (Q42), **foreign exchange rate** (Q26), **aggregate consumption** (Q37), **stage of business cycles** (Q38).

Rule: one unit or one firm = Micro; the whole economy = Macro.

MEMORY TRICK **Firms and families = Micro; the nation = Macro.** Words like "general", "overall" and "aggregate" are Macro signals.

CARD 1.20 T 1.2 · CONCEPT

★★★ OL 1.2.2, 1.2.3, 1.2.4 · Scanner Q6, Q17, Q24, Q36, Q40 · SM pp.1.8–1.9

FRONT · RECALL ALOUD

How do you spot **Micro or Macro** in a case-based MCQ?

BACK · ANSWER

Micro: a consultant studying staff requirement, consumer behaviour and product pricing (Q17); an ice cream firm studying preferences, pricing, wages and outlet location (Q40).

Macro: effect of a higher corporate tax rate on the national unemployment rate (Q6); impact of COVID-19 on the Indian economy (Q24); the Finance Minister on BoT and BoP (Q36).

Firm-level decisions point to Micro; economy-wide effects point to Macro.

MEMORY TRICK **Shop or Parliament?** Questions a shopkeeper asks are Micro; questions a Finance Minister asks are Macro.

CARD 1.21 T 1.2 · MEMORISE

★★★ OL 1.2.5, 1.2.6, 1.2.7 · Scanner Q2, Q3, Q4, Q45, Q47 · SM pp.1.9–1.11

FRONT · RECALL ALOUD

List the **eight points** that describe the nature of Business Economics.

BACK · ANSWER

- **Science**; **based on Micro Economics**; **incorporates elements of Macro analysis**; **Art**
- Uses the **theory of markets and private enterprise**; **Pragmatic** in approach; **Interdisciplinary**; **Normative**

MCQ keys: science, macro elements, interdisciplinary (Q47) and art, interdisciplinary, normative (Q3) = **All of the above**; normative and interdisciplinary = **Both** (Q4); Micro and Macro environment = **Both** (Q2); practical application of theory plus tools from multiple disciplines = **Both** (Q45).

MEMORY TRICK **S-M-M-A-M-P-I-N:** Students Must Memorise All Major Points In Nature = Science, Micro, Macro, Art, Markets, Pragmatic, Interdisciplinary, Normative.

CARD 1.22 T 1.2 · CONCEPT

★★★ OL 1.2.8 · Scanner Q10, Q16, Q23, Q27 · SM pp.1.9–1.10

FRONT · RECALL ALOUD

Why is Business Economics called **pragmatic** in its approach?

BACK · ANSWER

Micro Economics is abstract and purely theoretical, and analyses phenomena under **unrealistic assumptions**.

Business Economics is pragmatic because it **tackles practical problems which firms face in the real world** (Q16 key (a)). It bridges the gap between theory and practice.

The nature of Business Economics is **Pragmatic** (Q10, Q27). "_____ in approach tackles practical problems" = **Pragmatic** (Q23).

MEMORY TRICK **Pragmatic = Practical.** Micro wears a lab coat; Business Economics wears work boots.

CARD 1.23 T 1.2 · MCQ TRAP

★★★ OL 1.2.6, 1.2.8 · Scanner Q28, Q35 · SM p.1.10

FRONT · RECALL ALOUD

Does "abstract and purely theoretical" describe Business Economics?

Complete: under the pragmatic approach, Micro is abstract and purely ____ and takes ____ assumptions.

BACK · ANSWER

"**Abstract and purely theoretical**" does **not** describe Business Economics; it describes pure Micro Economics (Q35 key (b)).

Q28: Micro is abstract and purely **theoretical** and takes **unrealistic** assumptions (key (c)).

Being normative, being an art and incorporating Macro elements are correct descriptions of Business Economics (Q35).

MEMORY TRICK **Micro = T-U (Theoretical, Unrealistic). Business Economics = P-R (Practical, Real).** Match the pairs; never mix them.

CARD 1.24 T 1.2 · COMPARE

★★★ OL 1.2.9 · Scanner Q8, Q22, Q33 · SM p.1.10

FRONT · RECALL ALOUD

Distinguish **Positive** from **Normative** economics.

BACK · ANSWER

Positive (pure science): states "**what is**"; analyses **cause and effect** objectively; **no value judgement**; descriptive (Q8).

Normative: states "**what ought to be**" (what should be, Q22); involves **value judgements**; **prescriptive**; **welfare** considerations are embedded (Q33).

MEMORY TRICK **IS vs OUGHT.** Positive = **is** (a mirror that shows facts); Normative = **ought** (a signpost that points the way).

CARD 1.25 T 1.2 · CONCEPT

★★★ OL 1.2.9 · Scanner Q5, Q30, Q43 · SM p.1.10

FRONT · RECALL ALOUD

How do you spot a **normative statement** in an MCQ?

BACK · ANSWER

Look for **ought to / should / should be**: a value judgement about what ought to happen.

Q5: Radhe, "The Government **ought to** guarantee that our income will not fall". Q30: students' part-time hours **should be increased** to 25 a week. Q43: the government **should provide** healthcare for all.

Statements of fact or cause-and-effect are **positive**: heavy rain damaged the onion crop, price rise compensates for lower supply (Q5); pollution is rising, traffic jams follow more cars (Q30); higher interest rates reduce house prices (Q43).

MEMORY TRICK **Should = Normative; is / will = Positive.** Facts can be checked with data; "should" can only be argued.

CARD 1.26 T 1.2 · MCQ TRAP

★★★ OL 1.2.9 · Scanner Q20, Q32, Q52 · SM p.1.10

FRONT · RECALL ALOUD

In the taxation example, which aspect is **normative** and which are **positive**?

BACK · ANSWER

Normative: the **fairness** of a tax, which is a value judgement (Q20 key (a); Q32 key (c); Q52 key (b)).

Positive: the **incidence** of the tax and its **effect on incentives to work**, which are factual and measurable.

Tempting wrong options: "incidence", "incentive to work" and "all of the above".

MEMORY TRICK **Fair = Value = Normative.** Who pays and who works less are facts; whether it is fair is an opinion.

CARD 1.27 T 1.2 · CONCEPT

★★ OL 1.2.10, 1.4.2 · Scanner Q3, Q4, Q31, Q51 · SM pp.1.10–1.11; table p.1.13

FRONT · RECALL ALOUD

Is Business Economics positive or normative? What do the Nature text and the Economics-vs-BE table say?

BACK · ANSWER

Nature text: Business Economics is generally **normative or prescriptive**, but to set valid decision rules it must also use **positive** theory. It combines both, with **more emphasis on normative**.

Table in 1.4: Economics is positive as well as normative; Business Economics is "**only normative**".

MCQ keys: "both positive as well as normative" (Q31 key (d)); "prescribes what ought to be done" (Q51 key (a)); normative and interdisciplinary = both (Q4); art, interdisciplinary, normative = all (Q3).

MEMORY TRICK **Two hats, one head:** it wears the normative hat more often and the positive hat when checking facts. The table's "only" is the one exception.

CARD 1.28 T 1.2 · MCQ TRAP

★ OL 1.2.11 · Scanner Q39 · SM p.1.13

FRONT · RECALL ALOUD

Which statement is wrong: "Business Economics is the applied branch of Economics" or "Economics is an applied branch of Business Economics"?

BACK · ANSWER

Wrong: "**Economics is an applied branch of Business Economics**". It is **reversed** (Q39 key (c)).

Correct: Business Economics is the **applied branch of Economics**, has a **narrow scope**, deals with **micro-level issues** like demand and supply, and helps **decision making in a business entity**.

MEMORY TRICK **A child cannot be its parent's parent.** Economics is the parent; Business Economics is its applied child.

CARD 1.29 T 1.2 · RECALL CHAIN

★★★ All of 1.2 · Scanner Q1–Q52 · SM pp.1.8–1.13

FRONT · RECALL ALOUD

Recite Topic 1.2 in **one chain**, from the two branches of Economics to the applied branch.

BACK · ANSWER

Economics = Micro + Macro → **Micro** (individual units, price theory) → **Macro** (aggregates) → Business Economics is **based on Micro** and **incorporates Macro**.

→ **Science · Art · Markets · Pragmatic · Interdisciplinary · Normative** → positive = **is**, normative = **ought** → Business Economics is the **applied branch** of Economics.

MEMORY TRICK **Story:** A shopkeeper (Micro) fixes his prices but listens to the Finance Minister's budget (Macro). He is both scientist and artist, practical and cross-disciplinary, and he advises what ought to be done.

CARD 1.30 T 1.3 · COMPARE

★ OL 1.3.1 · Scanner Q7 · SM p.1.11

FRONT · RECALL ALOUD

Which **two categories of business issues** can economic theory be applied to directly? Which branch solves each?

BACK · ANSWER

Internal or operational issues: arise within the organisation and fall within the purview and **control of management**; solved using **Micro Economics**.

External or environmental issues: arise from the economic environment around the firm; solved using **Macro Economics**.

Q7: market structure and pricing analysis is part of the **Internal scope**.

MEMORY TRICK **Inside the gate = Micro; outside the gate = Macro.** Management controls only what is inside the factory gate.

CARD 1.31 T 1.3 · MEMORISE

★★ OL 1.3.2 · Scanner 1.2 Q38; 1.3 Q3, Q7 · SM pp.1.11–1.12

FRONT · RECALL ALOUD

List the **eight Micro Economic theories** that deal with a firm's internal issues.

BACK · ANSWER

- **Demand analysis and forecasting**; **production and cost analysis**; **inventory management**; **market structure and pricing policies**
- **Resource allocation**; **theory of capital and investment decisions**; **profit analysis**; **risk and uncertainty analysis**

Demand analysis, production and cost analysis and inventory management are Micro (1.2 Q38); the Macro intruder there is the stage of the business cycle. Cost analysis, demand analysis and inventory management are in scope (1.3 Q3).

MEMORY TRICK **D-P-I-M-R-C-P-R:** Detectives Probe Inventory, Markets, Resources, Capital, Profit, Risk = Demand, Production, Inventory, Market structure, Resource allocation, Capital, Profit, Risk.

CARD 1.32 T 1.3 · MCQ TRAP

★★ OL 1.3.2 · Scanner Q1, Q3, Q4, Q5 · SM pp.1.11–1.13

FRONT · RECALL ALOUD

Which items are **NOT within the scope** of Business Economics?

BACK · ANSWER

Accounting standards (Q1, Q5) and **cost standard** (Q3) are **not** within the scope.

Within scope: capital budgeting, risk analysis, business cycle (Q1, Q5); cost analysis, demand analysis, inventory management (Q3).

Q4: among the quantitative techniques of Applied Economics, **economic analysis** is the one **not** listed; regression analysis, capital budgeting and linear programming are.

MEMORY TRICK **Analysis in, standards out.** "Standards" is the red-flag word in a scope question.

CARD 1.33 T 1.3 · MEMORISE

★ OL 1.3.3 · Scanner 1.3 Q1, Q6 · SM p.1.13

FRONT · RECALL ALOUD

List the **seven macro-economic factors** that affect a business. How much control does management have over them?

BACK · ANSWER

- Type of **economic system**; stage of **business cycle**; general trends in **national income, employment, prices, saving and investment**
- Government's **economic policies**; working of **central banks, financial sector and capital market**; **socio-economic organisations** (trade unions, producer and consumer unions, cooperatives); **social and political environment**

Management has **no control** over these factors (Q6), so it should fine-tune its policies to minimise their adverse effects. Business cycle is a macro factor (Q1).

MEMORY TRICK **Weather forecast:** you cannot change the weather (macro factors); you carry an umbrella (fine-tune policy). Count **7** factors.

CARD 1.34 T 1.4 · COMPARE

★ OL 1.2.11, 1.4.2 · Scanner 1.2 Q39 · SM p.1.13

FRONT · RECALL ALOUD

Distinguish **Economics** from **Business Economics** on the first six bases of the table: meaning, character, main task, nature, scope and branches.

BACK · ANSWER

- **Meaning:** Economics frames economic principles to solve economic problems; Business Economics **applies** them.
- **Character:** Economics is micro as well as macro; Business Economics is **micro** in character.
- **Main task:** Economics fulfils the needs of individuals and entities; Business Economics aims at **proper decision making in a particular business entity**.
- **Nature:** Economics is positive as well as normative; Business Economics is "**only normative**" as printed (see the note on Topic 1.2).
- **Scope:** Economics has a **wider** scope; Business Economics a comparatively **narrow** scope.
- **Branches:** Economics has Business Economics as its applied branch; Business Economics is an **applied branch** of Economics.

MEMORY TRICK **Economics = wide-angle lens; Business Economics = zoom lens** on one business's decisions.

CARD 1.35 T 1.4 · COMPARE

SM text · Scanner 1.2 Q39 · SM pp.1.13–1.14

FRONT · RECALL ALOUD

How do Economics and Business Economics differ in: concerned with, analysis involved, concentration and validity of assumptions?

BACK · ANSWER

- **Concerned with:** Economics covers all theories from production to consumption including distribution; Business Economics is concerned with "only profit theory ignoring other theories" as printed.
- **Analysis involved:** Economics includes **macro-level** issues like growth, inflation and employment; Business Economics includes **micro-level** issues like demand, supply and profit (Q39 option (d)).
- **Concentration:** Economics concentrates only on **economic aspects**; Business Economics on **both economic and non-economic** aspects of a business problem.
- **Validity of assumptions:** Economics is based on certain assumptions; in Business Economics **some assumptions become invalid** when applied.

MEMORY TRICK Economics: **E**verything, **E**conomic aspects only. Business Economics: **B**oth aspects, **B**reaks some assumptions.

CARD 1.36 T 2.0 · CONCEPT

★★ OL 2.0.1 · Scanner Q3, Q5 · SM p.1.16; Summary p.1.27

FRONT · RECALL ALOUD

What is the **central problem** of an economy, and why does it arise?

BACK · ANSWER

The central problem is **scarcity of resources relative to wants** (Q3 key (a); Q5 key (a)).

It arises because resources are **limited** and have **alternative uses**, so choices must be made. If resources were unlimited, or had only a single use, no economic problem would arise.

Wrong options: co-existence of private and public sectors, government interference, federal structure (Q3); unemployment, poverty, inflation (Q5).

MEMORY TRICK **Scarcity is the root of the tree.** Unemployment, poverty and inflation are not the root.

CARD 1.37 T 2.0 · MEMORISE

★★★ OL 2.0.2 · Scanner Q2, Q10, Q12 · SM pp.1.16–1.18

FRONT · RECALL ALOUD

Name the **four basic problems** of an economy.

BACK · ANSWER

- **What** to produce?
- **How** to produce?
- **For whom** to produce?
- **What provision** is to be made for economic growth?

MEMORY TRICK **Wedding feast:** What to cook, How to cook it, For whom to cook, and what to keep aside for tomorrow (growth).

CARD 1.38 T 2.0 · MCQ TRAP

★★★ OL 2.0.2 · Scanner Q2, Q4, Q10, Q12 · SM pp.1.16–1.18

FRONT · RECALL ALOUD

Which options are **NOT** basic economic problems: Where to produce? When to produce? Whether to accept FDI?

BACK · ANSWER

Where to produce? is not a basic problem (Q2, Q10). **When to produce?** is not one either (Q12).

Q4: "Whether to accept **foreign direct investment**" is a policy choice, **not** a basic problem. Consumer vs capital goods (What), labour- vs capital-intensive (How) and rich vs poor (For whom) **are** basic problems.

MEMORY TRICK **Two outsiders: Where is the address, When is the clock.** Neither is on the list of What, How, For whom and Growth.

CARD 1.39 T 2.0 · CONCEPT

★★ OL 2.0.3, 2.0.4 · Scanner Q4, Q6, Q8 · SM pp.1.17–1.18

FRONT · RECALL ALOUD

What does **what to produce** involve? Which goods raise production in the future?

BACK · ANSWER

It means deciding **which goods and services** to produce **and how many units of each**. Deciding how much to produce is part of "What" (Q8).

Examples: **guns vs butter**; **capital goods** (machines, equipment, dams) vs **consumer goods** (cell phones).

Larger production of **capital goods** leads to **higher production in future** (Q6); consumer, agricultural and public goods are the wrong options.

MEMORY TRICK **Guns or butter? Machines or mobiles?** Machines (capital goods) today mean more output tomorrow.

CARD 1.40 T 2.0 · CONCEPT

★★ OL 2.0.5 · Scanner Q7, Q11, Q14 · SM p.1.17

FRONT · RECALL ALOUD

What does **how to produce** involve, and what decides the technique?

BACK · ANSWER

Choosing between **labour-intensive** and **capital-intensive** techniques (e.g. handloom vs automatic loom). It is a **choice of technique** (Q11), not a choice of product.

The choice depends on the **availability of factors** (labour, capital) and their **relative prices**.

Q7: a capital-intensive technique is chosen in a **capital surplus economy where the relative price of capital is lower**. Q14: labour is still used intensively because it is **relatively cheaper than capital**.

MEMORY TRICK **Cheaper-factor rule:** the technique leans towards whichever factor is cheaper and more plentiful.

CARD 1.41 T 2.0 · CONCEPT

SM text · Scanner Q4 · SM pp.1.17–1.18

FRONT · RECALL ALOUD

What does **for whom to produce** mean?

BACK · ANSWER

A society cannot satisfy every want of everybody, so it must decide **who gets how much** of the total output of goods and services.

That is, how output is **distributed** among the members: the **shares of different people in the national cake**.

Q4: "whether to produce for rich people or for poor people" is a basic problem (For whom).

MEMORY TRICK **Slicing the national cake:** who gets which slice?

CARD 1.42 T 2.0 · CONCEPT

★ OL 2.0.7 · No direct Q · SM p.1.18

FRONT · RECALL ALOUD

Why must a society make a **provision for economic growth**?

BACK · ANSWER

If all resources go to **current consumption** and none to future production, the society's **production capacity would not increase**.

Incomes and living standards would stagnate and might even decline.

So society decides **how much saving and investment** (that is, how much **sacrifice of current consumption**) to make for future progress.

MEMORY TRICK **Don't eat the seed corn.** Save some today and harvest more tomorrow.

CARD 1.43 T 2.0 · MEMORISE

★ OL 2.0.8 · Scanner Q9 · SM p.1.18

FRONT · RECALL ALOUD

What is an **economic system**? Name its three types.

BACK · ANSWER

The **sum total of arrangements for the production and distribution of goods and services** in a society (Q9 key (c)); the sum of the devices that give effect to economic choice.

Three types: **capitalist, socialist, mixed**.

Wrong options in Q9: economic choice, economic problem, economic institution.

MEMORY TRICK **System = set-up.** The whole set-up of rules for making and sharing goods; it comes in **C-S-M** flavours.

CARD 1.44 T 2.1 · MEMORISE

★★★ OL 2.1.1 · Scanner Q7, Q10, Q11, Q18, Q23 · SM pp.1.18–1.19

FRONT · RECALL ALOUD

What is a **capitalist economy**? What other names does it have?

BACK · ANSWER

Means of production are **privately owned and controlled for profit**: all assets are held privately (Q7); the defining mark is the **right to private property** (Q10).

Also called a **free market economy** or **laissez-faire economy** (Q11); "Free Economy" and "Capitalist Economy" both fit (Q18 key (d)).

Laissez-faire advocates **minimum government interference** in economic activity (Q23).

Examples cited: United States, United Kingdom, Hong Kong, South Korea; many are not pure capitalism.

MEMORY TRICK **Capitalist = capital in private hands.** Free market, free hand, laissez-faire: let it be.

CARD 1.45 T 2.1 · MEMORISE

★★ OL 2.1.2, 2.1.3 · Scanner Q2, Q10, Q12 · SM p.1.19

FRONT · RECALL ALOUD

List the **seven features** of a capitalist economy. Which is the most important?

BACK · ANSWER

- **Private property**; **freedom of enterprise**; **freedom of economic choice**; **profit motive**
- **Consumer sovereignty**; **competition**; **no government interference**

Competition is the **most important** feature (Q12).

MEMORY TRICK **P-F-F-P-C-C-N:** Please Find Free Profits: Customers Compete, Nobody interferes = Property, Freedom of enterprise, Freedom of choice, Profit, Consumer sovereignty, Competition, No interference.

CARD 1.46 T 2.1 · MCQ TRAP

★★ OL 2.1.2, 2.2.3 · Scanner 2.1 Q2, Q4, Q22, Q26; 2.2 Q20 · SM pp.1.19, 1.23

FRONT · RECALL ALOUD

Which options are **NOT** features of capitalism, though they look tempting?

BACK · ANSWER

Collective ownership (Q22) and **absence of consumer choice** (Q26) are **not** capitalist; they describe **socialism**.

Human welfare is the goal of socialism, not capitalism; the capitalist features are the **profit motive** and the **price mechanism** (Q2 key (c)).

A capitalist economy has **no central planning authority** (Q4). Collective ownership is also not a merit of capitalism (2.2 Q20).

MEMORY TRICK **Capitalism = Competition, not Collective.** If the option says "collective" or "absence", it belongs to socialism.

CARD 1.47 T 2.1 · CONCEPT

★★ OL 2.1.4 · Scanner 2.1 Q8, Q16, Q21, Q25; 2.2 Q21; 2.3 Q14 · SM p.1.19

FRONT · RECALL ALOUD

What is **consumer sovereignty**, and in which economies is it a feature?

BACK · ANSWER

Buyers ultimately determine which goods and services will be produced and in what quantities (Q21 key (b)).

Producers must make what consumers prefer, so consumers decide how the limited resources are allocated.

It is a feature of the **capitalist (laissez-faire)** economy (2.1 Q8, Q16, Q25). Q14 of Topic 2.3: the consumer is sovereign under **Free and Mixed** economies (both).

Under socialism it is **restricted**, so "buyers determine what is produced" is not a socialist statement (2.2 Q21).

MEMORY TRICK **The customer is the boss; the producer is the employee who must please.**

CARD 1.48 T 2.1 · CONCEPT

★★★ OL 2.1.5, 2.0.9 · Scanner 2.0 Q13; 2.1 Q1, Q4, Q6, Q14, Q17, Q19, Q20 · SM pp.1.19–1.20

FRONT · RECALL ALOUD

How does a capitalist economy solve its central problems without any planner?

BACK · ANSWER

There is **no central planning authority**; the economy uses the **price mechanism** (impersonal forces of **demand and supply**) to decide what, how and for whom to produce (Q4, Q17).

It is **self-regulating** and run by the **invisible hand** (Q14). Price is determined by **market forces of demand and supply** (Q20); **price** is the principal means of allocating resources (Q6).

Price mechanism is the main feature of the capitalist economy (Q1). Match (Q19): Capitalist = price mechanism; Socialist = centrally planned; Mixed = both.

Case Q13 of Topic 2.0: the shift to EVs shows the **price mechanism altered relative profitability**, not government planning.

MEMORY TRICK **Price is the traffic signal.** A rising price says go (produce more), a falling price says slow down. No traffic police needed.

CARD 1.49 T 2.1 · CONCEPT

★ OL 2.1.6, 2.0.6 · Scanner 2.0 Q15; 2.1 Q27 · SM p.1.20

FRONT · RECALL ALOUD

In capitalism, what decides **what**, **how** and **for whom** to produce?

BACK · ANSWER

What: market demand and profit signals (2.0 Q15). Rising demand lifts price and profit, so producers make more.

How: the **cost-minimising technique**, guided by the relative prices of factors; Q27 key: **cost minimisation and profit maximisation**.

For whom: those with **buying capacity**, which depends on income.

MEMORY TRICK **Demand decides What; Cost decides How; Cash decides For whom.**

CARD 1.50 T 2.1 · MEMORISE

★★ OL 2.1.7 · Scanner 2.1 Q5, Q15; 2.2 Q20 · SM p.1.21

FRONT · RECALL ALOUD

Give the main **merits of a capitalist economy**.

BACK · ANSWER

- **Self-regulating**; **efficiency and incentive** (private property, profit motive); **faster growth**; **optimum allocation** of resources
- **High operative efficiency**; incentives for **efficient economic decisions**; incentives for **innovation** and technological progress
- **Freedom** (right to freedom and private property); **enterprise and risk-taking**

Q5: **freedom of choice** is the advantage of capitalism. Q15: it offers incentives for **efficient economic decisions**. Not a merit: **collective ownership** (2.2 Q20).

MEMORY TRICK **S-E-F-O-H-E-I-F-E:** So Every Firm Offers High Efficiency, Innovation, Freedom, Enterprise = Self-regulating, Efficiency, Faster growth, Optimum allocation, High operative efficiency, Efficient decisions, Innovation, Freedom, Enterprise.

CARD 1.51 T 2.1 · MEMORISE

★★★ OL 2.1.8 · Scanner Q3, Q9, Q13, Q24 · SM pp.1.21–1.22

FRONT · RECALL ALOUD

List the **ten demerits** of capitalism.

BACK · ANSWER

- **People side:** vast **inequality**; **property rights over human rights**; **ignores human welfare**; **exploitation of labour**; consumer **sovereignty a myth**
- **Market side: luxury-goods bias** (misallocation); **instability**; **waste on advertising**; **monopolies**; **environmental degradation**

Q3, Q9: **exploitation and inequality** are greater under capitalism. Q13, Q24: "precedence of property rights over human rights" is a demerit of **capitalism**; high operative efficiency (Q13 option (c)) is a merit.

MEMORY TRICK **5 + 5: People first, then Market.** Five hurt people, five distort the market.

CARD 1.52 T 2.1 · RECALL CHAIN

★★★ All of 2.1 · Scanner Q1–Q27 · SM pp.1.19–1.22

FRONT · RECALL ALOUD

Recite Topic 2.1 in **one chain**, from the definition of capitalism to its demerits.

BACK · ANSWER

Free market / laissez-faire → **private property + profit motive** → **consumer sovereignty + competition** → **price mechanism** (invisible hand, self-regulating) → **merits** (efficiency, growth, innovation) → **demerits** (inequality, exploitation, monopolies).

MEMORY TRICK **Story:** A free market is a cricket match with no umpire. Owners play for profit, the crowd (consumers) picks the winners, rivals compete hard and the scoreboard (price) guides every move. The best get rich, but the weak are left behind.

CARD 1.53 T 2.2 · MEMORISE

★★★ OL 2.2.1 · Scanner Q1, Q7, Q9, Q13, Q15, Q27 · SM p.1.22

FRONT · RECALL ALOUD

Who propounded **socialism**? Which book, and in which year?

BACK · ANSWER

Karl Marx and Frederick Engels (Q7, Q9). Q1 key: Karl Marx; Samuelson, Pigou and Adam Smith are wrong.

Book: **'The Communist Manifesto'**, published in **1848** (Q13, Q27) and related to the **socialist economy** (Q15).

Do not confuse it with 1776, which is Adam Smith's Wealth of Nations.

MEMORY TRICK **ME in 1848:** Marx and Engels, Manifesto, 1848.

CARD 1.54 T 2.2 · CONCEPT

★★★ OL 2.2.2 · Scanner Q3, Q4, Q5, Q6, Q8, Q10, Q17, Q19 · SM pp.1.22–1.23

FRONT · RECALL ALOUD

What other names does a **socialist economy** have? Who owns the means of production, and what is the aim?

BACK · ANSWER

Also called a **Command Economy** or a **Centrally Planned Economy** (Q3, Q4, Q8, Q10, Q19).

The **State** owns the material means of production (factories, capital, mines) on behalf of the whole community (Q17 key: "Communist Economy").

Aim: to maximise the **welfare of the community as a whole** (Q5, Q6).

Resources are allocated by the commands of a **central planning authority**, so market forces have no role; the central problems are solved through **planning**.

MEMORY TRICK **One authority, three names:** Socialist, Command, Centrally Planned.

CARD 1.55 T 2.2 · MEMORISE

★ OL 2.2.3, 2.2.5 · Scanner Q24, Q25, Q26 · SM pp.1.23–1.24

FRONT · RECALL ALOUD

List the **six features** of a socialist economy. What are **administered prices**?

BACK · ANSWER

- **Collective ownership**; **economic planning**; **absence of consumer choice**
- **Relatively equal income distribution**; **minimum role of price mechanism**; **absence of competition**

Administered prices are set by an **external authority, usually the government** (the central planning authority), not by demand and supply (Q26).

The role of the price mechanism is **weakest** under socialism (Q24); consumer sovereignty is **largely limited by central planning** (Q25).

MEMORY TRICK **Six features as a school timetable:** the school owns it, a planner fixes it, pupils cannot pick subjects, everyone gets the same dinner, no haggling over fees, no rival schools.

CARD 1.56 T 2.2 · MCQ TRAP

★★ OL 2.2.4 · Scanner Q21, Q23 · SM p.1.23

FRONT · RECALL ALOUD

What is guaranteed and what is restricted under socialism: hunger, consumer choice, work?

BACK · ANSWER

Freedom from hunger is guaranteed, but **consumers' sovereignty is restricted** by selective production (Q21 key: Statement II).

The right to work is guaranteed, but the **choice of occupation is restricted**, as the central planning authority decides it. Q23 key: **absence of consumer choice, socialist economy**.

False in Q21: relative **inequality** of income, a major role for market forces, and buyers determining what is produced.

MEMORY TRICK **Guaranteed, but guided:** a full plate but a fixed menu; a job but not your pick.

CARD 1.57 T 2.2 · MEMORISE

★★ OL 2.2.6 · Scanner Q16 · SM p.1.24

FRONT · RECALL ALOUD

Which country was an example of a socialist economy, and is any country purely socialist today?

BACK · ANSWER

The erstwhile **U.S.S.R.** was an example from **1917 to 1990**.

Today **no country is purely socialist**; Vietnam, China, Cuba and North Korea are cited as other examples (Q16 key (d): none of these).

MEMORY TRICK **1917 in, 1990 out; today none.**

CARD 1.58 T 2.2 · MEMORISE

★★ OL 2.2.7 · Scanner Q2, Q14, Q18 · SM p.1.24

FRONT · RECALL ALOUD

Give the **eight merits** of socialism.

BACK · ANSWER

- **Equitable distribution** of income and wealth; **rapid and balanced development**; **no waste**; **no unemployment or fluctuations**
- **Co-operation** (no profit motive); **right to work**; **protection from exploitation**; **social security**

Q2: rapid growth and balanced development plus right to work = **both (a) and (b)**; incentives for efficient economic decisions is not the socialist answer. Q14: **rapid growth and balanced economic development**.

Q18: "profits are **not** spread equitably" is **not** a merit; it is contrary to socialism.

MEMORY TRICK **E-R-N-N-C-R-P-S:** Even Rich Nations Never Cease Raising Public Security = Equitable, Rapid growth, No waste, No unemployment, Co-operation, Right to work, Protection, Social security.

CARD 1.59 T 2.2 · MEMORISE

★★ OL 2.2.8 · Scanner Q11, Q12, Q22 · SM pp.1.24–1.25

FRONT · RECALL ALOUD

What are the **demerits of socialism**? Which one is predominant?

BACK · ANSWER

Predominance of bureaucracy, leading to **inefficiency, delays** and possibly **corruption and red-tapism** (Q11, Q12, Q22).

- **No freedom** for individuals; **no private property**; **no profit incentive** to work hard
- **No cost basis** (administered prices give no proper basis for cost calculation); **State monopolies** may become uncontrollable
- **Limited choice** for consumers; **no reward for efficiency**

MEMORY TRICK **Bureaucracy is the headline; the rest is a "No" list:** no freedom, no property, no profit incentive, no cost basis, no reward.

CARD 1.60 T 2.2 · RECALL CHAIN

★★★ All of 2.2 · Scanner Q1–Q27 · SM pp.1.22–1.25

FRONT · RECALL ALOUD

Recite Topic 2.2 in **one chain**, from its founders to its demerits.

BACK · ANSWER

Marx and Engels, 1848 → **command / centrally planned** → **State owns**, aim = community welfare → **planning** solves the problems → six features → **USSR 1917–1990**, none purely socialist today → **merits** (equity, growth, jobs) → **demerits** (bureaucracy).

MEMORY TRICK **Story:** Two thinkers write a manifesto in 1848. A planner takes charge, the State owns the factories and the plan feeds everyone. The food is guaranteed and the menu is fixed. The cost is a long queue at the office window (bureaucracy).

CARD 1.61 T 2.3 · CONCEPT

★★ OL 2.3.1 · Scanner Q2, Q3, Q6, Q8, Q10, Q13 · SM p.1.25; Summary p.1.27

FRONT · RECALL ALOUD

What is a **mixed economy**? Give an example.

BACK · ANSWER

Both **market and government** play an important role (Q2, Q13); it uses a **mix of price mechanism and central planning**, aiming to include the best features of both the controlled and the market economy.

Every real-world economy is mixed; the **Indian economy** is classified as mixed (Q8).

Meaning (Q6): **co-existence of private and public sectors**, not all decisions by a central authority or by private entrepreneurs.

Resources are used through the decisions of **consumers, firms and government** (Q10). Cost-benefit analysis answers the basic questions (Q3).

MEMORY TRICK **Two hands on the wheel:** the market and the government steer together.

CARD 1.62 T 2.3 · MEMORISE

★★★ OL 2.3.2 · Scanner Q1, Q4, Q5, Q6, Q11 · SM pp.1.25–1.26

FRONT · RECALL ALOUD

What is the **first feature** of a mixed economy? How many sectors does it have, and which?

BACK · ANSWER

Co-existence of private and public sectors (Q5, Q11); in India, a mixed economy exists due to this co-existence (Q1).

There are **three sectors** (Q4 key (b)): **private** (self-interest, profit motive); **public** (set up by the State for community welfare, not primarily profit-oriented); **combined** (government and private enterprise jointly, giving joint sectors).

Wrong options in Q11: manufacturing and services, agriculture and industries, small and large industries.

MEMORY TRICK **P-P-J: Private, Public, Joint.** Three players, one team.

CARD 1.63 T 2.3 · MEMORISE

★★ OL 2.3.3 · No direct Q · SM p.1.26

FRONT · RECALL ALOUD

List the **eight merits** of a mixed economy.

BACK · ANSWER

- **Private property and incentive**; **price mechanism and competition**; **consumer sovereignty**
- **Innovation**; **enterprise and risk-taking**
- **Planning**; **equality**; **regulation of cut-throat competition**

It takes the **best of both** systems.

MEMORY TRICK **5 + 3:** five market-flavoured merits, then three state-flavoured ones.

CARD 1.64 T 2.3 · MCQ TRAP

★ OL 2.3.4 · Scanner Q7 · SM pp.1.26–1.27

FRONT · RECALL ALOUD

Is a mixed economy always a **"golden path"** between capitalism and socialism? What are its demerits?

BACK · ANSWER

No. A mixed economy is **not always a "golden path"**; it is hard to maintain the right mix of public and private sectors (Q7 key (a)).

Demerits: **excessive controls** by the State, **poor implementation of planning**, **higher taxes**, lack of efficiency, **corruption**, wastage, **undue delays**, poor public-sector performance, and **difficulty in balancing the sectors**.

SM p.1.27: without strong governmental initiatives the private sector may grow disproportionately, and the system would then **resemble capitalism** with all its disadvantages.

MEMORY TRICK **Tightrope, not golden road:** balance public and private, or it tilts.

CARD 1.65 T 2.3 · COMPARE

SM text · Scanner 2.1 Q1, Q3, Q9, Q19; 2.2 Q24; 2.3 Q9, Q10 · SM p.1.27

FRONT · RECALL ALOUD

Compare how **capitalist, socialist and mixed** economies solve the basic problems.

BACK · ANSWER

Capitalist: price mechanism. **Socialist:** central planning. **Mixed:** a mix of both (Q19 match: 1-b, 2-c, 3-a).

Price mechanism: the main feature of capitalism (2.1 Q1) and weakest under socialism (2.2 Q24).

Exploitation and inequality: greater under capitalism (2.1 Q3, Q9) and minimal under a **centrally planned** economy (2.3 Q9).

Mixed: decisions of consumers, firms and government together (2.3 Q10).

MEMORY TRICK **Price, Plan, Pair.** Capitalist = Price, Socialist = Plan, Mixed = Pair (both).

CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

Flash Cards with Memory Tricks

Chapter 2 · Theory of Demand and Supply · 70 cards

How to use these cards

- Read the **front** and answer **aloud** before you look at the back.
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★★★	Asked by ICAI 6 or more times. Learn word for word.
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–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
1.0	Meaning of Demand	2.01	1	★★
1.1	What Determines Demand	2.02 – 2.08	7	★★★
1.2	The Demand Function	2.09 – 2.10	2	★★★
1.3	Law of Demand	2.11 – 2.20	10	★★★
1.4	Expansion and Contraction of Demand	2.21 – 2.22	2	★★★
1.5	Elasticity of Demand	2.23 – 2.34	12	★★★
1.6	Income Elasticity of Demand	2.35	1	★★★
1.7	Cross-Price Elasticity of Demand	2.36 – 2.37	2	★★★
1.8	Advertisement Elasticity	2.38	1	★★★
2.0	Nature of Human Wants	2.39	1	★★★
2.2	Relationship between TU & MU	2.40 – 2.41	2	★★★
2.3	Law of Diminishing Marginal Utility	2.42 – 2.43	2	★
2.4	Consumer Surplus	2.44 – 2.47	4	★★★
2.5	Indifference Curve Analysis	2.48 – 2.58	11	★★★
3.0	Introduction	2.59	1	★★
3.1	Determinants of Supply	2.60 – 2.61	2	★
3.2	Law of Supply	2.62	1	★
3.3	Movements on Supply Curve-increase or decrease in the quantity supplied	2.63	1	★★
3.5	Elasticity of Supply	2.64 – 2.67	4	★★★
3.6	Equilibrium Price	2.68 – 2.70	3	★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 2.01 T 1.0 · CONCEPT

★★ OL 1.0.1, 1.0.2, 1.0.3, 1.1.18 · Scanner Q3, Q4, Q5, Q6, Q7 · SM pp.2.3–2.4

FRONT · RECALL ALOUD

What is **demand** in Economics, and what makes it **effective demand**?

BACK · ANSWER

Demand = the various quantities buyers are willing **and able** to buy at various prices in a given period. It is more than desire.

Effective demand = **desire + means to purchase + willingness to use those means** (Q3, Q7).

Economist's demand is **not the same** as desire, need, choice or preference (Q5). Firms analyse the **demand** for their products (Q4).

MCQ trap: **unlimited wants** is NOT an essential element of demand (Q6).

MEMORY TRICK **A wish is not an order.** Demand is a wish that arrives with a wallet and the will to spend it.

CARD 2.02 T 1.1 · MEMORISE

★★ OL 1.1.1, 1.1.12 · Scanner Q2, Q25 (also 1.2 Q2) · SM pp.2.4–2.9

FRONT · RECALL ALOUD

List the **determinants of demand** for a commodity.

BACK · ANSWER

- Own price; prices of related goods; disposable income; tastes and preferences; consumers' expectations.
- Other factors: size and age distribution of population; national income and its distribution; credit facility and interest rates; government policy.

Q2: disposable income, price and demography all affect demand. Q25: more older people means more demand for geriatric care, spectacles and walking sticks.

Prices of **unrelated** goods do not affect demand (1.2 Q2).

MEMORY TRICK **P-R-I-T-E** for the first five: Price, Related goods, Income, Tastes, Expectations.

CARD 2.03 T 1.1 · MCQ TRAP

★★ OL 1.1.1 · Scanner Q18 (also 1.2 Q2) · SM pp.2.4–2.9

FRONT · RECALL ALOUD

Which is **NOT** a determinant of demand: cost of production or expectations?

BACK · ANSWER

Cost of production is NOT a determinant of demand (Q18). It affects **supply**.

Also not a determinant: prices of unrelated goods (1.2 Q2).

Genuine determinants: own price, expectations, prices of related products, preferences.

MEMORY TRICK **Cost sits with the seller.** Buyers never see the factory bill, so cost belongs to supply.

CARD 2.04 T 1.1 · COMPARE

★★ OL 1.1.3, 1.1.4, 1.1.5 · Scanner Q3, Q4, Q5, Q9, Q19, Q20, Q27, Q28, Q30, Q31 · SM pp.2.4–2.5

FRONT · RECALL ALOUD

Distinguish **complements** from **substitutes**. How many types of related goods are there?

BACK · ANSWER

Related goods are of **two** types (Q30).

Complements are consumed together (car and petrol, computer and software). Demand for a good and the price of its complement are **inversely** related (Q27). Scooter and petrol show **joint** demand (Q28).

Substitutes are used in place of one another (tea and coffee, petrol and diesel). Demand and the substitute's price are **directly** related.

If a substitute's price falls, demand for X **falls** (Q9). If a good's price rises, demand for substitutes rises (Q20).

MEMORY TRICK **Complements are a couple, substitutes are rivals.** A couple suffers together (inverse); a rival's discount steals your customers.

CARD 2.05 T 1.1 · CONCEPT

★ OL 1.1.6, 1.1.7 · Scanner Q22, Q26 · SM pp.2.5–2.6

FRONT · RECALL ALOUD

How do **normal** and **inferior** goods respond to a rise in income?

BACK · ANSWER

Normal goods: demand rises as income rises (Q26).

Inferior goods: demand rises only up to a certain level of income, then **falls** as income rises further (Q22).

MEMORY TRICK Normal goods **follow** your pay cheque up; inferior goods **step aside** once you can afford better.

CARD 2.06 T 1.1 · CONCEPT

★★ OL 1.1.8, 1.1.9, 1.2.6 · Scanner Q8, Q14, Q15, Q24 (also 1.2 Q5) · SM pp.2.6–2.7

FRONT · RECALL ALOUD

What are the **demonstration effect** and the **bandwagon effect**? Who coined the first?

BACK · ANSWER

Demonstration effect: desire to emulate the consumption of others. Coined by **James Duesenberry** (Q8; 1.2 Q5).

Bandwagon effect: demand rises because others are also consuming, to be fashionable or to conform. Example: people following others into the share market (Q14, Q15).

Value rises as more people use the product: bandwagon (Q24).

MEMORY TRICK **Monkey see, monkey do:** both effects push demand **up**.

CARD 2.07 T 1.1 · CONCEPT

★★★ OL 1.1.10 · Scanner Q6, Q10, Q21 (also 1.2 Q4) · SM p.2.7

FRONT · RECALL ALOUD

What is the **snob effect**? Is it a function of price or of others' consumption?

BACK · ANSWER

Demand for a good **falls** because others are also consuming it. It reflects the desire to be exclusive and different from the 'common herd'.

It is a **function of the consumption of others** (Q21).

Examples: a group stops consuming a common product (Q6); a rich rival drops the same dress and seeks a costlier one (Q10).

MEMORY TRICK **Snob = Shuns the crowd.** The more people buy, the faster the snob walks out.

CARD 2.08 T 1.1 · COMPARE

★★ OL 1.1.11, 1.0.4 · Scanner Q7, Q23 (also 1.0 Q1; 1.3 Q18) · SM p.2.7

FRONT · RECALL ALOUD

What is the **Veblen effect**, and how does it differ from the snob effect?

BACK · ANSWER

Highly priced goods consumed by **status-seeking rich** people for **conspicuous consumption** (expensive cars, jewels). Named after Thorstein Veblen.

Snob effect is a function of the consumption of others; **Veblen effect** is a function of **price**.

MEMORY TRICK **Veblen = Value shown by Vast price tag.** Snob watches people; Veblen watches the price.

CARD 2.09 T 1.2 · FORMULA

★ OL 1.2.1, 1.1.15 · Scanner 1.1 Q17; 1.2 Q2 · SM pp.2.9, 2.12, 2.14

FRONT · RECALL ALOUD

Write the **demand function**, the **slope** of a demand curve and the linear form.

BACK · ANSWER

Demand function: **Qx = f(Px, Y, Pr)**. Prices of unrelated goods are excluded (1.2 Q2).

Slope of demand curve = **−ΔP/ΔQ** (1.1 Q17). The negative sign agrees with the law of demand.

Linear demand: **Q = a − bP**, where a is the vertical intercept and b the slope (SM example: Q = 100 − 2P).

MEMORY TRICK Slope is **rise over run, with a minus**: price on the vertical axis, so ΔP on top.

CARD 2.10 T 1.2 · CONCEPT

★★★ OL 1.2.7 · Scanner Q6 · Not in SM text (Scanner 1.2 Q6)

FRONT · RECALL ALOUD

Distinguish **direct demand** from **derived demand** using labour as the example.

BACK · ANSWER

Demand for labour in response to its own **wage rate** is **direct demand**.

Demand for the same labour as an **input** in electronic goods is **derived demand** (derived from demand for the output) (Q6).

MEMORY TRICK **Derived = Dependent on the product.** No phones sold, no phone workers needed.

CARD 2.11 T 1.3 · CONCEPT

★★★ OL 1.3.1, 1.3.2, 1.3.16, 1.3.3, 1.2.4 · Scanner Q2, Q4, Q6, Q12, Q30, Q33 (also 1.1 Q16; 1.2 Q12) · SM pp.2.10–2.13

FRONT · RECALL ALOUD

State the **law of demand**. Who gave the traditional approach, and what does ceteris paribus mean?

How is the **market demand curve** obtained?

BACK · ANSWER

Other things equal, demand and price are **inversely** related: quantity demanded falls when price rises (Q2, Q12). It relates **price and quantity demanded** (Q6).

Traditional approach: **Alfred Marshall** (Q30). Even normal goods obey it (Q4).

Ceteris paribus = all other things being equal (1.1 Q16).

Market demand = **horizontal summation** of individual demand curves (1.2 Q12: sum of quantities demanded by all households).

If real income is held constant, the demand curve is **always** negatively sloped (Q33).

MEMORY TRICK **Price up, buying down**: a see-saw. Market demand just stacks the see-saws side by side (horizontally).

CARD 2.12 T 1.3 · CONCEPT	★★ OL 1.3.4, 1.3.1, 1.3.9, 1.2.3 · Scanner Q14, Q23, Q31 (also 1.2 Q1) · SM pp.2.15–2.16
FRONT · RECALL ALOUD Why does the demand curve **slope downwards**? Name the reasons and the two explanations.	BACK · ANSWER **Marshall:** diminishing marginal utility. **Hicks and Allen:** price effect = **substitution effect + income effect** (Q14, Q23, Q31). Other reasons: **arrival of new consumers** at lower prices (1.2 Q1) and **different uses** (e.g. electricity).

MEMORY TRICK **P-D-N-D: Price Dips, New Demand** = Price effect, Diminishing MU, New consumers, Different uses.

CARD 2.13 T 1.3 · CONCEPT	★★★ OL 1.3.5, 1.3.6, 1.1.14 · Scanner Q22, Q32 (also 1.1 Q11) · SM pp.2.14–2.15
FRONT · RECALL ALOUD What is the **substitution effect**, and when is it **stronger**?	BACK · ANSWER Change in demand when a product's **relative price** changes (Q32). On a price fall it is **always positive**. Cheaper good replaces now-dearer goods: this is why demand rises (1.1 Q11). Stronger when goods are **closer substitutes**, the **cost of switching is lower** and the **inconvenience is lower**: all three (Q22).

MEMORY TRICK **C-C-I: Closer, Cheaper to switch, Inconvenience low.** Three green lights make switching easy.

CARD 2.14 T 1.3 · CONCEPT	★★ OL 1.3.7, 1.4.2, 1.3.8 · Scanner Q8 (also 1.4 Q3) · SM p.2.15
FRONT · RECALL ALOUD What is the **income effect**, and how does it behave for **inferior goods**?	BACK · ANSWER Change in demand due to a change in **real income** (1.4 Q3). A price fall raises real income, so a normal good is bought more. For **inferior goods** the income effect works **opposite** to the substitution effect. Demand rises on a price fall only if the **substitution effect outweighs** the income effect (Q8).

MEMORY TRICK **A price cut is a hidden pay rise.** For inferior goods, the pay rise tempts you to buy less of them.

CARD 2.15 T 1.3 · MCQ TRAP	★★ OL 1.3.8 · Scanner Q29, Q34 (also 1.2 Q13) · SM pp.2.15–2.16
FRONT · RECALL ALOUD When is the **law of demand violated** (Giffen paradox)?	BACK · ANSWER When the **negative income effect is greater than the substitution effect** (Q29 (d), Q34 (d), 1.2 Q13 (c)). Wrong options: 'income effect is negative' alone, or 'greater than SE' without the word negative. Both parts must hold.

MEMORY TRICK **Negative AND bigger**: a tug-of-war where the minus side wins.

CARD 2.16 T 1.3 · MEMORISE

★★★ OL 1.3.10, 1.2.5 · Scanner Q11, Q15, Q16, Q19, Q28 (also 1.2 Q3) · SM pp.2.16–2.17

FRONT · RECALL ALOUD

List the **exceptions to the law of demand**. Which options are NOT exceptions?

BACK · ANSWER

- Conspicuous goods; Giffen goods; conspicuous necessities; future price expectations; incomplete information or irrational behaviour; necessaries; speculative goods (Q28: all of these).

MCQ trap: **normal goods, substitute goods, income and price** are NOT exceptions (Q15). Also not exceptions: white goods (Q11), diminishing MU, substitution effect, different uses (1.2 Q3), cross elasticity, marginal utility (Q16).

MEMORY TRICK **C-G-C-F-I-N-S** (Conspicuous goods, Giffen, Conspicuous necessities, Future expectations, Incomplete information, Necessaries, Speculative): 'Cool Giants Chase Future Income, Not Shares'.

CARD 2.17 T 1.3 · COMPARE

★★ OL 1.3.11, 1.3.14 · Scanner Q10, Q18, Q25, Q26 (also 1.2 Q14) · SM pp.2.16–2.17

FRONT · RECALL ALOUD

Distinguish **conspicuous goods** from **conspicuous necessities**. What shape is each demand curve?

BACK · ANSWER

Conspicuous (prestige) goods: articles of prestige value, status symbols of the rich (diamonds). **Veblen effect:** demand curve slopes **upward** (Q10, Q18, Q26).

Conspicuous necessities: TV, refrigerator, AC. Due to the demonstration effect of one's social group, demand does not fall as prices rise; curve slopes upward (Q25; 1.2 Q14).

MEMORY TRICK **Goods show off; necessities fit in.** One buys for the price tag, the other for the neighbours.

CARD 2.18 T 1.3 · CONCEPT

★★★ OL 1.3.12, 1.3.13 · Scanner Q3, Q7, Q9, Q13, Q17 (also 2.3 Q14) · SM p.2.16

FRONT · RECALL ALOUD

What are **Giffen goods**? Give the features, the example and the shape of the demand curve.

BACK · ANSWER

Goods that are **inferior**, with **no close substitutes** and a **substantial place in the consumer's budget** (Q7).

Examples: coarse grains like **bajra**. If bajra demand falls when its price falls, it is an inferior good (Q13).

Demand curve slopes **upward** to the right (Q17). A rise in income lowers demand (Q3).

Q9 and 2.3 Q14 print 'angle curve' (Engel curve): negatively sloped for Giffen goods.

MEMORY TRICK **Giffen bread story:** price rises, the poor can't afford meat, so they buy more bread.

CARD 2.19 T 1.3 · MCQ TRAP

★★★ OL 1.3.12 · Scanner Q24 · SM p.2.16

FRONT · RECALL ALOUD

True or false: all inferior goods are Giffen goods?

BACK · ANSWER

False. **All Giffen goods are inferior goods, but NOT all inferior goods are Giffen goods** (Q24 (a)).

Giffen goods are a special subset where the income effect dominates. Option (c) 'inferior goods with close substitutes' is wrong: Giffen goods have none.

MEMORY TRICK **Squares and rectangles:** every Giffen is inferior, not every inferior is Giffen.

CARD 2.20 T 1.3 · RECALL CHAIN

★★★ All of 1.3 · Scanner Q1–Q34 · SM pp.2.10–2.17

FRONT · RECALL ALOUD

Recite Topic 1.3 in **one chain**, from the law to its exceptions.

BACK · ANSWER

Price ↑ → quantity demanded ↓ (Marshall: DMU; Hicks and Allen: **SE + IE**) → SE stronger with close substitutes → inferior goods: IE opposes SE → **negative IE > SE = Giffen paradox** → exceptions: **Veblen, Giffen, conspicuous necessities, expectations, ignorance, necessaries, speculation**.

MEMORY TRICK **Story:** A shopper sees bread get dearer. Marshall says he cuts back, Hicks and Allen split the reason in two, but the poor man's bread (Giffen) bucks the rule and the rich man's diamond (Veblen) joins in.

CARD 2.21 T 1.4 · COMPARE

★★★ OL 1.4.1, 1.4.5, 1.1.17 · Scanner Q1, Q2, Q5, Q11, Q12 (also 1.5 Q9) · SM pp.2.18, 2.21–2.22

FRONT · RECALL ALOUD

Distinguish **expansion/contraction** from **increase/decrease** in demand. Does the good's own price shift its demand curve?

BACK · ANSWER

Expansion: price falls, more demanded (downward movement). **Contraction:** price rises, less demanded (upward movement) (Q2, Q12; 1.5 Q9).

Movement along = **change in quantity demanded** (own price) (Q5). Shift = **change in demand** (other factors).

MCQ trap: a change in the good's **own price does NOT shift** its demand curve (Q11).

MEMORY TRICK **Own price moves the dot; other factors move the curve.**

CARD 2.22 T 1.4 · CONCEPT

★★ OL 1.4.3, 1.3.15, 1.1.16, 1.4.4 · Scanner Q4, Q6, Q7 (also 1.3 Q1; 1.5 Q44) · SM pp.2.20–2.21

FRONT · RECALL ALOUD

What does a **rightward** or **leftward shift** of demand mean, and what causes a leftward shift?

BACK · ANSWER

Non-price factors shift the curve: **right = increase** in demand (Q4); **left = decrease** in demand.

Leftward shift: rise in a **complement's** price (Q7), fall in a substitute's price, **expected price fall** (1.5 Q44), fewer buyers, fall in income for normal goods (Q6).

A rise in income raises demand (1.3 Q1).

MEMORY TRICK **Left = Less.** Five left-pushers: complement dearer, substitute cheaper, hoped-for discount, few buyers, thin pocket.

CARD 2.23 T 1.5 · FORMULA

★★ OL 1.5.1, 1.5.2 · Scanner Q24, Q26, Q36, Q56 (also 1.1 Q13) · SM pp.2.23–2.25

FRONT · RECALL ALOUD

Define **elasticity of demand** and write the **price elasticity** formula. How is the negative sign treated?

BACK · ANSWER

Elasticity = % change in quantity demanded ÷ % change in a determinant. 'Elasticity' alone means **price elasticity**.

Ep = % change in quantity demanded ÷ % change in price = (Δq/Δp) × (p/q), using the **original** p and q.

The sign is negative (law of demand); we read the **magnitude**. Ed = −3 means a 1% price fall raises demand 3%, or a 1% rise cuts it 3% (Q36).

SM example: price ₹6 → ₹4, quantity 10 → 15 units: Ep = 5/2 × 6/10 = (−) 1.5. Q56: ₹10 → ₹6, 10 → 20 units gives −2.5.

MEMORY TRICK **Q over P, then P over Q**: 'quantity change per price change, scaled by where you start'.

CARD 2.24 T 1.5 · FORMULA

★★★ OL 1.5.3, 1.5.4 · Scanner Q4, Q15, Q28, Q45, Q52, Q55 · SM p.2.25

FRONT · RECALL ALOUD

How do you find the **new quantity** and the **new price** when elasticity is given?

BACK · ANSWER

New Q: **ΔQ = Ep × Q × ΔP/P**, then new Q = original Q + ΔQ.

New P: **%ΔP = %ΔQ ÷ Ep**.

SM example: price ₹100 → ₹60, Ep 1.5, Q = 30: ΔQ = 18, new Q = 48. Q15: ₹200 → ₹120, Ep 2, Q 60 gives 108 units.

Q45: Q 100 → 80, Ep 3: price rises 6.67%, new price ₹6.4. Q28: Ep 1, quantity change 15% means price change 15%.

Q4 trap: ₹80 → ₹60 with Ep 1.25 gives +31.25%, so key is (d) 'none of the above'.

MEMORY TRICK **Multiply to find the quantity, divide to find the price.** Elasticity is the exchange rate between the two percentages.

CARD 2.25 T 1.5 · FORMULA

★★ OL 1.5.5, 1.5.6 · Scanner Q22, Q42, Q49, Q63 · SM pp.2.14, 2.26–2.27

FRONT · RECALL ALOUD

Write **point elasticity**. How is it linked to the slope of the demand curve?

BACK · ANSWER

Ep = −(dq/dp) × (p/q), used when the price change is infinitesimal (Q63: price lowered by ₹100).

It is the **price–quantity ratio × reciprocal of the slope** of the demand line (Q49). For Q = a − bP, dQ/dP = −b.

Q42: Q = 1,000 − 50P at P = ₹10: Q = 500, Ep = (−50) × 10/500 = **−1**.

MEMORY TRICK **Point = tiny step.** 'd' for derivative, 'd' for dot on the curve.

CARD 2.26 T 1.5 · CONCEPT

★★ OL 1.5.7 · Scanner Q1, Q6, Q7 · SM pp.2.27–2.28

FRONT · RECALL ALOUD

How does elasticity vary along a **straight-line demand curve**?

BACK · ANSWER

Elasticity at a point = **lower segment ÷ upper segment**.

Mid-point = 1 (Q7). Above it > 1; below it < 1 (Q6 (c) is correct).

Price-axis end = **∞**; quantity-axis end = **0** (Q1).

MEMORY TRICK **Top is touchy, bottom is numb:** ∞ at the top, 1 in the middle, 0 at the bottom.

CARD 2.27 T 1.5 · FORMULA

★★★ OL 1.5.8, 1.5.9, 1.2.8 · Scanner Q2, Q10, Q25, Q27, Q51, Q53, Q62 (also 1.2 Q8, Q11) · SM pp.2.28–2.29

FRONT · RECALL ALOUD

Write the **arc elasticity** formula. When is it used?

BACK · ANSWER

Used between **two points** when changes are **large**; the **average (mid-point)** of the two prices and quantities is the base.

Ep = (Q2 − Q1)/(Q2 + Q1) × (P2 + P1)/(P2 − P1), sign dropped (Q51 (c)).

SM example: P 500 → 400, Q 100 → 150: Ep = 50/250 × 900/100 = **1.8**.

Q53: P 15 → 20, Q 50 → 75 gives 1.4. Q62: ₹300 → ₹400, 30,000 → 20,000 subscribers gives 1.4. Q27: movie ₹120 → ₹200, 300 → 200 gives 0.8.

MEMORY TRICK **Sum below, difference above for each variable, then swap:** quantity as (diff/sum), price as (sum/diff).

CARD 2.28 T 1.5 · CONCEPT

★★★ OL 1.5.10, 1.5.11, 1.5.12, 1.5.14, 1.5.13, 1.3.17, 1.2.2 · Scanner Q13, Q17, Q18, Q20, Q32, Q37, Q48, Q54, Q60 (also 1.2 Q7; 1.3 Q20, Q21) · SM pp.2.30–2.31

FRONT · RECALL ALOUD

Give the **range of elasticity values** and the shape of the demand curve for each.

BACK · ANSWER

Value runs from **0 to ∞** (Q17).

0: perfectly inelastic, **vertical** (Q18, Q37, Q60).

< 1: inelastic, **steep**. **1:** unitary, **rectangular hyperbola**; Q = k/P gives Ep = 1 at every point (1.2 Q7). **> 1:** elastic, **flat** (Q32, Q48).

∞: horizontal at the price level, touching the vertical axis (Q13, Q54). Found in **perfect competition**: the firm is a price-taker (1.3 Q20), and AR = P so the AR curve is the demand curve (1.3 Q21).

MEMORY TRICK **Vertical is Very stubborn (0), Flat is Fickle (>1).** Steeper line, less elastic.

CARD 2.29 T 1.5 · FORMULA

★★★ OL 1.5.15, 1.5.16 · Scanner Q31, Q38, Q39, Q40, Q46, Q50, Q59 · SM pp.2.34–2.35

FRONT · RECALL ALOUD

Define **total revenue** and show how a price change affects it under each elasticity.

BACK · ANSWER

TR = P × Q (Q40: area OP1RQ1).

Elastic: price up → TR **down**; price down → TR up (Q31).

Unitary: TR **stays the same** (Q50).

Inelastic: price up → TR **up** (Q46, Q59). Q38: raising fares raises revenue, so 0 < e < 1. Q39: price +12%, Ed 0.63, so expenditure increases.

MEMORY TRICK **Same direction = inelastic (price and TR move together).** Opposite directions = elastic.

CARD 2.30 T 1.5 · MEMORISE

★★★ OL 1.5.17, 1.4.7 · Scanner Q12, Q47, Q58, Q61 (also 1.4 Q9) · SM pp.2.35–2.37

FRONT · RECALL ALOUD

List the **determinants of price elasticity of demand**.

BACK · ANSWER

- Availability of **substitutes**; position in the **budget** (bigger share → more elastic); **luxury vs necessity**; **number of uses** (more uses → more elastic, 1.4 Q9 electricity); **time period**; **habits**; **tied demand**; **price range**; **minor complements**.

MCQ trap (Q47): 'the greater the proportion of income spent, the **lesser** the elasticity' is false; it is **greater**.

Very low price keeps elasticity low (Q12). 'All of these' is correct in Q58 and Q61.

MEMORY TRICK **S-B-N-U-T-H-T-P-M:** Substitutes, Budget, Need, Uses, Time, Habit, Tied, Price range, Minor complements.

CARD 2.31 T 1.5 · CONCEPT

★★★ OL 1.5.18, 1.5.19 · Scanner Q8, Q16, Q19, Q21, Q33, Q34 · SM pp.2.36–2.37

FRONT · RECALL ALOUD

Which goods have **inelastic** demand and which **elastic**?

BACK · ANSWER

Inelastic: habitual consumption (Q8, Q21) and necessities such as **salt, medicine, vegetables** (Q33, Q19, Q34: the buyer takes the same quantity despite a price rise).

Elastic: jewellery (Q16).

Q33 key: salt, school uniform and medicine are inelastic.

MEMORY TRICK **Need it or lose it?** If you can't skip it, the price can't scare you.

CARD 2.32 T 1.5 · CONCEPT

★★ OL 1.5.20, 1.3.19, 1.6.5 · Scanner Q57 (also 1.3 Q27; 1.6 Q15) · SM p.2.37

FRONT · RECALL ALOUD

How does elasticity decide who bears a **tax**, and which goods do governments tax?

BACK · ANSWER

The more elastic the demand, the **more of the tax the seller bears** (Q57).

Governments tax **inelastic** goods for revenue (e.g. alcohol, tobacco).

Heavy taxes curb consumption only if **ed > 1** (1.3 Q27). Price elasticity guides tax sharing (1.6 Q15).

MEMORY TRICK **Elastic buyers escape, so the seller pays.** Inelastic buyers can't, so the tax lands on them.

CARD 2.33 T 1.5 · FORMULA

★★★ OL 1.5.25 · Scanner Q35 · Not in SM text (Scanner 1.5 Q35; National Income chapter)

FRONT · RECALL ALOUD

Investment rises by ₹100 crore and C = 10 + 0.6Y. How much does income rise?

BACK · ANSWER

Multiplier = 1/(1 − MPC) = 1/(1 − 0.6) = 1/0.4 = 2.5.

Income rise = 2.5 × ₹100 crore = **₹250 crore** (key (a)).

This question belongs to the National Income chapter.

MEMORY TRICK **Spend 0.6, save 0.4**: the multiplier is 1 divided by the 'leak'.

CARD 2.34 T 1.5 · RECALL CHAIN

★★★ All of 1.5 · Scanner Q1–Q63 · SM pp.2.23–2.37

FRONT · RECALL ALOUD

Recite Topic 1.5 in **one chain**, from definition to determinants.

BACK · ANSWER

% ΔQ ÷ % ΔP → point (small change) or **arc** (large change, mid-point) → values **0, <1, 1, >1, ∞** → **TR test** (elastic: price and TR opposite) → **determinants** → habits and necessities inelastic, luxuries elastic → **tax burden**.

MEMORY TRICK **Story:** A shopkeeper measures how customers react (formula), picks point or arc, labels the reaction (0 to ∞), checks his till (TR), asks why (determinants), and finally sees who pays the tax.

CARD 2.35 T 1.6 · FORMULA

★★★ OL 1.6.1, 1.6.2, 1.6.3, 1.4.8, 1.5.22, 1.6.4 · Scanner Q1, Q3, Q4, Q5, Q6, Q7, Q8, Q9, Q10, Q11, Q13, Q14 (also 1.4 Q10; 1.5 Q41) · SM pp.2.38–2.41

FRONT · RECALL ALOUD

Write **income elasticity** and classify goods by its value. How does it differ between short and long run?

BACK · ANSWER

Ei = % change in quantity demanded ÷ % change in income (Q12).

Ei > 1: luxury (Q3, Q11, 1.5 Q41). **0 < Ei < 1: necessity (normal)** (Q13). **Ei < 0: inferior** (Q4); as income falls, purchases rise (1.4 Q10).

Examples: income +15%, demand +30% gives 2 (Q8); income +20%, TV demand +30% gives 1.5 (Q6); Ei −0.4 means inferior (Q5).

Ei differs between short and long run, and is **larger in the long run** (Q14).

MEMORY TRICK **Above 1 = Lavish, between 0 and 1 = Needed, below 0 = Neglected** when income grows.

CARD 2.36 T 1.7 · FORMULA

★★★ OL 1.7.3, 1.5.23, 1.2.9, 1.7.7, 1.8.4 · Scanner Q2, Q3, Q4, Q9, Q10 (also 1.2 Q10, 1.5 Q14) · SM pp.2.43–2.46

FRONT · RECALL ALOUD

Write **cross-price elasticity**. Does the sign matter? How do you predict the change in demand?

BACK · ANSWER

Ec = % change in quantity demanded of X ÷ % change in price of Y. The **sign matters**.

Predict: % change in Qx = Ec × % change in Py. SM: Ec = −0.8 and price of Y up 20% gives Qx down 16%.

Examples: coffee +2% when tea +8% gives +0.25 (Q2); mutton +5% when chicken +20% gives 0.25 (Q4); coffee +8% when tea +25% gives 0.32 (Q9).

MEMORY TRICK **Demand of X over price of Y**: the letters X and Y sit in the same order as the story.

CARD 2.37 T 1.7 · COMPARE

★★★ OL 1.7.1, 1.7.4, 1.7.5, 1.7.6, 1.7.2 · Scanner Q1, Q7, Q11, Q12, Q14, Q15, Q16, Q17, Q18, Q19 · SM pp.2.42–2.45

FRONT · RECALL ALOUD

Compare cross elasticity for **substitutes, complements and unrelated goods**. Which pair is NOT complementary?

BACK · ANSWER

Substitutes: Ec **positive** (Q18, Q19); perfect substitutes **∞** (Q1); cross-demand curve slopes **upwards** (Q16).

Unrelated goods: 0 (Q7, Q12).

Complements: Ec **negative** (Q11, Q17). Slightly below 0 = weak; very negative = strong (Q15).

Q14 trap: **blazer and jacket** are not complements (substitutes). Car and petrol, electricity and gadgets, bread and jam are complements.

MEMORY TRICK **Plus = Pals who replace each other, Minus = Mates who move together, Zero = Strangers.**

CARD 2.38 T 1.8 · FORMULA

★★★ OL 1.8.1, 1.8.2, 1.8.3 · Scanner Q1, Q2, Q3, Q4, Q5, Q6 · SM p.2.47

FRONT · RECALL ALOUD

Write **advertisement elasticity** and interpret its values.

BACK · ANSWER

Ea = % change in quantity demanded ÷ % change in spending on advertising. It is typically **positive**, ranging from **0 to ∞** (Q1).

Ea > 1: demand rises faster than ad spend (Q5: +40% ÷ +20% = 2). **Ea = 1:** same proportion. **0 < Ea < 1:** less than proportionate. **Ea = 0:** no response.

Q2: ad +25%, demand +5% gives 0.2. Q4: 60% ÷ 20% gives 3.

MEMORY TRICK **Ad rupee in, demand out:** compare the two growth rates, like ROI for adverts.

CARD 2.39 T 2.0 · MEMORISE

★★★ OL 2.0.1, 2.1.1, 1.4.6 · Scanner Q1 (also 2.1 Q3, Q4; 1.4 Q8) · SM pp.2.50–2.52

FRONT · RECALL ALOUD

What is **utility**? How are wants **classified**, and where do **comforts** lie?

BACK · ANSWER

Utility = **want-satisfying power** of a commodity. It is **relative and subjective** (Q1), varying with person, time and place (2.1 Q3).

Wants: **necessaries, comforts, luxuries**.

Comforts lie between necessaries and luxuries (2.1 Q4; 1.4 Q8).

MEMORY TRICK **Needs, Comforts, Luxuries = N-C-L**, like a ladder: you climb from basics to frills.

CARD 2.40 T 2.2 · FORMULA

★★★ OL 2.2.1, 2.3.4 · Scanner Q1, Q2, Q3, Q7 (also 2.1 Q1, Q2; 2.3 Q7, Q8) · SM pp.2.51–2.53

FRONT · RECALL ALOUD

Write the formulas linking **TU and MU**. What is TU at the first unit?

BACK · ANSWER

TU = ΣMU. **MU = TUn − TUn−1** = addition to total utility (2.3 Q8; Q3).

At the first unit, **TU = MU**.

Examples: MU3 = 480 − 380 = 100 (Q2); TU2 = 200 + 180 = 380 (Q1, Q7); TU 10 units = 100, 11 units = 108 gives MU = 8 (2.3 Q7).

Table (2.1 Q1, Q2): TU 750 → 830 gives MU 80; TU 930 → 960 gives MU 30.

MEMORY TRICK **MU is the new slice, TU is the whole pizza.** Slice = today's pizza minus yesterday's.

CARD 2.41 T 2.2 · CONCEPT

★★ OL 2.2.2 · Scanner Q4, Q5, Q6, Q10, Q11 (also 2.3 Q5) · SM pp.2.52–2.53

FRONT · RECALL ALOUD

How does **TU behave** when MU is positive and falling, zero, and negative?

BACK · ANSWER

MU falling but positive: **TU rises at a diminishing rate** (Q10).

MU = 0: TU is maximum, the satiation point (Q6, Q11, 2.3 Q5).

MU negative: TU falls (Q4 'all of the above').

Total utility is also called total satiety (Q5).

MEMORY TRICK **Hill climb:** still climbing but slower (MU>0), summit (MU=0), downhill (MU<0). SM table: TU 10, 18, 23, 25, 25, 23 against MU 10, 8, 5, 2, 0, −2.

CARD 2.42 T 2.3 · MCQ TRAP

★ OL 2.3.1 · Scanner Q2, Q15 · SM p.2.53

FRONT · RECALL ALOUD

In the law of DMU, what diminishes: **marginal** or **total** utility? Which unit gives the most?

BACK · ANSWER

It is **marginal utility, NOT total utility**, that diminishes as more units are consumed.

The **first unit gives the most** satisfaction (Q15 (d)); each want is satiable. Second glass of lemonade giving less is DMU (Q2).

MEMORY TRICK **M for Melting:** only the marginal slice melts; the total keeps growing until satiation.

CARD 2.43 T 2.3 · MEMORISE

★ OL 2.3.2, 2.3.3 · Scanner Q4, Q6, Q16 (also 1.5 Q3) · SM pp.2.54, 2.59

FRONT · RECALL ALOUD

How is utility **measured** in the MU approach, and what are the **assumptions** of DMU?

BACK · ANSWER

Measured in **utils**; MU analysis is **cardinal** (Q4; 1.5 Q3: equi-marginal utility). Ordinal measurability is NOT an assumption (Q6).

- Identical, standard units; habit, taste and **income unchanged** (Q16: frequent income changes are not an assumption).
- Continuous consumption; not applicable to gold or cash.

MEMORY TRICK **Same cup, same taste, no pause, no gold.**

CARD 2.44 T 2.4 · FORMULA

★★★ OL 2.4.1, 2.4.2 · Scanner Q4, Q5, Q7, Q8, Q13 (also 2.2 Q8, Q9; 3.4 Q5) · SM p.2.55

FRONT · RECALL ALOUD

Define **consumer surplus** and give the formula. Who propounded it?

BACK · ANSWER

Consumer surplus = what a consumer is ready to pay − what he actually pays (Q13, Q7). Propounded by **Alfred Marshall**.

Marshall: 'excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually does pay' (2.2 Q9).

Q4: ₹60,000 − ₹55,000 = ₹5,000. Q8: price ₹11,000 less 20% (₹2,200) less ₹300 cash discount = ₹8,500; CS = ₹12,000 − ₹8,500 = **₹3,500**.

MEMORY TRICK **Willing minus Paid.** Use the price after every discount.

CARD 2.45 T 2.4 · CONCEPT

★★★ OL 2.4.3, 2.3.5, 2.2.4 · Scanner Q1, Q3, Q6 (also 2.3 Q10) · SM pp.2.55–2.56

FRONT · RECALL ALOUD

From which law is consumer surplus **derived**? Where is the surplus **zero**?

BACK · ANSWER

Derived from the **law of diminishing marginal utility** (Q1, Q6; 2.3 Q10).

The consumer buys up to the unit where **MU = price**; the **marginal (last) unit gives zero surplus**, earlier units give surplus (Q3).

SM Table 7: price ₹20; surpluses 10 + 8 + 6 + 4 + 2 + 0 = ₹30.

MEMORY TRICK **Bargain on every unit except the last**, where you pay exactly what it is worth to you.

CARD 2.46 T 2.4 · CONCEPT

★★ OL 2.4.4, 2.4.5 · Scanner Q12, Q15 (also 2.3 Q9) · SM pp.2.56–2.57

FRONT · RECALL ALOUD

How is consumer surplus shown on the **demand curve**, and how does **price** affect it?

BACK · ANSWER

CS is closely related to the **demand curve** (Q12): the **triangular area below the demand curve and above the price line**.

Price rises → CS falls (Q15). **Price falls → CS rises** (2.3 Q9).

MEMORY TRICK **Price and CS are enemies**: one goes up, the other comes down.

CARD 2.47 T 2.4 · MEMORISE

★ OL 2.4.6 · Scanner Q2, Q14 · SM p.2.59

FRONT · RECALL ALOUD

State the **limitations** of consumer surplus.

BACK · ANSWER

- **Not measurable precisely** (marginal utilities are hard to measure).
- **Infinite for necessaries** (Q2).
- **Affected by the availability of substitutes** (Q14: both first and third).

MEMORY TRICK **N-I-S: Not exact, Infinite for needs, Substitutes interfere.**

CARD 2.48 T 2.5 · CONCEPT

★★ OL 2.5.1, 2.5.2, 2.5.3 · Scanner Q7, Q10, Q12, Q17, Q25, Q36 (also 2.4 Q10) · SM pp.2.59–2.60

FRONT · RECALL ALOUD

What is **indifference curve analysis**? Who proposed it, and what is an indifference curve?

BACK · ANSWER

IC analysis is the **ordinal** approach, based on **preferences** (2.4 Q10, Q10). Proposed by **Hicks and Allen** (Q36, Q12).

IC = combinations of two goods giving **equal satisfaction** (iso-utility) (Q17); it slopes **downward to the right** (Q7).

'More is better' (non-satiation) = **monotonic preferences**: prefer more of at least one good and no less of the other (Q25).

MEMORY TRICK **Ordinal = Order, not Quantity:** you can say 'A beats B', never 'by how much'.

CARD 2.49 T 2.5 · FORMULA

★★ OL 2.5.4 · Scanner Q4, Q11, Q28, Q37 · SM pp.2.62–2.64

FRONT · RECALL ALOUD

Define **MRS** and write its formula. Why are ICs convex?

BACK · ANSWER

MRS = rate at which a consumer exchanges X for Y with satisfaction constant (Q28, Q37).

MRSxy = ΔY/ΔX = MUx/MUy (Q11) = absolute slope of the IC.

MRS is **diminishing** (Q4), which makes the IC **convex** to the origin. SM table: MRS 6, 2, 1.

MEMORY TRICK **Less and less Y for each extra X**: the curve flattens as you slide down it.

CARD 2.50 T 2.5 · MEMORISE

★★★ OL 2.5.5 · Scanner Q7, Q14, Q19, Q32 (also 2.3 Q13; 2.4 Q9) · SM pp.2.64–2.67

FRONT · RECALL ALOUD

List the **properties of indifference curves**.

BACK · ANSWER

- Slope **downward** to the right.
- **Convex** to the origin.
- **Never intersect** (intersection is logically absurd, Q32).
- **Higher IC = higher satisfaction** (Q13 in 2.3: IC3 highest).
- **Never touch either axis** (Q14).

MEMORY TRICK **D-C-N-H-N: Down, Convex, Never cross, Higher better, Never touch axes.**

CARD 2.51 T 2.5 · MCQ TRAP

★★★ OL 2.5.5 · Scanner Q3, Q14, Q33 (also 1.5 Q5; 2.4 Q9) · SM pp.2.64–2.67

FRONT · RECALL ALOUD

Which of these is **NOT** a property of an IC: concave, upward-sloping, intersecting, or axis-touching?

BACK · ANSWER

All four are NOT properties. ICs are convex, downward-sloping, never intersect and never touch the axes.

Typical keys: 'intersects each other' (1.5 Q5), 'two ICs can touch' (Q3), 'slopes upwards to the right' (Q33). Intersection point as highest satisfaction is false (2.4 Q9).

MEMORY TRICK **Cross, climb, cave, touch = four No's.**

CARD 2.52 T 2.5 · COMPARE

★★★ OL 2.5.6 · Scanner Q1, Q8, Q15, Q16, Q18, Q27 (also 2.4 Q11) · SM p.2.65

FRONT · RECALL ALOUD

What IC shape arises for **perfect substitutes** and **perfect complements**?

BACK · ANSWER

Perfect substitutes: straight line (constant MRS) (2.4 Q11).

Perfect complements (left shoe, right shoe): **L-shaped**, two straight lines with a right-angle bend (Q1, Q8, Q15, Q16, Q18, Q27).

MEMORY TRICK **Substitutes slide on a Straight line, complements corner into an L** (like a left and right shoe).

CARD 2.53 T 2.5 · FORMULA

★★ OL 2.5.7, 2.5.8, 2.5.9 · Scanner Q6, Q20, Q21, Q22, Q26, Q31, Q38 (also 2.3 Q11) · SM pp.2.68–2.69

FRONT · RECALL ALOUD

What is the **budget line**? Give its **intercepts**, **slope** and the meaning of points K and H.

BACK · ANSWER

Budget line = **price line** (Q6): combinations affordable with given income and prices.

Intercept = income ÷ price (Q21: ₹750, pancakes 25 gives ₹30; muffins 50 gives ₹15). SM: income ₹100, price ₹20 gives 5 ice creams; ₹10 gives 10 chocolates.

Slope = Px/Py, the ratio of relative prices (Q31, Q38).

Inside (K): underspending (Q20, Q26). **Outside (H): unattainable** (Q22).

MEMORY TRICK **K = 'Keeps change', H = 'Hopeless'.**

CARD 2.54 T 2.5 · CONCEPT

★★ OL 2.5.10 · Scanner Q9, Q13, Q40, Q41 · SM p.2.69

FRONT · RECALL ALOUD

How does the budget line **shift** when income or a price changes?

BACK · ANSWER

Income change: parallel shift (Q13).

One price change: rotation on that good's axis. Q9: price of good B (OX axis) rises, line shifts left on the OX axis. Q40: inward rotation.

If the price rises, the consumer reaches a **lower IC** (Q41).

MEMORY TRICK **Income slides the whole ladder; a price tilts it** around the untouched axis.

CARD 2.55 T 2.5 · FORMULA

★★★ OL 2.5.11, 2.5.12, 1.1.13 · Scanner Q2, Q29, Q30, Q39, Q42 (also 1.1 Q1; 2.3 Q12) · SM p.2.71

FRONT · RECALL ALOUD

State the **consumer equilibrium** conditions in IC analysis and in marginal utility terms.

BACK · ANSWER

Price line is **tangent to the highest IC** (Q29).

MRSxy = MUx/MUy = Px/Py (Q2, Q42).

Equivalent: **MUx/Px = MUy/Py** (Q30, 1.1 Q1: both conditions hold).

Optimal choice: maximise satisfaction subject to constraints (Q39). If the IC is steeper than the budget line, it is not equilibrium (2.3 Q12).

MEMORY TRICK **Tangent = Touching, not Tearing**: slope of IC equals slope of price line.

CARD 2.56 T 2.5 · MEMORISE

★ OL 2.5.13 · Scanner Q34 · SM p.2.71

FRONT · RECALL ALOUD

Why is IC analysis **superior** to utility analysis?

BACK · ANSWER

- Dispenses with **measurability** of utility.
- Studies **more than one commodity** at a time.
- Does **not assume constant MU of money**.
- **Separates income effect from substitution effect** (Q34: all of these).

MEMORY TRICK **M-S-C-S: Measure no more, Several goods, Constant MU gone, Split the effects.**

CARD 2.57 T 2.5 · CONCEPT

★★★ OL 2.5.14, 2.5.15, 2.3.7 · Scanner Q5, Q23, Q24 (also 2.3 Q14; 1.3 Q9) · Not in SM text (Scanner 2.5 Q23, Q24)

FRONT · RECALL ALOUD

Show the **substitution effect** on an IC diagram, and say what **inferior goods** and **Giffen goods** show.

BACK · ANSWER

Substitution effect for a price fall = **movement down the same IC** (Q23).

Inferior goods have a **negative income effect** (Q24, Q5: negative income elasticity).

For Giffen goods the 'angle' (Engel) curve is **negatively sloped** (2.3 Q14; 1.3 Q9).

MEMORY TRICK **Same IC = same satisfaction:** the substitution effect only swaps goods, it never lifts you.

CARD 2.58 T 2.5 · RECALL CHAIN

★★★ All of 2.5 · Scanner Q1–Q42 · SM pp.2.59–2.71

FRONT · RECALL ALOUD

Recite Topic 2.5 in **one chain**, from ordinal approach to equilibrium.

BACK · ANSWER

Ordinal (Hicks and Allen) → **IC** (equal satisfaction) → **MRS** diminishing → **convex**; properties → **budget line** (slope Px/Py) → **tangency**: MRS = Px/Py, MUx/Px = MUy/Py.

MEMORY TRICK **Story:** A shopper ranks bundles (ordinal), draws equal-satisfaction curves, checks her wallet line, and stops where the two just kiss.

CARD 2.59 T 3.0 · CONCEPT

★★ OL 3.0.1, 3.0.2 · Scanner Q1, Q2 · SM pp.2.74–2.75

FRONT · RECALL ALOUD

What is **supply**? Is it a stock or a flow, and is it what is sold?

BACK · ANSWER

Supply = the amount producers are **willing and able to offer** at various prices in a given period. It is what is **offered**, not necessarily sold (Q1: producers plan to sell).

Supply is a **flow** (Q2), stated per day, week or year.

MEMORY TRICK **Supply is the shop window, not the till**: what is displayed, not what is sold. A tap, not a tank.

CARD 2.60 T 3.1 · MEMORISE	★ OL 3.1.1, 3.1.2, 3.5.9 · Scanner 3.5 Q18; 1.3 Q5 · SM pp.2.75–2.76
FRONT · RECALL ALOUD List the **determinants of supply**. What happens to supply of X if the price of Y rises?	BACK · ANSWER • Own price; prices of related goods; prices of factors of production; technology; government policy; nature of competition; expectations; number of sellers. If the price of Y rises, the quantity supplied of X **falls** (substitutes in production) (3.5 Q18). Supply is **inversely** related to cost of production: a rise in input cost reduces supply (1.3 Q5).

MEMORY TRICK **Y's glamour pulls X's resources away**: farmers swap corn for wheat when wheat pays more.

CARD 2.61 T 3.1 · MCQ TRAP	★ OL 3.1.1 · Scanner Q1 · SM p.2.76
FRONT · RECALL ALOUD Do **consumer preferences** influence supply or demand?	BACK · ANSWER Consumer preferences determine **demand, NOT supply** (Q1 (d)). Production costs, technology and input prices do influence supply.

MEMORY TRICK **Tastes belong to the tongue (buyer); costs belong to the cashbook (seller).**

CARD 2.62 T 3.2 · CONCEPT	★ OL 3.2.1, 3.2.2, 3.2.3 · Scanner Q1, Q2, Q4 · SM pp.2.77–2.78
FRONT · RECALL ALOUD State the **law of supply** and what the supply curve holds constant.	BACK · ANSWER Other things constant, quantity supplied rises as price rises: a **direct** relationship (Q2). Higher price means **higher profit** (Q1). The supply curve holds **every factor other than own price constant**; the commodity's own price is the variable (Q4).

MEMORY TRICK **Higher price, higher profit, higher output**: three H's in a row.

CARD 2.63 T 3.3 · COMPARE	★★ OL 3.3.1, 3.4.1, 3.4.2, 3.2.4 · Scanner Q1 (also 3.2 Q3; 3.4 Q1, Q2, Q7) · SM pp.2.79–2.80
FRONT · RECALL ALOUD Distinguish **movement along** from **shift of** the supply curve. Which factors shift it?	BACK · ANSWER Own-price change = **movement**: **expansion** (price ↑) or **contraction** (price ↓) (3.3 Q1). Other factor = **shift**: right = **increase**, left = **decrease** (3.2 Q3; 3.4 Q1, Q2). MCQ trap: expansion and contraction of supply are movements along the curve, **NOT shifts**. New firms shift the curve **right** (3.4 Q7); a tax or higher wage costs shift it **left**.

MEMORY TRICK **Own price rides the curve; everything else moves the curve.**

CARD 2.64 T 3.5 · FORMULA

★★★ OL 3.5.1, 3.4.3 · Scanner Q1, Q5, Q9, Q13, Q14, Q15 (also 3.4 Q3, Q4) · SM pp.2.80–2.81

FRONT · RECALL ALOUD

Write **elasticity of supply**. Is its sign positive or negative?

BACK · ANSWER

Es = % change in quantity supplied ÷ % change in price = (Δq/Δp) × (p/q), with **original** p and q. **Positive** (Q5).

SM: ₹2,000 → ₹2,100, 2,500 → 3,000 units: Es = 500/100 × 2000/2500 = **4** (3.4 Q3).

Q1: ₹200 → ₹300, 2,000 → 5,000: **3.0**. Q13: price +20%, supply +40%: **2**. Q14: Es 5 and price +15%: quantity **+75%**. Q15: **+2.7**.

MEMORY TRICK **Supply version of the demand formula**: same shape, but no minus sign.

CARD 2.65 T 3.5 · FORMULA

★★★ OL 3.5.2, 3.5.3, 3.5.4 · Scanner Q7, Q8, Q17, Q20, Q22 · SM pp.2.84–2.85

FRONT · RECALL ALOUD

Write **point** and **arc** elasticity of supply.

BACK · ANSWER

Point: Es = (dq/dp) × (p/q) (Q8). SM: q = −100 + 10p at p = ₹15 gives q = 50, Es = 10 × 15/50 = 3. Q17: q = 120 + 6p at p = 10 gives 1/3. Q7: Q = 20p − 200 at p = 30 gives 1.5.

Arc: Es = (Q2 − Q1)/(Q2 + Q1) × (P2 + P1)/(P2 − P1). Q20: ₹100 → ₹110, 150 → 200 units gives **3**.

Two types of measurement: point and arc (Q22).

MEMORY TRICK **Same twin formulas as demand.** Derivative for a dot, mid-point for a stretch.

CARD 2.66 T 3.5 · CONCEPT

★★★ OL 3.5.5, 3.5.6, 3.5.7 · Scanner Q2, Q3, Q6, Q10, Q11, Q16, Q21, Q23 · SM pp.2.81–2.83

FRONT · RECALL ALOUD

Give the **types of elasticity of supply** and the shape of each supply curve.

BACK · ANSWER

Es = 0: perfectly inelastic, **vertical** (parallel to Y-axis), e.g. total supply of **land** (Q2, Q3, Q10, Q21).

0 < Es < 1: less elastic. **Es > 1:** greater elastic (Q6).

Es = 1: unit elastic; a straight line **through the origin** (Q11, Q23).

Es = ∞: perfectly elastic, **horizontal** (parallel to X-axis) (Q11, Q16).

MEMORY TRICK **Zero stands up (vertical), infinity lies down (horizontal).**

CARD 2.67 T 3.5 · MEMORISE

★★ OL 3.5.8 · Scanner Q4, Q12, Q19 · SM pp.2.85–2.86

FRONT · RECALL ALOUD

What makes **supply less elastic**?

BACK · ANSWER

- Rising costs with output; complex production; short period; no spare capacity; scarce inputs; **non-storable** goods.

Examples: perishables have perfectly inelastic supply (Q4); eggs cannot be stored and are perishable (Q19); hostel rooms rise less than proportionately, Es < 1 (Q12).

MEMORY TRICK **Slow factory, short time, no stock = stiff supply.**

CARD 2.68 T 3.6 · CONCEPT	★★ OL 3.6.1, 3.6.2, 3.6.5 · Scanner Q1, Q3, Q5 · SM p.2.87
FRONT · RECALL ALOUD What is **equilibrium price**? How do you find it from equations?	BACK · ANSWER At equilibrium **Qd = Qs**: the **market clearing price**, with no unsold stock and no excess demand (Q3). Solve Qd = Qs: Qd = 12 − 2P and Qs = 3 + P give **P = 3, Q = 6** (Q5). SM table: ₹3, 19 units. Short-run price = **market price** (Q1; PYQ-only).

MEMORY TRICK **Where the scissors cross.** Set the two equations equal and solve.

CARD 2.69 T 3.6 · CONCEPT	★ OL 3.6.3 · Scanner Q2 · SM p.2.88
FRONT · RECALL ALOUD What is **producer surplus**?	BACK · ANSWER Benefit to producers when price is **above the minimum supply price** (Q2). Area **above the supply curve and below the price line**.

MEMORY TRICK **Producer surplus is the seller's bonus**: price received above the lowest price they would accept.

CARD 2.70 T 3.6 · CONCEPT	★ OL 3.6.4, 3.4.4 · Scanner Q4 (also 3.4 Q6) · Not in SM text (Scanner 3.6 Q4)
FRONT · RECALL ALOUD Demand falls and supply rises. What happens to equilibrium **price** and **quantity**?	BACK · ANSWER Equilibrium **price falls** (both forces push it down), but the effect on **quantity is not certain** (Q4 (c)). Supply right and demand left: price **decreases** (3.4 Q6).

MEMORY TRICK **Two forces agree on price, argue on quantity.**

CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

Flash Cards with Memory Tricks

Chapter 3 · Theory of Production and Cost · 65 cards

How to use these cards

- Read the **front** and answer **aloud** before you look at the back.
- Then read the **memory trick**. If it does not click, make up your own and write it beside the card.
- Each card carries its **Scanner question numbers**, so you can attempt those MCQs straight after the card.
- Give every card a **second look after 1 day and again after 1 week.**

Reading the stars

★★★	Asked by ICAI 6 or more times. Learn word for word.
★★	Asked 3 to 5 times. Know the key terms and the lists.
★	Asked once or twice. Read once; recognise it in an MCQ.
–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
1.0	Meaning of Production	3.01 – 3.02	2	★
1.1	Factors of Production	3.03 – 3.17	15	★★★
1.2	Production Function	3.18 – 3.33	16	★★★
1.3	Production Optimisation	3.34 – 3.37	4	★★
2.0	Cost Concepts	3.38 – 3.45	8	★★★
2.1	Cost Function	3.46	1	★★
2.2	Short Run Total Cost	3.47 – 3.58	12	★★★
2.3	Long Run Average Cost Curve	3.59 – 3.60	2	★★★
2.4	Economies & Diseconomies of Scale	3.61 – 3.65	5	★★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 3.01 T 1.0 · CONCEPT

★ OL 1.0.1 · Scanner Q1, Q4 · SM p.3.3

FRONT · RECALL ALOUD

What does **production** mean in Economics? Does it mean creating matter?

BACK · ANSWER

Production is **creation or addition of utility**, never creation of matter.

Man cannot create matter; he only transforms what exists (a carpenter turns wood into a table).

Q1: the answer is (b) creation of utility in matter; (a) creation of matter fails.

MEMORY TRICK **Utility in, matter out.** The carpenter adds value to the wood; he does not make the wood.

CARD 3.02 T 1.0 · MCQ TRAP

★ OL 1.0.2 · Scanner Q3, Q5 · SM p.3.4

FRONT · RECALL ALOUD

Which activities count as **production**, and which do NOT? What is the essential test?

BACK · ANSWER

Included: services such as those of doctors, lawyers, musicians, actors.

Excluded: work done in a household **out of love and affection**, **voluntary services** and goods for **self-consumption**.

Essential test: **intention to exchange in the market** (Q3: theatre performance; Q5: market exchange).

MEMORY TRICK **Love, volunteer, self-use = no market, no production.** Ask: will it be sold?

CARD 3.03 T 1.1 · MEMORISE

★ OL 1.1.1 · Scanner Q27 · SM p.3.33

FRONT · RECALL ALOUD

Name the **four factors of production**.

BACK · ANSWER

Land, labour, capital and entrepreneurial ability (organisation).

Q27: wrong options replace the fourth factor with industrial policy, fiscal policy or technology.

MEMORY TRICK **L-L-C-E**: Land, Labour, Capital, Entrepreneur.

CARD 3.04 T 1.1 · MCQ TRAP

★★★ OL 1.1.2, 1.1.4 · Scanner Q2, Q8, Q11, Q14, Q16, Q21, Q24 · SM p.3.6

FRONT · RECALL ALOUD

List the **seven characteristics of land**. Which three things is land NOT?

BACK · ANSWER

- Free gift of nature; fixed supply; permanent and indestructible (Ricardo); **passive**; **immobile**; multiple uses; **heterogeneous**.

Land is **NOT perishable, NOT active, NOT homogeneous**.

Trap options: (d) perishable (Q2), (b) active factor (Q14, Q16, Q24), (a) homogeneous (Q21).

MEMORY TRICK **F-F-P-P-I-M-H**: Free, Fixed, Permanent, Passive, Immobile, Multiple, Heterogeneous. Land sits still; labour is the active one.

CARD 3.05 T 1.1 · CONCEPT

★ OL 1.1.3 · Scanner Q4 · SM p.3.6

FRONT · RECALL ALOUD

How elastic is the supply of land for the economy and for a single firm?

BACK · ANSWER

For the economy: **perfectly inelastic** (Q4, answer d).

For a firm: **relatively elastic**.

MEMORY TRICK **Whole nation, no more land; one firm, can rent more.**

CARD 3.06 T 1.1 · MCQ TRAP

★★ OL 1.1.5 · Scanner Q8, Q18, Q33 · SM pp.3.7–3.8

FRONT · RECALL ALOUD

List the characteristics of **labour**. Which one is a trap?

BACK · ANSWER

- Perishable; active; inseparable from the labourer; heterogeneous; not all labour is productive; weak bargaining power; **mobile**; no rapid adjustment of supply.

Trap: 'labour is NOT mobile' is false (Q18); labour is mobile, though with obstacles.

Q8: labour is NOT a passive factor.

MEMORY TRICK **Labour lives and cannot be stored**: perishable, active, inseparable. Land is its opposite.

CARD 3.07 T 1.1 · CONCEPT

★ OL 1.1.6 · Scanner Q35 · SM p.3.8

FRONT · RECALL ALOUD

Why does the supply curve of labour bend backwards?

BACK · ANSWER

Beyond a **desired level of income**, the labourer prefers **more leisure** to more money, so supply falls as wages rise further (Q35, option b).

MEMORY TRICK **Enough money, more rest**: the curve turns back when leisure beats the extra rupee.

CARD 3.08 T 1.1 · MEMORISE

★ OL 1.1.7 · Scanner Q32 · SM p.3.8

FRONT · RECALL ALOUD

Define **capital**. Is it a stock or a flow?

BACK · ANSWER

That part of wealth used for **further production of wealth**.

Called **produced means of production**; capital is a **stock** concept, its income is a flow.

Q32: the answer is capital.

MEMORY TRICK **Capital is the stock; income is the flow**, like a tank and its tap.

CARD 3.09 T 1.1 · MEMORISE

★★★ OL 1.1.8 · Scanner Q20, Q25, Q29, Q34 · SM pp.3.8–3.9

FRONT · RECALL ALOUD

Distinguish **fixed, circulating, intangible and social capital** with examples.

BACK · ANSWER

- **Fixed**: durable, renders a series of services (tools, machines).
- **Circulating**: single use, not available again (seeds, fuel, raw materials).
- **Intangible**: rights and benefits not perceived by senses (goodwill, patents, copyrights).
- **Social**: belongs to society (roads, bridges).

MEMORY TRICK **Series = Fixed; Single = Circulating.** One machine gives many services; one seed gives one use.

CARD 3.10 T 1.1 · MEMORISE

★★ OL 1.1.9 · Scanner Q9, Q30 · SM pp.3.10–3.12

FRONT · RECALL ALOUD

What are the **functions of an entrepreneur**? What is NOT a necessary function?

BACK · ANSWER

- Initiating the enterprise and co-ordinating resources (the first function).
- Risk and uncertainty bearing.
- Innovations.

NOT necessary: **supervision of day-to-day production**, a manager's task (Q9, option d).

MEMORY TRICK **I-R-I**: Initiate, Risk, Innovate. Daily supervision is the manager's shift.

CARD 3.11 T 1.1 · CONCEPT

★ OL 1.1.10, 1.1.11 · Scanner Q12 · SM pp.3.11–3.12

FRONT · RECALL ALOUD

What is **profit** for the entrepreneur, and which entrepreneurial function is the most important?

BACK · ANSWER

Profit is the **uncertain residual** after paying factors their contractual rewards (Q12: income from business).

Risk bearing is the most important function; it cannot be delegated. Knight: profit rewards bearing **uncertainty**.

MEMORY TRICK **Others get paid first; the entrepreneur gets what is left**, or a loss.

CARD 3.12 T 1.1 · MEMORISE

★★ OL 1.1.12 · Scanner Q5, Q15, Q17 · SM p.3.12

FRONT · RECALL ALOUD

Who gave the concept of **innovative entrepreneurship**?

BACK · ANSWER

Schumpeter: the true function of an entrepreneur is to introduce innovations (Q5, Q15, Q17).

Wrong options: Marshall, Joel Dean, Karl Marx, Knight, Max Weber.

MEMORY TRICK **Schumpeter = Sparks of new ideas.** S for Schumpeter, S for spark.

CARD 3.13 T 1.1 · MEMORISE

★ OL 1.1.13, 1.1.15 · Scanner Q26, Q31 · SM pp.3.12–3.16

FRONT · RECALL ALOUD

Name the **five objectives of an enterprise**. Which is 'survival, growth and expansion'?

BACK · ANSWER

Organic, Economic, Social, Human, National.

Organic: survive by recovering costs, then grow (Q26).

Human: make job contents interesting and challenging (Q31).

National: train young men as apprentices for skill formation.

MEMORY TRICK **O-E-S-H-N**: 'Old Eagles Sing Happy Notes'.

CARD 3.14 T 1.1 · COMPARE

★ OL 1.1.14 · Scanner Q19 · SM p.3.14

FRONT · RECALL ALOUD

Distinguish **accounting profit** from **economic profit**.

BACK · ANSWER

Accounting profit = total revenue minus **explicit** costs.

Economic profit also deducts **implicit** costs (self-owned factors), so it is generally **lower**.

Q19: the correct statement is that economic profit includes opportunity cost of self-owned factors.

MEMORY TRICK **Economist is the stricter examiner**: more deductions, smaller profit.

CARD 3.15 T 1.1 · MEMORISE

★ OL 1.1.16 · Scanner Q28 · SM p.3.19

FRONT · RECALL ALOUD

What are the **4 P's** an enterprise decides on after identifying its market?

BACK · ANSWER

Product, Promotion, Price, Place (Q28, option c).

Trap options use Purchase or Profit.

MEMORY TRICK **P-P-P-P**: the word 'Purchase' and 'Profit' are impostors.

CARD 3.16 T 1.1 · FORMULA

★★ OL 1.1.18, 1.1.19, 1.1.23 · Scanner Q13, Q22 · Not in SM unit (Scanner)

FRONT · RECALL ALOUD

Q22: investment rises by ₹600 cr and national income by ₹1,800 cr. What is the MPC? What is the output-maximising condition (Q13)?

BACK · ANSWER

k = 1,800 ÷ 600 = 3, and MPC = 1 – 1/k = 1 – 1/3 = 2/3. None of 3, 4, 5, so option (d).

Output is maximised where **MR = MC** (Q13); taken up in Chapter 4.

Economies of scale (internal and external) are covered in Unit 2 (Q7: two kinds).

MEMORY TRICK **MPC = 1 – 1/k**: first find k, then subtract its reciprocal from 1.

CARD 3.17 T 1.1 · RECALL CHAIN

SM text · No direct Q · SM pp.3.6–3.12

FRONT · RECALL ALOUD

Recall the story of the four factors and their rewards.

BACK · ANSWER

Land (passive, fixed) and labour (active, perishable) are primary factors; **capital** is produced; the **entrepreneur** combines them, bears risk and innovates.

Others receive contractual rewards; the entrepreneur gets the uncertain **profit**.

MEMORY TRICK **Land lies, Labour works, Capital is made, the Entrepreneur takes the risk.**

CARD 3.18 T 1.2 · MEMORISE

★★★ OL 1.2.1 · Scanner Q13, Q25, Q44, Q47, Q59, Q62 · SM pp.3.20, 3.33

FRONT · RECALL ALOUD

Define the **production function**. What did **Samuelson** say?

BACK · ANSWER

The **technical relationship between inputs and output**.

Samuelson: the relationship between the **maximum output** that can be produced and the inputs required, for a given state of technology.

Q47 phrases it as the **minimum inputs** needed for a given output.

MEMORY TRICK **Max out, min in**: the same relationship read two ways, for a given technology.

CARD 3.19 T 1.2 · COMPARE

★ OL 1.2.2 · Scanner Q54 · SM p.3.21

FRONT · RECALL ALOUD

Distinguish the **short run** from the **long run** in production.

BACK · ANSWER

Short run: **at least one input is fixed**.

Long run: **all inputs are variable**.

Q54 trap: 'in the short run all inputs are fixed' and 'in the long run all inputs except one are fixed' are both wrong.

MEMORY TRICK **Short = stuck on one; Long = free on all.**

CARD 3.20 T 1.2 · FORMULA

★★ OL 1.2.3 · Scanner Q1, Q16, Q41, Q55 · SM pp.3.21–3.22

FRONT · RECALL ALOUD

Write the **Cobb-Douglas** function. What did the study find about labour and capital?

BACK · ANSWER

Q = K·L^a·C^(1–a), where Q is output, L labour and C capital (Q41, option d).

Based on US manufacturing; inputs are **labour and capital** (Q55).

Labour contributed about **3/4** and capital about **1/4** (Q16).

MEMORY TRICK **Labour three-quarters, capital one-quarter**: the exponents a and 1–a add up to one whole.

CARD 3.21 T 1.2 · MCQ TRAP

★★ OL 1.2.4 · Scanner Q4, Q18, Q20, Q33 · SM p.3.22

FRONT · RECALL ALOUD

By what other names is the **law of variable proportions** known? In which run does it operate?

BACK · ANSWER

Also the law of **diminishing returns** and the law of **returns to a variable input**.

It operates in the **short run only**, not the long run (Q4, Q20, Q33).

Q18: in the short run it is the law of diminishing returns (option b).

MEMORY TRICK **Variable proportions = short and snappy**: one input moves, others stay.

CARD 3.22 T 1.2 · FORMULA

★★★ OL 1.2.5, 1.2.6 · Scanner Q9, Q10, Q11, Q28, Q29, Q30, Q37, Q39, Q40, Q42, Q43 · SM pp.3.22–3.23

FRONT · RECALL ALOUD

Give the formulas for **MP, AP and TP**. How do you solve a missing-value schedule?

BACK · ANSWER

MPn = TPn – TPn–1 (the slope of the TP curve).

AP = TP ÷ number of units of the variable factor.

TP = sum of MPs = AP × units.

Example (Q28–Q29): MP1 to MP3 = 200, 180, 160, so TP3 = 540; with TP4 = 680, MP4 = 680 – 540 = 140.

MEMORY TRICK **Build the schedule first**: fill TP, then MP is the step, AP is the share.

CARD 3.23 T 1.2 · CONCEPT

★★ OL 1.2.7, 1.1.17 · Scanner Q8, Q17, Q50 · SM pp.3.23–3.24

FRONT · RECALL ALOUD

How are **MP and AP** related when AP rises, is maximum and falls?

BACK · ANSWER

AP rising: **MP > AP** (Q50).

AP maximum: **MP = AP**; MP cuts AP at its maximum.

AP falling: **MP < AP** (Q17).

MEMORY TRICK **The newcomer pulls the class average**: above average lifts it, below drags it, equal holds it.

CARD 3.24 T 1.2 · MEMORISE

★ OL 1.2.8 · Scanner Q45 · SM p.3.24

FRONT · RECALL ALOUD

State the **assumptions of the law of variable proportions**. Which statement is NOT one?

BACK · ANSWER

- Technology is given and unchanged.
- Some input is fixed.
- Factors are not used in fixed proportions.
- Only physical inputs and outputs are considered.

NOT an assumption: 'all units of the variable factor are different' (Q45, option c).

MEMORY TRICK **T-F-P-P**: Technology, Fixed input, Proportions flexible, Physical terms.

CARD 3.25 T 1.2 · MCQ TRAP

★★★ OL 1.2.9 · Scanner Q2, Q10, Q14, Q38, Q46, Q56 · SM p.3.25

FRONT · RECALL ALOUD

What happens to MP at the **point of inflexion**? What does a flattening TP signal?

BACK · ANSWER

At the point of inflexion **MP is maximum** (Q2, Q14, Q46).

Q10 trap: at maximum MP, AP does NOT equal MP; AP = MP only at maximum AP.

TP flattening (rising at a decreasing rate) signals the onset of **diminishing marginal returns** (Q38, Q56).

MEMORY TRICK **Inflexion = MP peak**: the road stops steepening and starts to flatten.

CARD 3.26 T 1.2 · CONCEPT

★★★ OL 1.2.10 · Scanner Q19, Q24, Q35, Q48, Q58, Q60, Q61 · SM pp.3.25–3.27

FRONT · RECALL ALOUD

Describe the **three stages** of the law of variable proportions. Where does TP fall?

BACK · ANSWER

- Stage 1 **increasing returns**: ends where AP is highest.
- Stage 2 **diminishing returns**: TP rises at a diminishing rate to its maximum, where MP = 0; MP and AP fall but stay positive.
- Stage 3 **negative returns**: TP falls and MP < 0 (Q19, Q48).

Q58: 'TP continues to decrease' is NOT true of Stage 2.

MEMORY TRICK **Up, Slow, Down**: Stage 1 TP climbs faster, Stage 2 slows to its peak, Stage 3 goes down.

CARD 3.27 T 1.2 · CONCEPT

★ OL 1.2.11 · Scanner Q31 · SM pp.3.25–3.26

FRONT · RECALL ALOUD

Why do increasing and diminishing returns to a factor occur?

BACK · ANSWER

Increasing: **fuller use and indivisibility of the fixed factor** and greater **efficiency of the variable factor**.

Diminishing: the fixed factor becomes **inadequate**.

Q31: 'limitation of fixed factor' is NOT a reason for increasing returns.

MEMORY TRICK **Room to grow, then crowded room**: first the machine is under-used, later too many hands.

CARD 3.28 T 1.2 · CONCEPT

★★ OL 1.2.12 · Scanner Q35 · SM p.3.27

FRONT · RECALL ALOUD

In which stage does a **rational producer** operate, and why?

BACK · ANSWER

Only **Stage 2**.

Stage 3 (MP negative) output can rise by cutting the variable factor; Stage 1 wastes the fixed factor while AP still rises.

Stages 1 and 3 are 'economic absurdity' (Q35: both A and R are true, R explains A).

MEMORY TRICK **Middle stage, middle path**: the producer avoids both ends.

CARD 3.29 T 1.2 · MCQ TRAP

★ OL 1.2.13 · Scanner Q8 · SM p.3.31

FRONT · RECALL ALOUD

Q8: which of these is NOT included in the laws of production?

BACK · ANSWER

Least-cost combination of factors (option d) is production optimisation, not a law of production.

The laws of production are returns to scale, the law of variable proportions and diminishing returns to a factor.

MEMORY TRICK **Laws describe output; optimisation chooses inputs.**

CARD 3.30 T 1.2 · CONCEPT

★★ OL 1.2.14 · Scanner Q21, Q23, Q57, Q64 · SM pp.3.27–3.28

FRONT · RECALL ALOUD

What are **returns to scale**, and in which run do they occur?

BACK · ANSWER

The study of output when **all inputs are changed in the same proportion** (Q57).

They occur in the **long run** (Q21, Q23, Q64).

Not the same as increasing marginal returns, which are short run.

MEMORY TRICK **Scale = all together, so long run.**

CARD 3.31 T 1.2 · MEMORISE

★★★ OL 1.2.15 · Scanner Q3, Q26, Q36, Q49 · SM pp.3.28–3.29

FRONT · RECALL ALOUD

Define **CRS, IRS and DRS**. What is another name for constant returns to scale?

BACK · ANSWER

- **CRS**: output rises in the same proportion; called the **linear homogeneous production function** (Q3, Q49).
- **IRS**: output rises more than proportionately.
- **DRS**: output rises less than proportionately (Q26).

A firm passes through IRS first, then a long phase of CRS, then DRS.

MEMORY TRICK **More, Same, Less** for IRS, CRS, DRS, in the order a firm grows.

CARD 3.32 T 1.2 · FORMULA	★★ OL 1.2.16 · Scanner Q1, Q7, Q27, Q63 · SM p.3.29
FRONT · RECALL ALOUD In Cobb-Douglas Q = K·L^a·C^b, what do a + b > 1, = 1 and < 1 mean?	BACK · ANSWER a + b > 1: **increasing** returns to scale. a + b = 1: **constant** returns to scale; the original form assumed CRS (Q27). a + b < 1: **decreasing** returns to scale. Q63: 1/2 + 2/3 = 7/6 > 1, so IRS.

MEMORY TRICK **Sum against one**: above one grows faster, equal one grows alike, below one grows slower.

CARD 3.33 T 1.2 · MEMORISE	★ OL 1.2.19 · Scanner Q32 · Not in SM unit (Scanner)
FRONT · RECALL ALOUD What is the **secular period**?	BACK · ANSWER The **very long period** (Q32, option c), longer than the long run; taken up in Chapter 4.

MEMORY TRICK **Secular = super long.**

CARD 3.34 T 1.3 · MEMORISE	★★ OL 1.3.1 · Scanner Q1, Q3, Q4, Q5, Q11 · SM p.3.30
FRONT · RECALL ALOUD What is an **isoquant**?	BACK · ANSWER An **equal-product or iso-product curve** showing all combinations of inputs that give the **same output**. Isoquants equal 'product lines' (Q1, Q3). Not an iso-cost line or budget line.

MEMORY TRICK **Iso = same, quant = quantity**: same quantity, many input mixes.

CARD 3.35 T 1.3 · MCQ TRAP	★★ OL 1.3.2 · Scanner Q2, Q9 · SM p.3.30
FRONT · RECALL ALOUD State the **properties of isoquants**. Convex or concave to the origin?	BACK · ANSWER Negatively sloped; **convex** to the origin (diminishing MRTS); non-intersecting. Q2: the incorrect statement is 'concave to origin'. In Q9 all three properties hold, so (d).

MEMORY TRICK **Down, Bowed-in, Never touching.**

CARD 3.36 T 1.3 · CONCEPT	★★ OL 1.3.3 · Scanner Q6, Q8, Q10 · SM pp.3.30–3.31
FRONT · RECALL ALOUD What is an **iso-cost line**? Why is it straight?	BACK · ANSWER Also the **budget line**: combinations of two factors the firm can buy with a **given outlay**. Straight because the market rate of exchange between inputs (factor prices) is constant (Q6, Q8).

MEMORY TRICK **Same bill, any basket.**

CARD 3.37 T 1.3 · FORMULA

★ OL 1.3.4, 1.3.5 · Scanner Q7, Q12 · SM pp.3.31–3.32

FRONT · RECALL ALOUD

What is the **least-cost combination**? Write the producer's equilibrium condition.

BACK · ANSWER

Where the **isoquant is tangent to the iso-cost line**.

MRTS_LK = MP_L ÷ MP_K = P_L ÷ P_K (Q12: all of the above).

Q7: if MRTS_LK = 2, MP_K ÷ MP_L = 1/2.

MEMORY TRICK **Touch, don't cross**: the cheapest point just kisses the budget line.

CARD 3.38 T 2.0 · COMPARE

★★ OL 2.0.1, 2.0.2 · Scanner Q2, Q4, Q5, Q7, Q8, Q9, Q29 · SM pp.3.35–3.36

FRONT · RECALL ALOUD

What are **accounting (explicit) cost** and **economic cost**? How do they compare?

BACK · ANSWER

Accounting cost = **explicit** cost: cash payments to factor suppliers (wages, materials, fuel, rent, interest on borrowings), recorded in the books.

Economic cost = **explicit + implicit**, so **accounting cost < economic cost** (Q2).

Accounting costs do NOT include implicit cost (Q9).

MEMORY TRICK **Books show only the bills paid.** Economic cost adds the bills you could have earned.

CARD 3.39 T 2.0 · CONCEPT

★★★ OL 2.0.3, 2.0.4 · Scanner Q10, Q13, Q22, Q24; 2.1 Q4 · SM p.3.36

FRONT · RECALL ALOUD

What is **implicit cost**? How is it calculated for the owner's own capital?

BACK · ANSWER

Own capital's **normal return** plus the entrepreneur's **foregone salary**.

If an input is owned and used by the firm, its **explicit cost is zero** (Q22).

Implicit cost = capital × normal rate: ₹50,000 × 10% = ₹5,000 (Q24).

Interest on own capital is implicit (Q13).

MEMORY TRICK **Own money, own time, no invoice**: the cost is what they could have earned elsewhere.

CARD 3.40 T 2.0 · CONCEPT

★★ OL 2.0.5, 2.0.6 · Scanner 2.0 Q23, Q27; 2.4 Q12 · SM p.3.36

FRONT · RECALL ALOUD

Where does **normal profit** sit in cost? When is economic profit zero, and when is profit supernormal?

BACK · ANSWER

Normal profit is **part of implicit cost** (Q23).

If TR just covers explicit + implicit cost, **economic profit is zero**: price = minimum ATC (Q27).

Supernormal profit arises only above that. Q12: ₹15,000 normal profit + ₹25,000 = ₹40,000 ÷ 500 = ₹80, so supernormal profit needs price above ₹80 (₹82).

MEMORY TRICK **Zero economic profit is not zero money**: the owner's pay is already inside the cost.

CARD 3.41 T 2.0 · FORMULA

★★ OL 2.0.7 · Scanner Q5, Q21 · SM pp.3.14, 3.36

FRONT · RECALL ALOUD

Write the formulas for **accounting profit** and **economic profit**. How is implicit cost linked to profit?

BACK · ANSWER

Accounting profit = TR – explicit costs.

Economic profit = TR – explicit – implicit costs.

Implicit cost = business profit – economic profit (Q21).

Q5 trap: 'accounting profit = TR less implicit costs' is false.

MEMORY TRICK **Accounting forgets the owner**: explicit only; economics subtracts both.

CARD 3.42 T 2.0 · MCQ TRAP

★★★ OL 2.0.8, 2.0.9, 2.1.4 · Scanner 2.0 Q11, Q14, Q17, Q25; 2.1 Q1 · SM pp.3.36–3.37

FRONT · RECALL ALOUD

Distinguish **outlay cost** from **opportunity cost**. Is opportunity cost recorded in the books?

BACK · ANSWER

Outlay cost: actual expenditure (wages, materials, rent, interest), **recorded in books** (Q11).

Opportunity cost: the **next best alternative foregone**; it is **NOT recorded** in the books (Q25 trap).

Useful in long-term calculations, e.g. cost of higher education.

MEMORY TRICK **Outlay = outgo; opportunity = overlooked.** One leaves a record, the other leaves a regret.

CARD 3.43 T 2.0 · MEMORISE

★ OL 2.0.10 · Scanner Q26 · SM p.3.37

FRONT · RECALL ALOUD

What is **incremental cost**? Give examples.

BACK · ANSWER

The **additional cost** of a business decision: new product line, replacing machinery, a new production facility, new clients (Q26).

MEMORY TRICK **Increment = the extra step you decide to take.**

CARD 3.44 T 2.0 · MEMORISE

★★★ OL 2.0.11, 2.0.12, 2.0.13 · Scanner Q18, Q20, Q30 · SM pp.3.37–3.38

FRONT · RECALL ALOUD

What are **sunk costs**? Examples? Why do they matter?

BACK · ANSWER

Incurred **once and for all** and **cannot be recovered**.

Examples: advertising, R&D, specialised equipment, fixed facilities such as railway lines (Q30: advertising already incurred).

Act as a **barrier to entry**; **not relevant** to economic decisions (Q18).

MEMORY TRICK **Sunk = sunk ship**: it is gone, so do not plan the voyage around it.

CARD 3.45 T 2.0 · CONCEPT

★★ OL 2.0.14, 2.0.15 · Scanner Q12, Q28, Q37 · SM p.3.38

FRONT · RECALL ALOUD

Which costs are **fixed** and which **variable**? What are shut down costs?

BACK · ANSWER

Fixed costs cannot be avoided until operations **close down**; **shut down costs** continue even after suspension.

Variable: wages of **casual labourers**, raw materials (Q28: wages for factory labour).

Q37: if only part of labour can be dismissed, wages are partly fixed, partly variable.

MEMORY TRICK **Fixed stays till the shutters close; variable leaves with the last unit.**

CARD 3.46 T 2.1 · CONCEPT

★★ OL 2.1.1, 2.1.2 · Scanner Q2, Q3, Q7 · SM p.3.39

FRONT · RECALL ALOUD

What is a **cost function**? What determines it, and what does it shape?

BACK · ANSWER

A **functional (mathematical) relation** between cost and its determinants: price of a factor, size of output, technology, capacity utilisation, efficiency and time period.

Obtained from the production function and the market supply of inputs; expresses cost against output.

The **price of the firm's output is NOT** a determinant (Q7).

The **shape of the cost curves** depends on the cost function (Q3).

MEMORY TRICK **Cost looks at inputs and output, never at the selling price.**

CARD 3.47 T 2.2 · COMPARE

★ OL 2.2.1 · Scanner Q38 · SM p.3.39

FRONT · RECALL ALOUD

What changes in the short run and in the long run in cost terms?

BACK · ANSWER

Short run: only **variable factors** change.

Long run: all factors change, so **all costs are variable** (Q38).

MEMORY TRICK **Long run, nothing is fixed, so nothing is fixed cost.**

CARD 3.48 T 2.2 · MEMORISE

★★ OL 2.2.2, 2.2.3, 2.0.16 · Scanner 2.0 Q1; 2.2 Q36, Q50 · SM pp.3.40–3.41

FRONT · RECALL ALOUD

Classify costs by variability. What is a **stair-step** cost?

BACK · ANSWER

Fixed, **variable** and **semi-variable** (e.g. electricity: fixed charge plus consumption charge) (Q50).

Stair-step: fixed over a range of output, then jumps to a higher level (foreman's salary) (2.0 Q1; 2.2 Q36).

MEMORY TRICK **Stairs have steps, so costs climb in jumps.**

CARD 3.49 T 2.2 · FORMULA

★★★ OL 2.2.5, 2.1.3 · Scanner 2.1 Q8; 2.2 Q6, Q12, Q24 · SM p.3.42

FRONT · RECALL ALOUD

Write **TC** in terms of fixed and variable cost. What is the vertical gap between TC and TVC?

BACK · ANSWER

TC = TFC + TVC, so TC – TVC = TFC.

The vertical gap between TC and TVC is **TFC** (Q6).

TFC is the **constant term** of the cost function (2.1 Q8: TC = 2,000 + 15Q – $6Q^2$ + Q^3 gives TFC = ₹2,000).

MEMORY TRICK **Fixed is the floor**: TC sits on TVC at a constant height.

CARD 3.50 T 2.2 · MEMORISE

★★ OL 2.2.4, 2.2.6 · Scanner Q33, Q41 · SM p.3.42

FRONT · RECALL ALOUD

Describe the **TFC and TVC curves**. What is TVC's shape?

BACK · ANSWER

TFC: **horizontal line** starting on the Y-axis (fixed cost even at zero output).

TVC: starts from the **origin**; inversely S-shaped; once diminishing returns begin it rises at an **increasing rate** (Q33, Q41).

MEMORY TRICK **TFC floats at height; TVC starts at home.**

CARD 3.51 T 2.2 · MCQ TRAP

★★★ OL 2.2.7 · Scanner Q1, Q2, Q4, Q7, Q13, Q39, Q40, Q57 · SM p.3.42

FRONT · RECALL ALOUD

Write the formula for **AFC**. What is its shape?

BACK · ANSWER

AFC = TFC ÷ Q.

It **falls throughout**, **never touches the X-axis** (AFC cannot be zero) and is **never U-shaped**.

Example: TFC ₹2,000: AFC is ₹20 at 100 units and ₹10 at 200 units.

MEMORY TRICK **AFC only ever shrinks**: a fixed pie shared among more units.

CARD 3.52 T 2.2 · FORMULA

★★★ OL 2.2.8, 2.1.6 · Scanner 2.1 Q6; 2.2 Q3, Q5, Q14, Q29, Q45 · SM p.3.42

FRONT · RECALL ALOUD

How do you solve **AFC sums** when only TC or an AFC at one output is given?

BACK · ANSWER

TFC = TC at Q = 0, or TFC = AFC × Q.

Then new AFC = TFC ÷ new Q.

Q29: AFC ₹20 at 6 units gives TFC ₹120; at 4 units AFC = ₹30. Q14: TC at 0 = 100, so AFC at 4 = 25.

MEMORY TRICK **Find the pie first, then re-slice it.**

CARD 3.53 T 2.2 · FORMULA

★★★ OL 2.2.9, 2.2.10 · Scanner 2.1 Q5; 2.2 Q9, Q15, Q28, Q35, Q43, Q47, Q51 · SM pp.3.42–3.43

FRONT · RECALL ALOUD

Write the formulas for **AVC**. How does it behave?

BACK · ANSWER

AVC = TVC ÷ Q = ATC – AFC.

It **falls** (increasing returns to the variable factor), reaches a minimum, then **rises** (diminishing returns).

Q47: TC 1,000, FC 200, Q 100, so AVC = ₹8.

MEMORY TRICK **AVC is the variable bill per unit**: dips with efficiency, climbs with crowding.

CARD 3.54 T 2.2 · FORMULA

★★★ OL 2.2.11, 2.2.12 · Scanner Q18, Q19, Q34, Q52 · SM p.3.43

FRONT · RECALL ALOUD

Write the formulas for **ATC**. Why do ATC and AVC converge at high output?

BACK · ANSWER

ATC = AFC + AVC = TC ÷ Q; **U-shaped**.

They converge because AFC becomes a **relatively smaller part** of ATC as output rises (Q34).

Q52: ATC at 4 units = (100 + 110) ÷ 4 = ₹52.50.

MEMORY TRICK **ATC = the full fare; AFC is the shrinking fixed ticket**, so the gap closes.

CARD 3.55 T 2.2 · FORMULA	★★★ OL 2.2.13, 2.2.14 · Scanner Q16, Q25, Q26, Q30, Q49, Q53, Q56 · SM pp.3.43–3.44
FRONT · RECALL ALOUD Write the formulas for **MC**. Does fixed cost affect it?	BACK · ANSWER MCn = TCn – TCn–1 = change in TVC; over steps, MC = ΔTC ÷ ΔQ. **Independent of fixed cost**: only variable cost changes. Q56: 'MC = TC' is incorrect. SM: 5 units cost ₹200, 6 units ₹250, so MC = ₹50.

MEMORY TRICK **MC is the price of one more unit**: the step, not the staircase.

CARD 3.56 T 2.2 · CONCEPT	★★ OL 2.2.15, 2.2.16 · Scanner Q11, Q23, Q46, Q55 · SM p.3.44
FRONT · RECALL ALOUD Why is the **MC curve U-shaped**? What does a rising MC show?	BACK · ANSWER It follows the **law of variable proportions**: MP rises, peaks, then falls, so MC falls, bottoms, then rises. **Diminishing returns begin where MC starts rising** (Q11, Q46: between units 3 and 4).

MEMORY TRICK **MC is the mirror of MP**: when productivity peaks, cost bottoms.

CARD 3.57 T 2.2 · MCQ TRAP	★★★ OL 2.2.17, 2.2.18 · Scanner Q8, Q10, Q32, Q42, Q58 · SM p.3.45
FRONT · RECALL ALOUD State the **AC-MC relationship**. Where does MC cut AC?	BACK · ANSWER AC falling: **MC < AC** (Q42); AC rising: **MC > AC**; AC minimum: **MC = AC**. MC cuts AC (and AVC) at their **minima** (Q58, option c). Q10 trap: 'AC falling, MC must fall' is wrong; MC only needs to be below AC.

MEMORY TRICK **Same rule as marks**: a score below your average drags it down, above lifts it.

CARD 3.58 T 2.2 · RECALL CHAIN	SM text · No direct Q · SM pp.3.42–3.45
FRONT · RECALL ALOUD Recall the short-run cost chain from TC to MC.	BACK · ANSWER TC = TFC + TVC; **AFC** falls always; **AVC** and **ATC** are U-shaped, ATC = AFC + AVC. **MC** cuts AVC and ATC at their minima.

MEMORY TRICK **Fixed falls, variable falls then rises; marginal cuts both at the bottom.**

CARD 3.59 T 2.3 · CONCEPT	★★★ OL 2.3.1, 2.3.2, 2.3.3, 2.4.7 · Scanner 2.3 Q2, Q3, Q5, Q7, Q8; 2.4 Q9 · SM pp.3.45–3.47
FRONT · RECALL ALOUD What are **SAC and LAC curves** called? How is LAC drawn against the SACs?	BACK · ANSWER SAC curves are **plant curves** (Q8). LAC is the **envelope** curve, tangent to each SAC and **not at their minima**; also the **planning curve** (Q2, Q3, Q5, Q7). It is tangent to the falling parts of SACs when falling and the rising parts when rising.

MEMORY TRICK **Plants are the rungs; the envelope is the ribbon around them.**

CARD 3.60 T 2.3 · MCQ TRAP

★★ OL 2.3.4, 2.4.5 · Scanner 2.3 Q1, Q4, Q9; 2.4 Q8 · SM p.3.47

FRONT · RECALL ALOUD

What causes the **U-shape of LAC**? Is it the variable factor ratio?

BACK · ANSWER

Due to **returns to scale**, NOT the variable factor ratio (Q4).

Economies (internal + external) give a **falling** LAC; diseconomies give a **rising** LAC (2.3 Q9).

SAC's U-shape is the one due to variable factor ratio.

MEMORY TRICK **SAC: ratio. LAC: scale.**

CARD 3.61 T 2.4 · CONCEPT

★ OL 2.4.1, 2.4.2 · Scanner Q8 · SM p.3.48

FRONT · RECALL ALOUD

What are **internal economies**? What happens beyond a limit?

BACK · ANSWER

Economies **within the firm**, accruing from its own efforts.

A firm first enjoys internal economies, then **internal diseconomies** (Q8).

MEMORY TRICK **Internal = my own doing.**

CARD 3.62 T 2.4 · MEMORISE

★★★ OL 2.4.3, 2.2.19 · Scanner 2.4 Q11, Q14, Q15; 2.2 Q44 · SM pp.3.48–3.50

FRONT · RECALL ALOUD

List the **kinds of internal economies**. Which is NOT internal?

BACK · ANSWER

Technical, managerial, commercial (bulk buying, by-products), **financial, risk-bearing**.

Technical: superior techniques and greater division of labour at larger scale.

Q14: bulk purchase is internal.

NOT internal: supply of skilled labour (Q11); localisation of industries (Q15).

MEMORY TRICK **T-M-C-F-R**: 'Tiny Mice Chew Fresh Rice'.

CARD 3.63 T 2.4 · MEMORISE

★★★ OL 2.4.4 · Scanner Q3, Q6, Q17 · SM pp.3.50–3.51

FRONT · RECALL ALOUD

List the **external economies**, which come from industry expansion.

BACK · ANSWER

- Cheaper raw materials and equipment; technology; skilled labour.
- Growth of ancillary industries; transport and marketing; information.

Q6: all of these are external (d). Q17: development of skilled labour.

MEMORY TRICK **M-T-S-A-T-I**: Materials, Technology, Skill, Ancillary, Transport, Information.

CARD 3.64 T 2.4 · CONCEPT

★ OL 2.4.6 · Scanner Q13 · SM pp.3.51–3.52

FRONT · RECALL ALOUD

What is an **external diseconomy**? What does a fall in input demand do?

BACK · ANSWER

Rising demand for inputs raises **factor prices**, a disadvantage from outside the firm.

The reverse: a decrease in input demand **pulls input prices down** (Q13).

MEMORY TRICK **Crowded market, dearer inputs.**

CARD 3.65 T 2.4 · CONCEPT	★★ OL 2.3.5, 2.4.9, 2.0.17 · Scanner 2.3 Q6; 2.4 Q1, Q2, Q5; 2.0 Q19 · Not in SM unit (Scanner)
FRONT · RECALL ALOUD What is **economies of scope**? When does a firm shut down in the short run?	BACK · ANSWER Economies of scope: ATC falls when a firm **produces more than one product** (2.3 Q6). Shut down if **price < AVC**; shutting down is temporary. At the shut-down point P = AVC, TR = TVC and loss = TFC (2.0 Q19). Taken up in Chapter 4.

MEMORY TRICK **Scope = many products; shut down when AVC is not covered.**

CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

Flash Cards with Memory Tricks

Chapter 4 · Price Determination in Different Markets · 69 cards

How to use these cards

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Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
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1.1	Types of Market Structures	4.11 – 4.13	3	★★
1.2	Concepts of Total Revenue, Average Revenue and Marginal Revenue	4.14 – 4.24	11	★★★
2.0	Introduction	4.25 – 4.26	2	★★★
2.1	Determination of Prices - A General View	4.27	1	★
2.2	Changes in Demand and Supply	4.28 – 4.29	2	★★
2.3	Simultaneous Changes in Demand and Supply	4.30 – 4.32	3	★★★
3.0	Perfect Competition	4.33 – 4.44	12	★★★
3.1	Monopoly	4.45 – 4.55	11	★★★
3.2	Imperfect Competition-Monopolistic Competition	4.56 – 4.60	5	★★★
3.3	Oligopoly	4.61 – 4.69	9	★★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 4.01 T 1.0 · MCQ TRAP

★ OL 1.0.1 · Scanner 2.0 Q1, Q2, Q3 · SM p.4.3

FRONT · RECALL ALOUD

Prices express which kind of value? What is **exchange value** according to **Ricardo**?

BACK · ANSWER

Price is **money-value**; prices of goods express **exchange value** (not cost, not nominal value).

Ricardo: exchange value = **command over commodities in general**, i.e. power in exchange over purchasable commodities.

Trap: Economics is concerned **only with exchange value**, NOT value in use or sentimental value.

MEMORY TRICK **Use is private, exchange is public.** Only what the market will swap counts in Economics.

CARD 4.02 T 1.0 · CONCEPT

★ OL 1.0.2 · Scanner 1.0 Q3, Q13 · SM p.4.3

FRONT · RECALL ALOUD

Define a **market** in Economics. Must it be a physical place?

BACK · ANSWER

A market is a **collection of buyers and sellers with the potential to trade**; their actual or potential interactions determine price.

Simply: all those buyers and sellers of a good or service who **influence price**.

It **need not be formal** or held in one place (online shops, newspaper advertisements).

MEMORY TRICK **Market = people, not place.** Where buyers and sellers can meet and move the price, a market exists.

CARD 4.03 T 1.0 · MEMORISE

★★★ OL 1.0.3 · Scanner 1.0 Q3, Q27 · SM pp.4.3–4.4

FRONT · RECALL ALOUD

List the **five elements of a market**.

BACK · ANSWER

- (i) **Buyers and sellers**
- (ii) A **product or service**
- (iii) **Bargaining** for a price
- (iv) **Knowledge** about market conditions
- (v) **One price** for a product or service at a given time

MEMORY TRICK **B-P-B-K-O:** Buyers, Product, Bargaining, Knowledge, One price. Five fingers, five elements.

CARD 4.04 T 1.0 · MCQ TRAP

★★★ OL 1.0.3, 1.1.5 · Scanner 1.0 Q9, Q10, Q17, Q27; 1.1 Q2 · SM pp.4.3–4.4

FRONT · RECALL ALOUD

Which options are **NOT** elements of a market in the Scanner questions?

BACK · ANSWER

NOT elements: **volume of business** (Q9), **no bargaining** (Q10), **advertisement and awareness** (Q17), **a firm** (1.1 Q2).

Also wrong: **multiple prices** at a given time (Q27); the SM says **one price** at a given time.

The valid set is buyers and sellers, product or service, bargaining, knowledge of conditions, one price.

MEMORY TRICK **V-A-F-M are the impostors:** Volume, Advertisement, Firm, Multiple prices. None of them is in the five.

CARD 4.05 T 1.0 · COMPARE

★ OL 1.0.4 · Scanner 1.0 Q26 · SM p.4.4

FRONT · RECALL ALOUD

Distinguish **product markets** from **factor markets**.

BACK · ANSWER

- **Product market:** households buy the goods and services they want **from firms**.
- **Factor market:** firms buy the resources they need (**land, labour, capital, entrepreneurship**) to produce.

Prices in factor markets are called **factor prices**.

MEMORY TRICK **Product = households shop; Factor = firms shop.** Who holds the shopping bag tells you the market.

CARD 4.06 T 1.0 · MEMORISE

★ OL 1.0.5 · Scanner 1.0 Q23 · SM p.4.4

FRONT · RECALL ALOUD

On what **six bases** are markets generally classified?

BACK · ANSWER

- **Area** (geographical)
- **Time**
- **Nature of transaction**
- **Regulation**
- **Volume of business**
- **Competition**

MEMORY TRICK **A-T-N-R-V-C:** A Trader Never Rejects Volume Competition. Q23: classification uses time, area and volume, so 'all of these'.

CARD 4.07 T 1.0 · MEMORISE

★★ OL 1.0.6 · Scanner 1.0 Q21 · SM pp.4.4–4.5

FRONT · RECALL ALOUD

Name the four **area-based** markets with the SM clue for each.

BACK · ANSWER

- **Local:** buyers and sellers limited to a local area.
- **Regional:** a few adjacent cities, parts of states or a cluster of states (Q21).
- **National:** trade policy keeps trade within the country.
- **International:** high value, small bulk goods such as **gold and silver**.

MEMORY TRICK **Street, State, Nation, World**: the market grows one ring at a time, like ripples.

CARD 4.08 T 1.0 · MEMORISE

★★ OL 1.0.7, 1.0.8 · Scanner 1.0 Q2, Q8, Q14, Q16, Q29, Q30 · SM p.4.5

FRONT · RECALL ALOUD

Who conceived the **time element** in markets? Name the four time-based markets.

BACK · ANSWER

Time element conceived by **Alfred Marshall**.

- **Very short** = market period: supply fixed (perishables).
- **Short** period; **Long** period: 'normal price'.
- **Very long** = **secular period** (Q8).

MEMORY TRICK **Marshall measures time: Market, Short, Long, Secular.** M-S-L-S: supply gets freer as the clock runs.

CARD 4.09 T 1.0 · COMPARE

★★★ OL 1.0.9, 1.1.6 · Scanner 1.0 Q1, Q5, Q7, Q12, Q19; 1.1 Q5 · SM pp.4.5–4.6

FRONT · RECALL ALOUD

Distinguish **spot (cash)** market from **forward (future)** market.

BACK · ANSWER

- **Spot/cash:** goods exchanged for money payable **immediately** or within a short span. Eg grain in the mandi at current price (Q19).
- **Forward/future:** contract to pay and deliver at a **future date**. Eg foreign currency contract at a future rate from a bank (1.1 Q5).

MEMORY TRICK **Spot = now, Forward = later.** Cash in hand at the mandi; a promise on paper at the bank.

CARD 4.10 T 1.0 · COMPARE

★★ OL 1.0.10, 1.0.11 · Scanner 1.0 Q4, Q11, Q15, Q28 · SM p.4.6

FRONT · RECALL ALOUD

Distinguish **regulated** from **unregulated** markets, and **wholesale** from **retail** markets.

BACK · ANSWER

- **Regulated:** statutorily regulated, eg **stock exchange**. **Unregulated:** a **free market** with no stipulations, eg **Haat Bazaar** (Q4).
- **Wholesale:** bulk, between traders, **B2B** (Q11). **Retail:** small quantities to ultimate consumers, **B2C** (Q15, Q28).

MEMORY TRICK **Rules or none; Bulk or small.** Stock exchange has a rule-book, Haat has none; wholesale sells by the lot, retail by the piece.

CARD 4.11 T 1.1 · MEMORISE

★ OL 1.1.1, 1.1.2, 1.1.3 · Scanner 1.1 Q1, Q6, Q7 · SM pp.4.6–4.7, 4.14

FRONT · RECALL ALOUD

What is **market share**? Name the four market forms and the three factors deciding the type of market.

BACK · ANSWER

Market share = a firm's demand as a percentage of industry demand (Q1).

Four forms: **perfect competition, monopolistic competition, oligopoly, monopoly**. Firm's elasticity of demand is **infinite only under perfect competition** (Q7).

Type of market depends on **nature of commodity, size of production, extent of demand** (Q6).

MEMORY TRICK **N-S-E decides the form:** Nature, Size, Extent. Four forms, three deciders.

CARD 4.12 T 1.1 · COMPARE

SM text · No direct Q · SM p.4.7

FRONT · RECALL ALOUD

Compare the four market forms on number of sellers, product differentiation, elasticity of a firm's demand and control over price (SM Table 1).

BACK · ANSWER

- **Perfect competition:** very large numbers · none · infinite · none.
- **Monopolistic competition:** large · slight · large · some.
- **Oligopoly:** small · none to substantial · small · some.
- **Monopoly:** one · extreme · small · very considerable.

MEMORY TRICK **Control climbs as sellers shrink:** none, some, some, very considerable. Fewer sellers, firmer grip.

CARD 4.13 T 1.1 · MCQ TRAP

★★ OL 1.1.4 · Scanner 1.1 Q3, Q4 · SM p.4.11

FRONT · RECALL ALOUD

A market demand curve slopes downward. Can you infer the market structure?

BACK · ANSWER

No. A downward-sloping market demand fits **every structure**, so the structure **cannot be determined** from it (Q3 key: option d).

Do not pick perfect competition, monopoly or imperfect competition from this clue alone.

MEMORY TRICK **A slope is not a signature.** Every market's demand falls; the firm's curve is what differs.

CARD 4.14 T 1.2 · FORMULA

★★ OL 1.2.1 · Scanner 1.2 Q13, Q17, Q27 · SM pp.4.8, 4.56

FRONT · RECALL ALOUD

Write the formula for **total revenue**. What does a competitive firm's TR curve look like?

BACK · ANSWER

TR = P × Q (price × quantity sold). Eg 130 units at ₹50 gives TR = ₹6,500 (Q13).

For a perfectly competitive firm the TR curve is a **straight line, positively sloped, through the origin** (Q17).

MEMORY TRICK **TR = Price Times Quantity.** Constant price means each unit adds the same, so the line is straight.

CARD 4.15 T 1.2 · FORMULA

★★★ OL 1.2.2, 1.0.12 · Scanner 1.2 Q12, Q15, Q23, Q31; 1.0 Q24 · SM pp.4.8–4.9

FRONT · RECALL ALOUD

Write the formula for **average revenue**. What else is the AR curve called?

BACK · ANSWER

AR = TR ÷ Q = P (price per unit). Eg TR ₹6,050 on 121 units gives AR = ₹50 (Q12).

The **AR curve is the firm's demand curve**.

MEMORY TRICK **AR is the Price tag; the AR curve is the Demand curve.** Same line, two names.

CARD 4.16 T 1.2 · FORMULA

★★★ OL 1.2.3, 1.2.4, 1.0.13 · Scanner 1.2 Q8, Q48, Q51; 1.0 Q25 · SM pp.4.9–4.10

FRONT · RECALL ALOUD

Write the formulas for **marginal revenue**. Can MR be zero or negative?

BACK · ANSWER

MR = ΔTR ÷ ΔQ; for a one-unit change, **MRn = TRn − TRn−1**.

Eg TR3 = ₹240, TR4 = ₹300, so MR of the 4th unit = ₹60 (Q51).

MR **can be zero or negative**: TR ₹570 at 19 units and ₹560 at 20 units gives MR = −₹10 (1.0 Q25).

MEMORY TRICK **MR = Newest TR minus Previous TR.** Mind the sign: a drop in TR means negative MR.

CARD 4.17 T 1.2 · FORMULA

★★★ OL 1.2.3, 1.2.4 · Scanner 1.2 Q6, Q9 · SM p.4.9

FRONT · RECALL ALOUD

Price ₹20, quantity 10 units. Price falls 5% and quantity rises 10%. Find MR. What is the first step?

BACK · ANSWER

From P and Q, **compute TR first**.

Old TR = 20 × 10 = ₹200. New price ₹19, new quantity 11, so TR = ₹209.

MR = ΔTR ÷ ΔQ = (209 − 200) ÷ (11 − 10) = **₹9**.

MEMORY TRICK **Price, Quantity, then TR, then MR:** P-Q-TR-MR, never jump straight to MR.

CARD 4.18 T 1.2 · CONCEPT

★ OL 1.2.5, 1.2.6 · Scanner 1.2 Q41; 3.1 Q63 · SM p.4.10

FRONT · RECALL ALOUD

When AR is falling, why is **MR below price**? How is TR related to MR?

BACK · ANSWER

To sell one more unit the price falls on **all units**, so earlier units are sold for less.

SM example: the 3rd unit sells at ₹8, but the two earlier units lose ₹1 each, so MR = ₹6, below ₹8.

So for any falling AR, **MR < price** and the MR curve lies below AR.

TR = ΣMR: MR of units 1, 2, 3 = ₹10, ₹5, ₹3 gives TR = ₹18 (Q41).

MEMORY TRICK **The price cut is a group discount.** The newcomer pays less, and so does everyone before him.

CARD 4.19 T 1.2 · CONCEPT

★★★ OL 1.2.7 · Scanner 1.2 Q5, Q16, Q29, Q33, Q37 · SM pp.4.10–4.11

FRONT · RECALL ALOUD

Describe how **TR behaves** as MR falls. What is TR when MR = 0?

BACK · ANSWER

TR **rises at a diminishing rate** because MR is diminishing (Q16, Q29).

TR is **maximum when MR = 0** (Q5, Q33, Q37).

TR **falls when MR < 0**.

MEMORY TRICK **Hill climb:** MR positive = going up, MR zero = at the peak, MR negative = going down.

CARD 4.20 T 1.2 · COMPARE

★ OL 1.2.6, 1.2.8 · Scanner 1.2 Q34, Q55 · SM pp.4.10–4.11

FRONT · RECALL ALOUD

Compare the AR and MR curves under **perfect competition** and under **imperfect competition or monopoly**.

BACK · ANSWER

- **Perfect competition:** AR = MR, both **horizontal and coincident** (Q55).
- **Imperfect competition or monopoly:** AR slopes down and MR lies below it.

Here **AR cannot be zero, but MR can be zero or negative** (Q34).

MEMORY TRICK **One line or two lines?** Price taker draws one (AR on MR); price maker draws two (MR drops below).

CARD 4.21 T 1.2 · FORMULA

★★★ OL 1.2.9, 1.2.10 · Scanner 1.2 Q2, Q18, Q42, Q45 · SM pp.4.11–4.12

FRONT · RECALL ALOUD

Write the relation between **MR, AR and elasticity**. Which value of e do we use?

BACK · ANSWER

MR = AR × (e − 1) ÷ e, where e is price elasticity of demand; take **e as a positive number**.

Eg AR ₹45, e = 3: MR = 45 × (3 − 1) ÷ 3 = **₹30** (Q45). AR 5, e = 2 gives MR = 2.5 (Q18).

MEMORY TRICK **'e minus one over e':** MR is AR trimmed by the fraction (e−1)/e. Bigger e, smaller trim.

CARD 4.22 T 1.2 · CONCEPT

★★ OL 1.2.11, 1.2.12 · Scanner 1.2 Q4, Q20, Q43, Q50 · SM p.4.12

FRONT · RECALL ALOUD

How does elasticity decide the **sign of MR**? Where is TR maximum?

BACK · ANSWER

- **e = 1** → MR = 0.
- **e > 1** → MR positive.
- **e < 1** → MR negative.

TR is maximum where e = 1 (Q43); on a straight-line demand curve that is the middle point.

MEMORY TRICK **Above one, money grows; at one, it peaks; below one, it shrinks.** Elastic top, unitary middle, inelastic bottom.

CARD 4.23 T 1.2 · CONCEPT

★★ OL 1.2.13 · Scanner 1.2 Q1, Q3, Q40; 3.0 Q33, Q60 · SM p.4.13

FRONT · RECALL ALOUD

State **Principle 1**: when should a firm shut down? What happens at the shut-down point?

BACK · ANSWER

Shut down if **TVC is not covered**, i.e. **P (AR) < AVC** (Q1, Q33, Q60).

At the shut-down point **P = AVC, TR = TVC** and the **loss equals TFC** (Q40: all three hold).

Shutting down is temporary; fixed cost is sunk.

MEMORY TRICK **Can't pay the wages? Close the shop.** Variable cost is the wage bill; fixed rent is lost either way.

CARD 4.24 T 1.2 · CONCEPT

★★★ OL 1.2.14, 1.2.15 · Scanner 1.2 Q3, Q24, Q28, Q35, Q36, Q46, Q47 · SM p.4.13

FRONT · RECALL ALOUD

State **Principle 2**: at what output is profit maximum? How do MR and MC slope?

BACK · ANSWER

Maximum profit where **MR = MC**, the **first-order condition** (Q47).

MR slopes downward; MC slopes upward (Q24).

Produce while MR > MC; beyond the point MC > MR and profit falls.

MEMORY TRICK **Stop when the next unit costs what it earns.** MR = MC is the brake; MC cuts MR from below.

CARD 4.25 T 2.0 · MEMORISE

★★ OL 2.0.1 · Scanner 2.0 Q1, Q2 · SM p.4.16

FRONT · RECALL ALOUD

What do prices of goods express? Name the factor prices.

BACK · ANSWER

Prices express **exchange value** (Q1, Q2).

Factor prices (prices in factor markets): **rent, wages, interest, profit**.

MEMORY TRICK **R-W-I-P:** Rent, Wages, Interest, Profit, the four payments to the factors.

CARD 4.26 T 2.0 · COMPARE

★★★ OL 2.0.3, 2.3.5 · Scanner 2.0 Q5, Q6; 2.3 Q1, Q2 · SM pp.4.16–4.17

FRONT · RECALL ALOUD

Distinguish a **price floor** from a **price ceiling**. What follows from a ceiling?

BACK · ANSWER

- **Price floor:** fixed by government **above** equilibrium (support or procurement price, Q6).
- **Price ceiling:** the **maximum** price, fixed **below** equilibrium.

Ceiling below equilibrium causes **shortages, allocation problems among consumers, black marketing** (Q2: all of the above).

MEMORY TRICK **Floor is a Floor under the farmer; Ceiling is a Cap on the buyer's bill.** Ceiling below the mark empties the shelves.

CARD 4.27 T 2.1 · CONCEPT

★ OL 2.1.1, 2.1.2 · Scanner 2.1 Q1, Q2 · SM pp.4.17–4.19

FRONT · RECALL ALOUD

What is **equilibrium price**? What happens above and below it?

BACK · ANSWER

Equilibrium (**market clearing**) price: **Qd = Qs**, no unsold stock and no unsupplied demand (Q1).

Above: surplus → price falls. **Below:** shortage (excess demand) → price rises (Q2). This self-correction is **stable equilibrium**.

MEMORY TRICK **Too dear, shelves fill; too cheap, shelves empty.** Either way price walks back to the middle.

CARD 4.28 T 2.2 · MEMORISE

★★ OL 2.2.1, 2.2.2, 2.2.3, 2.2.4, 2.2.5 · Scanner 2.2 Q1, Q3, Q7, Q8, Q13, Q16, Q19, Q22 · SM pp.4.20–4.21

FRONT · RECALL ALOUD

Non-price factors shift curves (right = increase, left = decrease). Give the effect of one shift on equilibrium **price and quantity**.

BACK · ANSWER

Right = **increase**, left = **decrease** (Q8).

- **Demand ↑** → P ↑, Q ↑.
- **Demand ↓** → P ↓, Q ↓.
- **Supply ↑** → P ↓, Q ↑.
- **Supply ↓** → P ↑, Q ↓.

MEMORY TRICK **Demand moves price and quantity together; supply moves them apart.**

CARD 4.29 T 2.2 · CONCEPT

★★ OL 2.2.2 · Scanner 2.2 Q12, Q20 · SM p.4.25

FRONT · RECALL ALOUD

Buyers **expect prices to rise** next year. Which curve shifts and which way?

BACK · ANSWER

The **demand curve shifts right**: buyers buy more now (Q20).

With supply constant, equilibrium price and quantity both rise (Q12).

MEMORY TRICK **Buy today, before it's dearer.** Expected rise in price shifts demand right.

CARD 4.30 T 2.3 · CONCEPT

★★★ OL 2.3.1, 2.3.2 · Scanner 2.2 Q2, Q4, Q5, Q6, Q15, Q17, Q21 · SM p.4.22

FRONT · RECALL ALOUD

Demand and supply shift in the **same direction**. What is certain and what is uncertain?

BACK · ANSWER

Quantity is certain: up if both increase, down if both decrease (Q4, Q21).

Price is uncertain; equal shifts leave price unchanged (Q2); the **larger shift decides price** (Q6, Q17).

MEMORY TRICK **Same way, same crowd:** quantity follows both; price waits for the bigger shifter.

CARD 4.31 T 2.3 · CONCEPT

★★ OL 2.3.3 · Scanner 2.2 Q9, Q14, Q18 · SM p.4.23

FRONT · RECALL ALOUD

Demand and supply shift in **opposite directions**. What is certain?

BACK · ANSWER

Price is certain, moving with demand: demand ↑ and supply ↓ → price rises (Q9, Q18); demand ↓ and supply ↑ → price falls (Q14).

Quantity is uncertain (depends on relative size of shifts).

MEMORY TRICK **Opposite ways: price follows demand, quantity is a toss-up.**

CARD 4.32 T 2.3 · MEMORISE	★★ OL 2.3.4 · Scanner 2.2 Q11 · SM pp.4.24–4.25
FRONT · RECALL ALOUD SM Illustration 1: which point results from each change?	BACK · ANSWER • Income ↑ and factor price ↑ (D2 + S3) → **point 2**. • Complement price ↓ and technology gain (D2 + S2) → **point 7**. • Heavy rains hit rice (S3 alone) → **point 3**. • Expected car price rise (D2 alone) → **point 5**.

MEMORY TRICK **2-7-3-5:** a four-digit PIN for the four shifts.

CARD 4.33 T 3.0 · MEMORISE	★★ OL 3.0.2, 3.0.4 · Scanner 3.0 Q15, Q22, Q23, Q32, Q46, Q48 · SM pp.4.28–4.29, 4.39
FRONT · RECALL ALOUD List the conditions of **pure** and **perfect** competition. Is it found in real life?	BACK · ANSWER **Pure competition:** large number of buyers and sellers · homogeneous product (perfect substitutes) · free entry and exit. **Perfect competition adds:** perfect knowledge · very low transaction costs · all firms price-takers. A **myth**; agricultural products, financial instruments and precious metals come close (Q15, Q22).

MEMORY TRICK **Pure = 3, Perfect = 3 more.** Many, Same, Free; then Know, Cheap deals, Take price.

CARD 4.34 T 3.0 · MCQ TRAP	★★★ OL 3.0.3 · Scanner 3.0 Q7, Q17, Q20, Q30, Q38, Q49 · SM pp.4.29, 4.56
FRONT · RECALL ALOUD Which options are **NOT** features of perfect competition?	BACK · ANSWER NOT features: **selling cost** (Q7), **inelastic demand** (Q38), **inefficient allocation of resources** (Q20), **informative advertising** (Q17). **Absence of transport cost** is not an SM condition of pure competition (Q30, Q49). Under perfect competition there are no selling costs and resources are allocated efficiently.

MEMORY TRICK **Perfect markets don't shout:** no selling, no advertising, no waste, no inelastic demand.

CARD 4.35 T 3.0 · CONCEPT	★★★ OL 3.0.1 · Scanner 3.0 Q1, Q5, Q27, Q36, Q40 · SM p.4.30
FRONT · RECALL ALOUD Who sets price under perfect competition? What is the firm's role?	BACK · ANSWER The **industry price** is set by **market demand = market supply** (Q5, Q27). Firms are **price takers** with **no control over price** (Q1, Q36, Q40).

MEMORY TRICK **The market sets the table; the firm only chooses how much to eat.**

CARD 4.36 T 3.0 · CONCEPT

★★★ OL 3.0.5, 3.0.6, 3.0.7 · Scanner 3.0 Q10, Q12, Q26, Q28, Q29, Q31, Q37, Q44; 1.2 Q55 · SM pp.4.30–4.31

FRONT · RECALL ALOUD

Describe the **firm's demand curve** under perfect competition. How are AR, MR and P related?

BACK · ANSWER

Firm's demand (AR) is a **horizontal line, parallel to the X-axis**, **infinitely elastic** (Q10, Q12, Q37).

AR = MR = P only under perfect competition (Q26).

The **market demand curve still slopes downward**; only the firm's curve is flat.

MEMORY TRICK **Flat line = fixed price.** A price taker looks at the sea level; the market itself still has waves.

CARD 4.37 T 3.0 · CONCEPT

★★★ OL 3.0.8, 3.0.9 · Scanner 3.0 Q2, Q4, Q8, Q16, Q19, Q35, Q42 · SM pp.4.31–4.32

FRONT · RECALL ALOUD

State the **two conditions** for a firm's equilibrium. What if MR > MC or MR < MC?

BACK · ANSWER

(i) **MR = MC**; (ii) **MC cuts MR from below**, i.e. MC has a **positive slope** (Q42).

MR > MC → expand output (Q4); **MR < MC** → reduce output.

MEMORY TRICK **Equal, and rising.** MC meets MR level, then climbs through it from underneath.

CARD 4.38 T 3.0 · CONCEPT

★★ OL 3.0.10, 3.0.11 · Scanner 3.0 Q9, Q33, Q34, Q60 · SM p.4.33

FRONT · RECALL ALOUD

What is a competitive firm's **short-run supply curve**? When does it supply nothing?

BACK · ANSWER

Short-run supply curve = the **MC curve above minimum AVC** (Q9, Q34).

If **price < AVC** (TR < TVC) the firm supplies zero and **shuts down** (Q33, Q60).

MEMORY TRICK **MC above the AVC floor is the supply staircase.** Below the floor, the lights go off.

CARD 4.39 T 3.0 · COMPARE

★★ OL 3.0.12, 3.0.13 · Scanner 3.0 Q11, Q14, Q18, Q43 · SM pp.4.33–4.35

FRONT · RECALL ALOUD

Compare **normal profit, supernormal profit and loss** in the short run.

BACK · ANSWER

- **Normal profit:** AR = ATC, zero economic profit (Q14, Q18).
- **Supernormal profit:** AR > ATC (Q43). SM: ATC ₹20, price ₹22 gives ₹2 per unit.
- **Loss:** ATC > AR.

All three are possible in the short run, with MR = MC in each.

MEMORY TRICK **Equal, Above, Below:** AR equals, beats, or trails ATC.

CARD 4.40 T 3.0 · FORMULA

★★ OL 3.0.14, 3.0.15 · Scanner 3.0 Q3, Q6, Q21, Q25; 3.2 Q23 · SM pp.4.37–4.39

FRONT · RECALL ALOUD

What happens in the **long run** under perfect competition? State the equilibrium condition.

BACK · ANSWER

Entry and exit leave only **normal profit** (Q6, Q21); all firms earning supernormal profit is NOT true (3.2 Q23).

LMC = LAC = P; and **LAR = LMR = P = LMC = LAC** (Q3, Q25).

MEMORY TRICK **Profit invites guests, loss sends them away, so only normal stays.**

CARD 4.41 T 3.0 · MEMORISE

★★ OL 3.0.16 · Scanner 3.0 Q25, Q53, Q54, Q61 · SM pp.4.38–4.39

FRONT · RECALL ALOUD

List the **long-run optimality** outcomes of perfect competition.

BACK · ANSWER

- Output at **minimum feasible cost**
- **P = MC**
- Plants at **full capacity**, no wastage, no excess capacity (Q53, Q54, Q61)
- Only **normal profit** (AC = AR)
- Profit maximised (MC = MR) at normal level
- **Optimum number of firms**

MEMORY TRICK **Six 'bests':** least Cost, fair Price, Full use, Normal profit, Max-at-MC, right Number.

CARD 4.42 T 3.0 · COMPARE

★★ OL 3.0.17, 3.0.19 · Scanner 3.0 Q41, Q47, Q53, Q54; 3.1 Q23 · SM pp.4.39, 4.55

FRONT · RECALL ALOUD

Compare **perfect competition** and **monopoly** on price, output and capacity.

BACK · ANSWER

- **Perfect competition: P = MC**, supply higher, full capacity, no excess capacity (Q41, Q54).
- **Monopoly: P > MC**, charges more, supplies less, has no unique supply curve (Q47; 3.1 Q23).

MEMORY TRICK **Competition prices at cost; monopoly prices above it.** Equal sign versus greater-than sign.

CARD 4.43 T 3.0 · MCQ TRAP

★ OL 3.0.18 · Scanner 3.0 Q24 · SM p.4.31

FRONT · RECALL ALOUD

Very large number of sellers and intense competition: what is the ICAI key for **elasticity of supply**?

BACK · ANSWER

ICAI key (Q24): **infinite**.

Careful: the SM speaks of the firm's **demand** being infinitely elastic; the 'supply' wording is the key's.

MEMORY TRICK **Many sellers, endless supply:** the key says infinite.

CARD 4.44 T 3.0 · FORMULA

★★ OL 3.0.20, 3.0.21 · Scanner 3.0 Q51, Q52, Q56, Q57, Q58, Q59; 2.0 Q4 · SM p.4.34

FRONT · RECALL ALOUD

Recall the **cost facts** used in this chapter.

BACK · ANSWER

- **Normal profit** = implicit cost; not in accounting cost (Q58). **TFC = TC – TVC** (Q59).
- **AFC**: rectangular hyperbola (Q51). **AVC** falls while MC < AVC (Q52).
- **LAC**: envelope of SACs, U-shaped (Q56); **SAC** U-shaped from increasing then diminishing returns (Q57).
- Economic cost = explicit + implicit (2.0 Q4).

MEMORY TRICK **Hyperbola for fixed, U for the rest.** AFC bends like a slide; averages dip like a U.

CARD 4.45 T 3.1 · MEMORISE	★★ OL 3.1.1 · Scanner 3.1 Q8, Q15, Q22, Q25, Q42 · SM pp.4.39–4.40
FRONT · RECALL ALOUD List the features of **monopoly**. Which options are NOT features?	BACK · ANSWER Features: **single seller · barriers to entry · no close substitutes · market power**. NOT features: **large number of sellers** (Q15), **free entry**, **homogeneous product**, a single **buyer** (Q42).

MEMORY TRICK **S-B-N-M:** Single seller, Barriers, No substitutes, Market power.

CARD 4.46 T 3.1 · MEMORISE	★★★ OL 3.1.2 · Scanner 3.1 Q19, Q29, Q46, Q56 · SM pp.4.40–4.41
FRONT · RECALL ALOUD What is the **fundamental cause** of monopoly? Name the sources.	BACK · ANSWER **Barriers to entry** (Q46); entry is restricted at all times (Q56). Sources: **patents and copyrights** (Q29), **government rights**, **scarce resources**, **natural monopoly**. **Nuclear power** is a government monopoly (Q19).

MEMORY TRICK **P-G-S-N:** Patents, Government, Scarce inputs, Natural monopoly.

CARD 4.47 T 3.1 · CONCEPT	★★★ OL 3.1.3, 3.1.4, 3.1.5 · Scanner 3.1 Q4, Q7, Q17, Q34, Q38, Q49, Q55, Q57 · SM pp.4.39–4.41
FRONT · RECALL ALOUD Describe the monopolist's demand and control over price.	BACK · ANSWER **Cross elasticity zero or very small** (Q49); **price elasticity < 1** (Q57); **steep downward-sloping AR** (Q7, Q34, Q38). **Firm = industry**: demand = market demand (Q4, Q55). **Price maker**; control very considerable (Q17).

MEMORY TRICK **No cousins, no escape:** zero cross elasticity, steep curve, big control.

CARD 4.48 T 3.1 · COMPARE	★★ OL 3.1.6 · Scanner 3.1 Q5, Q21, Q28, Q52, Q63 · SM pp.4.42–4.43
FRONT · RECALL ALOUD State the AR and MR relationship of a monopoly.	BACK · ANSWER **MR < AR** (Q21); both slope downward. **Slope of MR is twice** that of AR (Q28, Q52). **AR cannot be zero**, but **MR can be zero or negative** (Q5).

MEMORY TRICK **MR falls twice as fast.** Steepness doubles; zero is allowed for MR only.

CARD 4.49 T 3.1 · FORMULA	★★ OL 3.1.7 · Scanner 3.1 Q51, Q53 · SM p.4.47
FRONT · RECALL ALOUD Write MR in terms of AR and e, and AR in terms of MR. Which market gets more output?	BACK · ANSWER **MR = AR(1 − 1/e)**; **AR = MR·e/(e − 1)**. Price 60: e = 5 → MR 48; e = 6 → MR 50 (Q51). MR 15, e = 1.5 → AR = 45 (Q53). Shift output to the market with the **higher MR**.

MEMORY TRICK **Move the goods to where the marginal rupee is bigger.**

CARD 4.50 T 3.1 · CONCEPT	★★★ OL 3.1.8, 3.1.9, 3.1.10 · Scanner 3.1 Q24, Q40, Q47, Q48, Q58 · SM pp.4.40, 4.44–4.45
FRONT · RECALL ALOUD Does a monopolist always earn profit? What happens in the long run?	BACK · ANSWER **Short-run losses possible** if **ATC > AR** (Q48). **Long run:** no continuing losses; **supernormal profit persists** because **entry is blocked** (Q24, Q40). **Market power** = price above MC with positive profit (Q47, Q58).

MEMORY TRICK **The gate keeps profit in.** Blocked entry means long-run supernormal profit.

CARD 4.51 T 3.1 · CONCEPT	★★ OL 3.1.11 · Scanner 3.1 Q2, Q54 · SM p.4.51
FRONT · RECALL ALOUD What are the effects of monopoly?	BACK · ANSWER **Higher price**, **lower output**, **unjust profits** (Q2). So governments **regulate and prevent** monopolies (Q54).

MEMORY TRICK **Dearer, Scarcer, Richer** for the monopolist; hence the regulator.

CARD 4.52 T 3.1 · CONCEPT	★★ OL 3.1.12, 3.1.13, 3.1.18 · Scanner 3.1 Q9, Q10, Q16, Q31, Q36, Q59 · SM pp.4.43, 4.46, 4.48–4.50
FRONT · RECALL ALOUD Define price discrimination. Under which market is it impossible? What does a discriminating monopolist decide?	BACK · ANSWER Different prices for different units of the same commodity, **not cost-based** (Q16). Simple vs **discriminating monopoly** (dynamic fares, Q31). Needs monopoly; **impossible under perfect competition** (Q10, Q36, Q59). Decides **total output**, its **split (equal MRs)** and **prices** (higher where demand is less elastic) (Q9).

MEMORY TRICK **Three decisions: How much, Where, At what price.**

CARD 4.53 T 3.1 · MEMORISE	★★★ OL 3.1.14 · Scanner 3.1 Q1, Q39, Q43, Q64 · SM p.4.46
FRONT · RECALL ALOUD List the **conditions** for price discrimination.	BACK · ANSWER • **Price-setting power** • **Separable sub-markets** • **Different elasticities** (profitable only then, Q1, Q64) • **No resale** (Q43: resale possible is NOT a condition)

MEMORY TRICK **P-S-E-N:** Power, Separate, Elasticities differ, No resale.

CARD 4.54 T 3.1 · MEMORISE	★★ OL 3.1.15 · Scanner 3.1 Q26 · SM pp.4.47–4.48
FRONT · RECALL ALOUD List the **objectives** of price discrimination.	BACK · ANSWER Maximum profit · dispose of surplus stock · economies of scale · **capture foreign markets** · equity through pricing. Q26: 'to escape foreign market' is NOT an objective.

MEMORY TRICK **P-S-E-F-E:** Profit, Stock, Economies, Foreign, Equity.

CARD 4.55 T 3.1 · COMPARE

★★★ OL 3.1.16, 3.1.17 · Scanner 3.1 Q6, Q13, Q14, Q20, Q30, Q33, Q44, Q50, Q62, Q66 · SM p.4.48

FRONT · RECALL ALOUD

Distinguish Pigou's **three degrees** with examples.

BACK · ANSWER

- **1st:** each individual consumer, **entire surplus** (Q50).
- **2nd: quantities sold** (Q44).
- **3rd: location or customer segment** (Q62): dumping, domestic vs commercial electricity, railway senior-citizen fares (Q66).

MEMORY TRICK **One, Quantity, Segment.** 1st person, 2nd packs, 3rd groups.

CARD 4.56 T 3.2 · MEMORISE

★★ OL 3.2.1, 3.2.2, 3.2.4, 3.2.5 · Scanner 3.2 Q2, Q3, Q9, Q11, Q13, Q14, Q15, Q16, Q19, Q26 · SM pp.4.52–4.53

FRONT · RECALL ALOUD

List the features of **monopolistic competition**. What is its main feature, and who separated selling cost from production cost?

BACK · ANSWER

Many sellers, differentiated close substitutes, free entry, non-price competition (Q15, Q16).

Product differentiation is the main feature, the only difference from perfect competition (Q2, Q13).

Non-price competition and huge selling costs (Q9, Q11, Q14).

Chamberlin distinguished **selling cost from production cost** (Q26).

MEMORY TRICK **Many, Different, Free, Non-price:** M-D-F-N. Brand is the battlefield, not price.

CARD 4.57 T 3.2 · MEMORISE

★★★ OL 3.2.3 · Scanner 3.2 Q1, Q7, Q20, Q21, Q29 · SM p.4.52

FRONT · RECALL ALOUD

Give examples of monopolistic competition.

BACK · ANSWER

Soaps and detergents (Q20), **toothpaste** (Q1), **restaurants** (Q21), **hotels** (Q7), **repair shops** (Q29), clothing, retail trade.

MEMORY TRICK **Wash, Brush, Eat, Stay, Mend, Wear, Shop:** one brand on every daily errand.

CARD 4.58 T 3.2 · CONCEPT

★★★ OL 3.2.6 · Scanner 3.2 Q5, Q8, Q10, Q17 · SM pp.4.53, 4.55

FRONT · RECALL ALOUD

Describe the **demand curve** under monopolistic competition and compare it with monopoly.

BACK · ANSWER

Downward sloping, relatively elastic (Q5, Q8: Lux soap elastic).

MR lies below it (Q10).

Monopoly's demand curve is steeper (Q17).

MEMORY TRICK **Brand gives a slope; rivals keep it flat.** Monopoly has no rivals, so the slope is steep.

CARD 4.59 T 3.2 · MCQ TRAP

★ OL 3.2.7, 3.2.8, 3.2.9 · Scanner 3.2 Q4, Q6, Q18, Q25 · SM pp.4.54–4.55

FRONT · RECALL ALOUD

Short-run and long-run profit in monopolistic competition? Does the firm ever reach minimum LAC?

BACK · ANSWER

Short run: normal profit, supernormal profit or loss (Q25).

Long run: normal profit only, as in perfect competition (Q4, Q6).

NEVER at the lowest point of LAC (Q18): **excess capacity**, not of optimum size.

MEMORY TRICK **Profit goes, excess stays.** Normal profit like perfect competition, but the plant is never full.

CARD 4.60 T 3.2 · COMPARE

SM text · No direct Q · SM pp.4.55–4.56

FRONT · RECALL ALOUD

Compare perfect competition, monopoly and monopolistic competition (SM Table 7).

BACK · ANSWER

- **Price:** PC price-taker, P = MC; monopoly price maker, P > MC; MC some control, P > MC.
- **Long-run profit:** PC none supernormal; monopoly supernormal short and long run; MC none.
- **Selling costs:** PC none; monopoly generally low; MC vital.
- **Cost point:** PC minimum average cost; monopoly and MC declining portion of AC (MC has excess capacity).

MEMORY TRICK **Taker, Maker, Mixer:** perfect takes, monopoly makes, monopolistic mixes.

CARD 4.61 T 3.3 · CONCEPT

★★★ OL 3.2.10, 3.3.1, 3.3.2, 3.3.9 · Scanner 3.3 Q20, Q21, Q27, Q30, Q39, Q60; 3.2 Q27 · SM pp.4.56–4.58

FRONT · RECALL ALOUD

Define oligopoly. Which markets have differentiated products? Where does oligopoly price lie?

BACK · ANSWER

Competition among the few (2–10), homogeneous or differentiated, **strong barriers to entry**, **price makers** (Q27, Q30).

Differentiated products: monopolistic competition and oligopoly (3.2 Q27; Q60).

Price lies **between** competitive and monopoly price (Q39; PYQ-only).

MEMORY TRICK **Few, Fenced, Fixing:** few firms, fenced-in entry, they fix price.

CARD 4.62 T 3.3 · MEMORISE

★★★ OL 3.3.3 · Scanner 3.3 Q2, Q14, Q16, Q41, Q48 · SM pp.4.57, 4.60

FRONT · RECALL ALOUD

Give examples of oligopoly and the best example of a cartel.

BACK · ANSWER

Cold drinks, automobiles, airlines, telecom, ISPs, smartphones (Q16, Q41, Q48).

OPEC is the best example of a cartel (Q2, Q14).

MEMORY TRICK **Sip, Drive, Fly, Call, Surf, Tap:** six daily habits ruled by a few firms; OPEC is the oil club.

CARD 4.63 T 3.3 · COMPARE

★★★ OL 3.3.5, 3.3.6 · Scanner 3.3 Q12, Q15, Q18, Q22, Q29, Q40, Q49, Q58, Q63, Q70 · SM pp.4.57–4.58

FRONT · RECALL ALOUD

Distinguish the **five pairs of oligopoly types**.

BACK · ANSWER

- **Pure** (homogeneous: aluminium) vs **imperfect** (differentiated: talcum powder).
- **Open** (new firms can enter) vs **closed** (entry restricted).
- **Collusive** (common understanding) vs **competitive**.
- **Partial** (one dominant leader) vs **full** (no leader).
- **Syndicated** (central syndicate) vs **organised** (central association).

MEMORY TRICK **P-O-C-P-S:** Product, Open, Collusion, Partial, Syndicate.

CARD 4.64 T 3.3 · MCQ TRAP	★★★ OL 3.3.7, 3.3.8 · Scanner 3.3 Q5, Q11, Q26, Q43, Q46, Q47, Q66, Q73 · SM pp.4.58–4.59
FRONT · RECALL ALOUD List the characteristics of oligopoly. Which statements are NOT characteristics?	BACK · ANSWER **Strategic interdependence** (most important) · **advertising and selling costs** · **group behaviour**; demand curve **indeterminate** (Q47). NOT: **free entry** (Q5), **large number of firms** (Q26), **no importance to advertising** (Q73).

MEMORY TRICK **I-A-G:** Interdependence, Advertising, Group. Free entry never joins the club.

CARD 4.65 T 3.3 · MEMORISE	★★★ OL 3.3.10 · Scanner 3.3 Q17, Q25, Q42, Q45, Q72, Q75 · SM p.4.60
FRONT · RECALL ALOUD What is a **cartel**?	BACK · ANSWER Firms that **explicitly agree (collude)** to coordinate activities (Q25, Q42). Few firms of **similar size**; a **subset of producers** (Q75); aim to **raise price** (Q45). **Impossible with many firms** (Q17).

MEMORY TRICK **Cartel = contract.** Written agreement, small club, higher price.

CARD 4.66 T 3.3 · MEMORISE	★★ OL 3.3.11 · Scanner 3.3 Q6, Q8, Q19, Q77 · SM p.4.60
FRONT · RECALL ALOUD Name the three types of **price leadership**.	BACK · ANSWER • **Dominant firm:** 'live and let live' (Q8). • **Low-cost firm:** sets price allowing followers some profit. • **Barometric:** experienced firm reads market conditions; live and let live is NOT barometric (Q19). In collusive oligopoly the price leader decides (Q77).

MEMORY TRICK **Boss, Budget, Barometer:** the biggest, the cheapest, the wisest.

CARD 4.67 T 3.3 · CONCEPT	★★★ OL 3.3.12, 3.3.13, 3.3.14, 3.3.15 · Scanner 3.3 Q13, Q23, Q24, Q32, Q35, Q37, Q38, Q50, Q54, Q62, Q64, Q68, Q80 · SM pp.4.60–4.62
FRONT · RECALL ALOUD Explain the **kinked demand curve**: who, why, and elasticities.	BACK · ANSWER **Paul A. Sweezy** (Sweezy's model); explains **price rigidity** (Q13, Q24, Q37). Kink at the prevailing price: **upper segment elastic, lower inelastic** (Q35, Q50). Rivals **follow a price cut but not a price rise** (Q32, Q68). Chamberlin and kinked models: recognised interdependence, no collusion, stable prices (Q54).

MEMORY TRICK **Raise and you're alone, cut and they follow.** So nobody moves; price sticks.

CARD 4.68 T 3.3 · COMPARE	★★★ OL 3.3.16, 3.3.17, 3.3.18 · Scanner 3.3 Q3, Q4, Q7, Q9, Q10, Q28, Q33, Q51, Q57, Q67, Q71 · SM p.4.62
FRONT · RECALL ALOUD Distinguish duopoly, monopsony, oligopsony and bilateral monopoly.	BACK · ANSWER • **Duopoly:** two firms, a subset of oligopoly (Q9, Q71). • **Monopsony:** single buyer (Q7, Q57). • **Oligopsony:** few large buyers; factor markets (Q67). • **Bilateral monopoly:** single buyer + single seller = monopoly + monopsony (Q3, Q33).

MEMORY TRICK **Duo = 2 sellers; Mono-psony = 1 buyer; Oligo-psony = few buyers.** 'Psony' means buying.

CARD 4.69 T 3.3 · MCQ TRAP	★ OL 3.3.4, 3.3.19 · Scanner 3.3 Q52, Q55, Q69 · SM p.4.57
FRONT · RECALL ALOUD Who developed game theory? Which is a zero-sum game: prisoners' dilemma or competition for market share?	BACK · ANSWER **Von Neumann and Oskar Morgenstern** (1944) (Q55, Q69). **Zero-sum:** competition for market share (Q52). The **prisoners' dilemma is NOT zero-sum**.

MEMORY TRICK **Market share is a fixed pie:** one slice gained is one slice lost.

CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

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Chapter 5 · Determination of National Income · 69 cards

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Topic	Name	Card numbers	Count	Highest stars
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1.3	Different Concepts of National Income	5.03 – 5.19	17	★★★
1.4	Measurement of National Income in India	5.20 – 5.30	11	★★★
1.5	The System of Regional Accounts in India	5.31	1	★★
1.6	GDP and Welfare	5.32 – 5.33	2	★★
1.7	Limitations and Challenges of National Income Computation	5.34 – 5.35	2	★
2.1	Introduction	5.36 – 5.39	4	★★★
2.2	Circular flow in a Simple Two-Sector Model	5.40 – 5.42	3	★★
2.3	Basic Concepts and Functions	5.43 – 5.49	7	★★
2.4	The Two-Sector Model of National Income Determination	5.50 – 5.56	7	★★★
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2.6	Determination of Equilibrium Income: Three Sector Model	5.63 – 5.65	3	★
2.7	Determination of Equilibrium Income: Four Sector Model	5.66 – 5.69	4	★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 5.01 T 1.1 · MEMORISE

★★ OL 1.1.1, 1.2.1 · Scanner 1.1 Q1; 1.2 Q1 · SM p.6.2

FRONT · RECALL ALOUD

Who pioneered **National Income Accounting**? Which body compiles national accounts, and who compiles State Domestic Product?

BACK · ANSWER

Pioneers: **Simon Kuznets** and **Richard Stone** (Nobel prize-winning economists).

National accounts statistics: **Central Statistical Organisation (CSO)** in the Ministry of Statistics and Programme Implementation (MoSPI).

State level: State **Directorates of Economics and Statistics (DESs)** compile State Domestic Product.

MEMORY TRICK **K and S set the scale**, the **C**entre's CSO keeps the national books, and the **D**irectorates keep the **D**istrict-to-state books.

CARD 5.02 T 1.2 · MCQ TRAP

★ OL 1.2.2 · Scanner Q2 · SM pp.6.2–6.3

FRONT · RECALL ALOUD

Which use is **NOT** a significance of national income estimates: demand forecasting, sectoral composition, inflation policy or population policy?

BACK · ANSWER

Uses: business **demand forecasting**, **sectoral composition** and shifts, **sector-specific policies**, **macro modelling**, **income distribution**, **structural ratios**, **international comparisons**, and **growth and inflation policy**.

Not a use: policies on **population growth** (Q2, answer d). Population policy relies on demographic data.

MEMORY TRICK Income numbers steer the **economy**, not the **cradle**: nothing here about births.

CARD 5.03 T 1.3 · MEMORISE

★ OL 1.3.1, 1.3.2, 1.3.3 · Scanner Q17, Q21, Q58 · SM pp.6.3–6.4

FRONT · RECALL ALOUD

Define **GDP** and say which goods count.

Distinguish **nominal** from **real** GDP: which is used to compare over time?

BACK · ANSWER

GDP = value of **all final goods and services** produced in the country in a period, at **market prices**; only **final** goods count.

Nominal GDP = GDP at **current prices**.

Real GDP = GDP at **constant (base-year) prices**, removing the price effect; use it to compare over time (Q58).

MEMORY TRICK **Final only:** the cake, not the flour. **N**ominal = **N**ow prices; **R**eal = **R**eference prices.

CARD 5.04 T 1.3 · FORMULA

★★★ OL 1.3.4, 1.3.5, 1.3.9 · Scanner Q8, Q42, Q55, Q61 · SM pp.6.4–6.5

FRONT · RECALL ALOUD

Write the **GDP deflator** formula. What does it measure?

BACK · ANSWER

GDP deflator = Nominal GDP ÷ Real GDP × 100.

It is a **price index** that measures **inflation**; it converts nominal GDP to real GDP.

Example (Q42): ₹6,750 crore ÷ ₹4,500 crore × 100 = **150**.

MEMORY TRICK Deflator = **N over R**: Nominal on top, Real below, then × 100.

CARD 5.05 T 1.3 · MCQ TRAP

★★★ OL 1.3.9 · Scanner Q53 · SM pp.6.4–6.5; Scanner Q53

FRONT · RECALL ALOUD

Which is **NOT** used to measure inflation: WPI, CPI, GDP deflator or PPP prices?

BACK · ANSWER

Purchasing Power Parity (PPP) prices are **not** a measure of inflation (Q53, answer c).

WPI, CPI and the **GDP deflator** do measure inflation.

MEMORY TRICK **P**PP compares **P**urchasing power across countries; it does not **P**ursue price rises over time.

CARD 5.06 T 1.3 · FORMULA

★★ OL 1.3.6 · Scanner Q19, Q38, Q50, Q60 · SM pp.6.5–6.6

FRONT · RECALL ALOUD

Convert between **real** and **nominal** GDP using the price index.

BACK · ANSWER

Real GDP = Nominal GDP × 100 ÷ deflator.

Nominal GDP = Real GDP × price index ÷ 100.

Examples: real GDP 450, index 120 → nominal = **540** (Q50); nominal 720, index 120 → real = **600** (Q19).

MEMORY TRICK Index above 100 **inflates** the real figure into nominal; to get back, **shrink** by the index.

CARD 5.07 T 1.3 · CONCEPT

★★ OL 1.3.7 · Scanner Q3, Q30, Q33, Q34 · SM pp.6.5–6.6

FRONT · RECALL ALOUD

What does a GDP deflator of **100**, **above 100** or **below 100** tell you?

BACK · ANSWER

Base-year deflator is always **100** (nominal = real).

Above 100: **nominal GDP > real GDP**; prices are above the base year.

Below 100: prices are **below** the base year. Example (Q3): nominal ₹5,000 crore < real ₹6,700 crore, so prices fall.

If next year's deflator is lower than this year's, the price level has **fallen**.

MEMORY TRICK **100 is the ruler's zero mark**: above it prices climbed, below it they dipped.

CARD 5.08 T 1.3 · FORMULA

★★ OL 1.3.8 · Scanner Q6, Q9, Q22, Q35 · SM p.6.5

FRONT · RECALL ALOUD

How is the **inflation rate** found from the GDP deflator?

BACK · ANSWER

Inflation = (D2 − D1) ÷ D1 × 100, where D1 and D2 are the deflators of consecutive years.

Example (Q9): 140.75 → 157.33 gives 16.58 ÷ 140.75 × 100 = **11.78%**.

MEMORY TRICK **New minus Old, over Old**: the same 'growth rate' rhythm as any percentage change.

CARD 5.09 T 1.3 · FORMULA

★★★ OL 1.3.10, 1.3.11 · Scanner Q10, Q13, Q15, Q51 · SM p.6.7

FRONT · RECALL ALOUD

What separates **gross** from **net**? State the NDP formula, gross investment and the effect when depreciation exceeds gross investment.

BACK · ANSWER

Gross − Net = depreciation: **NDPMP = GDPMP − depreciation**.

Gross investment = net investment + replacement investment; GDP − NDP = gross investment − net investment (Q13).

If **depreciation > gross investment**, the capital stock is **shrinking** (Q51).

Example (Q10): 6,700 − 530 = **₹6,170 crore**.

MEMORY TRICK **Gross is Grand, Net is Nett of wear**: take off the wear and tear to get net.

CARD 5.10 T 1.3 · MCQ TRAP

★★★ OL 1.3.10 · Scanner Q49 · SM p.6.7

FRONT · RECALL ALOUD

Can **NDP** ever be greater than **GDP**?

BACK · ANSWER

No. NDP cannot be greater than GDP (Q49, answer d).

They differ only by **depreciation**, so NDP ≤ GDP whether prices rise or fall and whether the economy grows or not.

MEMORY TRICK Wear and tear only **subtracts**, so net can never **out-run** gross.

CARD 5.11 T 1.3 · MCQ TRAP

★★ OL 1.3.12, 1.3.13, 1.4.21 · Scanner Q23, Q31 · SM p.6.7

FRONT · RECALL ALOUD

How does **GNP** differ from GDP? A South Korean company earns profits from manufacturing in India: where do they appear?

BACK · ANSWER

GNP = GDP + NFIA: income of a nation's **normal residents**, including abroad, excluding income earned here by foreigners (Q23).

Q31 (answer c): the profits are in **India's GDP** and **South Korea's GNP**.

They are **not** part of India's national income. Example: Apple's profits from Indian manufacturing.

MEMORY TRICK **Produced here, owned there**: GDP follows the soil, GNP follows the owner.

CARD 5.12 T 1.3 · CONCEPT

★★ OL 1.3.14, 1.3.15, 1.2.3 · Scanner 1.2 Q3; Q11, Q18, Q32, Q48 · SM pp.6.7–6.8

FRONT · RECALL ALOUD

What is **NFIA**, and what happens to GNP, GDP and national income when it is negative?

BACK · ANSWER

NFIA = what a country's citizens and companies earn abroad minus what foreigners earn in that country.

National = Domestic + NFIA: this is the only difference between the two (Q48).

NFIA **negative** → **GDP > GNP** (Q18) and GNP is smaller than GDP (1.2 Q3). NFIA positive → GNP > GDP.

Example (Q32): NNPMP 12,000 − NDPMP 10,000 = NFIA **₹2,000 crore**.

MEMORY TRICK **National adds Net abroad**: sign positive, national swells; sign negative, domestic stays bigger.

CARD 5.13 T 1.3 · FORMULA

★★ OL 1.3.16 · Scanner Q12, Q29, Q32 · SM p.6.8

FRONT · RECALL ALOUD

Write the three correct formulae for **NNPMP**. Which formula is wrong?

BACK · ANSWER

NNPMP = GNPMP − depreciation.

NNPMP = NDPMP + NFIA.

NNPMP = GDPMP + NFIA − depreciation.

Wrong (Q12, answer d): NNPMP = NDPMP − depreciation.

MEMORY TRICK From **G**NP take off wear; from **D**omestic add **A**broad. Never take wear off an already **net** figure.

CARD 5.14 T 1.3 · FORMULA

★★★ OL 1.3.17, 1.3.18 · Scanner Q1, Q43, Q44, Q46 · SM p.6.8

FRONT · RECALL ALOUD

What separates **market price** from **factor cost**? Do direct taxes matter?

BACK · ANSWER

MP – FC = net indirect taxes (indirect taxes – subsidies).

MP = FC + indirect taxes – subsidies; **FC = MP – indirect taxes + subsidies**.

Direct taxes are irrelevant to this adjustment (Q43).

Example (Q43): 15,000 + 450 – 250 = **₹15,200 crore**.

MEMORY TRICK **Tax adds, subsidy subtracts** when going up to market price; reverse it coming down to factor cost.

CARD 5.15 T 1.3 · FORMULA

★★ OL 1.3.19, 1.4.13 · Scanner Q39, Q40, Q41 · SM p.6.8

FRONT · RECALL ALOUD

Write **GDPFC** by the income route and the link to **GDPMP**. What is operating surplus?

BACK · ANSWER

GDPFC = CoE + operating surplus + mixed income + depreciation (CoE = compensation of employees).

Operating surplus = rent + interest + profit (Q41).

GDPMP = NDPFC + CFC + NIT (Q40): 1,000 + 2,500 + 1,500 = 5,000; + 300 + 400 = **₹5,700 crore**.

MEMORY TRICK **C-O-M-D**: Compensation, Operating surplus, Mixed income, Depreciation.

CARD 5.16 T 1.3 · FORMULA

★ OL 1.3.20, 1.3.21, 1.3.22 · Scanner Q24, Q57 · SM pp.6.9–6.10

FRONT · RECALL ALOUD

How are **basic price**, factor cost and market price related? Write **NDPFC** and **National Income**.

BACK · ANSWER

Basic price = factor cost + production taxes – production subsidies.

Market price = basic price + product taxes – product subsidies (Q24 records no correct option).

NDPFC = CoE + OS + mixed income = NDPMP – NIT.

National Income = NNPFC = domestic factor incomes + NFIA; NNPFC is the most comprehensive income measure offered in Q57.

MEMORY TRICK Two steps up the staircase: **FC → Basic → MP**. National Income = **N**et, **F**actor cost, **A**broad.

CARD 5.17 T 1.3 · MEMORISE

★ OL 1.3.23, 1.6.2 · Scanner 1.6 Q2 · SM p.6.10

FRONT · RECALL ALOUD

What is **per capita income**, and what does it indicate?

BACK · ANSWER

Per capita income = aggregate income ÷ population.

It is the indicator of the **standard of living** of a country (1.6 Q2, answer c).

MEMORY TRICK **Cut the cake per head**: size of cake ÷ number of mouths.

CARD 5.18 T 1.3 · CONCEPT

★★ OL 1.3.24, 1.3.25 · Scanner Q2, Q4, Q7, Q20, Q25, Q26, Q56 · SM pp.6.10–6.11

FRONT · RECALL ALOUD

What is **personal income**? Write the formula for **disposable income (DI)**.

BACK · ANSWER

Personal income: income received by **households including NPISH** from **all sources**, including transfers; not limited to productive activity (Q20) and includes income received but not earned (Q56).

Excludes: retained earnings, corporate tax, social security contributions.

DI = PI – personal income taxes – non-tax payments (Q4); available for **consumption or saving**.

MEMORY TRICK **P**ocket money = **P**I; after the taxman and compulsory dues you get **D**isposable.

CARD 5.19 T 1.3 · FORMULA

★ OL 1.3.26, 1.3.27 · Scanner Q27 · SM pp.6.11–6.12

FRONT · RECALL ALOUD

How are **NNDI** and **GNDI** obtained? Define **private income**.

BACK · ANSWER

NNDI = NNI + other net current transfers from abroad; **GNDI = NNDI + CFC**.

Private income = factor and transfer income of the **private sector** from all sources within and outside the country (Q27, answer d).

Deck: private income = PI + corporate tax + undistributed profits.

MEMORY TRICK **Net to Gross: add CFC back.** Private = both streams, both sides of the border.

CARD 5.20 T 1.4 · MEMORISE

★ OL 1.4.1, 1.4.2, 1.3.30 · Scanner Q3, Q4, Q45 · SM pp.6.15–6.16

FRONT · RECALL ALOUD

Name the three phases of the **circular flow** and the three **methods** of measuring national income.

BACK · ANSWER

Phases: **Production → Distribution → Disposition**; output = income = expenditure.

Methods: **value added** (unduplicated contribution of each industry), **income** (factor incomes paid out), **expenditure / income disposal** (final expenditure).

MEMORY TRICK Match them: **Output → Value added, Income → Income, Disposition → Expenditure**.

CARD 5.21 T 1.4 · COMPARE

★★★ OL 1.4.3, 1.4.4, 1.4.5 · Scanner Q4, Q8, Q10, Q14, Q17, Q21 · SM pp.6.16–6.17, 6.30

FRONT · RECALL ALOUD

Which names mean the same as the **value added method**? How is double counting avoided?

BACK · ANSWER

Value added = **Product method** = **Industrial Origin method** = **Net Output method** (Q10, Q21).

It consolidates each industry's production **less intermediate purchases**.

Double counting is avoided by counting **only final goods** (Q8, Q14), or only value added.

MEMORY TRICK **V-P-I-N**: Value added, Product, Industrial origin, Net output: four names, one method.

CARD 5.22 T 1.4 · FORMULA

★★★ OL 1.4.6, 1.4.7, 1.3.31 · Scanner Q1, Q12, Q37 · SM pp.6.8, 6.17

FRONT · RECALL ALOUD

Write **GVAMP**, **NVA** and the factor-cost adjustment.

BACK · ANSWER

GVAMP = (Sales + closing stock − opening stock) − intermediate consumption.

NVA = GVA − depreciation.

FC = MP − indirect taxes + subsidies.

Example (Q37): 1,000 + (90 − 100) = 990; 990 − 440 = **₹550 crore**.

MEMORY TRICK **Output minus inputs, then minus wear, then minus net tax**: three steps down.

CARD 5.23 T 1.4 · MEMORISE

★ OL 1.4.8 · Scanner Q27 · SM p.6.17

FRONT · RECALL ALOUD

Which items are **included** in the value added method, and which are left out?

BACK · ANSWER

Include: own-account production of fixed assets, self-consumption, imputed rent of owner-occupied houses, and change in stock.

Exclude: unpaid household work and resale of old shares (Q27: only a new house built by an artisan adds to GDP).

MEMORY TRICK Count what was **made this year**; leave out **housework** and **old paper**.

CARD 5.24 T 1.4 · FORMULA

★ OL 1.4.9, 1.4.10, 1.3.29 · Scanner Q11, Q18, Q25, Q26, Q45 · SM pp.6.18–6.19

FRONT · RECALL ALOUD

Name the **income method** (other names), its formula, and what it includes.

BACK · ANSWER

Income method = **Factor Payment** = **Distributed Share** method.

NI = CoE + operating surplus + mixed income + NFIA.

Includes: wages, **employers' PF contribution**, **commissions**, **brokerages**, **imputed rent**, **royalty**, **interest on productive loans**.

Compensation of employees is the largest component (Q18).

MEMORY TRICK Income method = **pay-out**: if it pays a factor for **this year's** work, it is in.

CARD 5.25 T 1.4 · MCQ TRAP

★★ OL 1.4.10 · Scanner Q11, Q16, Q22; 1.3 Q16, Q54 · SM p.6.18

FRONT · RECALL ALOUD

Which receipts are **NOT** counted in national income?

BACK · ANSWER

Excluded: pensions, transfer incomes, **capital gains**, windfalls, **second-hand goods**, **shares and bonds**, black money (Q22 answer d: none of these is included).

Pensions of retired workers fail as factor income (Q16); scholarships are not a factor payment (1.3 Q54).

Commissions and brokerages **are** included (Q11).

MEMORY TRICK **No new production, no national income**: old goods and paper claims just change hands.

CARD 5.26 T 1.4 · MEMORISE

★★ OL 1.4.11, 1.4.12 · Scanner Q2, Q15, Q23 · SM pp.6.18–6.19

FRONT · RECALL ALOUD

What does **profit** consist of, and what is **mixed income**?

BACK · ANSWER

Profit = corporate tax + dividend + undistributed profit (Q15: all of these).

Mixed income = combined labour and capital income of the self-employed that **cannot be separated** (Q2, Q23).

MEMORY TRICK Profit is split three ways: **Tax, Dividend, Undistributed**, T-D-U.

CARD 5.27 T 1.4 · FORMULA

★ OL 1.4.15, 1.3.32 · Scanner 1.3 Q59 · SM pp.6.19–6.20

FRONT · RECALL ALOUD

State the expenditure method formula. Is the result national income?

BACK · ANSWER

GDPMP = PFCE + GFCE + GDCF + (X − M).

This gives **GDPMP**, not national income.

Example (1.3 Q59): 1,000 + 500 + 200 + (200 − 400) = **1,500**.

MEMORY TRICK **C + I + G + net exports** lands on **GDP**; to reach national income, go on down the ladder.

CARD 5.28 T 1.4 · MCQ TRAP

★★ OL 1.4.16, 1.4.17, 1.3.28, 1.7.1 · Scanner Q6, Q19, Q24; 1.3 Q36, Q47 · SM p.6.19

FRONT · RECALL ALOUD

Where does **final consumption** arise, and are **transfer payments** counted in GDP?

BACK · ANSWER

Final consumption arises in **both households and government** (Q24, answer c).

Government consumption covers defence, education and healthcare; it **excludes pensions, scholarships and unemployment allowance** (1.3 Q36).

Transfers are **not** in GDP because they **do not reflect current production** (Q19, answer b; Q6; 1.3 Q47).

MEMORY TRICK **Transfer = move, not make**: money moves, nothing is produced.

CARD 5.29 T 1.4 · CONCEPT

★★ OL 1.4.18, 1.4.19 · Scanner Q5, Q13 · SM p.6.20

FRONT · RECALL ALOUD

What does **gross domestic capital formation** include? How are unsold inventories treated?

BACK · ANSWER

GDCF = **fixed assets + change in inventories + valuables** (such as jewellery and works of art).

Unsold (unwanted) inventory counts as investment (Q13).

Net domestic expenditure = consumption + net domestic investment (Q5).

MEMORY TRICK **F-I-V**: Fixed assets, Inventories, Valuables.

CARD 5.30 T 1.4 · MEMORISE

★ OL 1.4.20 · Scanner Q7, Q29 · SM p.6.20

FRONT · RECALL ALOUD

Which method does India use for each sector?

BACK · ANSWER

India does not rely on a single method: **agriculture** by the product (output) method (Q7); **small-scale sector** by the income method; **construction** by the expenditure method.

Q29's key is 'combination of product and income methods'.

MEMORY TRICK **Farm counts crops, shop counts pay, builder counts spend**: product, income, expenditure.

CARD 5.31 T 1.5 · MEMORISE

★★ OL 1.5.1, 1.5.2, 1.3.33 · Scanner Q1; 1.3 Q28 · SM pp.6.26–6.27

FRONT · RECALL ALOUD

Who prepares **state income** estimates? What are supra-regional sectors? How is per capita state income found?

BACK · ANSWER

State estimates are prepared by **State Income Units of the DESs**; the **CSO advises** (Q1, answer b).

Supra-regional sectors (railways, communications, banking, insurance, central government administration) cross state borders and are allocated by relevant indicators (1.3 Q28).

Per capita state income = NSDP ÷ midyear projected population.

MEMORY TRICK **D**ES **D**oes the sums, CSO **C**ounsels; rails and banks **ride across** borders.

CARD 5.32 T 1.6 · MEMORISE

★★ OL 1.6.1 · Scanner Q3, Q4, Q5 · SM pp.6.27–6.28

FRONT · RECALL ALOUD

List what **GDP misses** as a welfare measure.

BACK · ANSWER

- **Income distribution** (Q5), **quality improvements**, **hidden or illegal production** (Q4), **non-market production**.
- **Loss of leisure**, **economic 'bads'** such as traffic congestion (Q3), **volunteer work**, **externalities**.
- Fairness, gender equality, and spending that only prevents us becoming worse off (e.g. police).

MEMORY TRICK **D-Q-H-N, then L-B-V-E**: Distribution, Quality, Hidden, Non-market; Leisure, Bads, Volunteer, Externalities.

CARD 5.33 T 1.6 · MCQ TRAP

★★ OL 1.6.1 · Scanner Q3, Q4, Q5 · SM pp.6.27–6.28

FRONT · RECALL ALOUD

Is GDP a **perfect measure of welfare**? Which option names a genuine limitation?

BACK · ANSWER

No. GDP ignores income distribution, leisure and economic 'bads'.

Correct limitation: it does not account for **income distribution** (Q5, answer b).

Economic bads such as traffic congestion are **not deducted** from GDP (Q3); illegal income is excluded from estimates (Q4).

MEMORY TRICK GDP counts the **size** of the cake, not **who eats it** or **how sweet** it is.

CARD 5.34 T 1.7 · MCQ TRAP

★ OL 1.7.1 · Scanner Q1 · SM pp.6.28–6.29

FRONT · RECALL ALOUD

List the **conceptual difficulties** in measuring national income. Which option is NOT one of them: durable-goods services, transfers, distribution or quality improvements?

BACK · ANSWER

- Lack of agreed **definition**; **final vs intermediate** goods; **transfer payments**.
- **Services of durable goods**; **distribution of income**; valuing **new goods** and **government services**.

Answer key (Q1, answer d): **quality improvements** is not in this list; it appears under **GDP and welfare** (Topic 1.6).

MEMORY TRICK **D-F-T-S-D-N-G**: Definition, Final, Transfers, durable Services, Distribution, New goods, Government.

CARD 5.35 T 1.7 · MEMORISE

★ OL 1.7.2, 1.7.3 · Scanner Q2 · SM p.6.29; Scanner Q2

FRONT · RECALL ALOUD

List the **other challenges** in computing national income. What does an underground economy do?

BACK · ANSWER

- Inadequate and unreliable **data**.
- **Non-monetised sector**.
- Production for **self-consumption**.
- **Unrecorded incomes**.
- Lack of proper **occupational classification**.
- Estimating **CFC**. A large underground economy **understates** official national income (Q2).

MEMORY TRICK **Hidden income hides from the books**: underground means **under**stated.

CARD 5.36 T 2.1 · MEMORISE

★ OL 2.1.1 · Scanner Q8 · SM p.6.35

FRONT · RECALL ALOUD

Which book did Keynes write, when, and what problem did it answer?

BACK · ANSWER

'The General Theory of Employment, Interest and Money' (**1936**).

It explained the **persistent unemployment** of the Great Depression, which classical theory could not (Q8).

MEMORY TRICK **1936: Keynes, General Theory, jobs**: the book that answered the breadlines.

CARD 5.37 T 2.1 · CONCEPT

★★★ OL 2.1.2, 2.8.1 · Scanner Q1, Q2; 2.8 Q1 · SM p.6.68

FRONT · RECALL ALOUD

On what does national income depend, according to Keynes? What caused the Depression?

BACK · ANSWER

National income depends on **aggregate effective demand** (Q1, answer c).

The Depression was caused by **lower aggregate expenditure**, i.e. insufficient spending (Q2).

Keynes emphasised **aggregate demand** in explaining unemployment (2.8 Q1).

MEMORY TRICK **Demand drives, spending sustains**: when spending sleeps, jobs vanish.

CARD 5.38 T 2.1 · CONCEPT

★★ OL 2.1.3, 2.4.7, 2.8.2 · Scanner Q3, Q7; 2.8 Q2 · SM p.6.68

FRONT · RECALL ALOUD

What role did Keynes give government in fighting recession and unemployment?

BACK · ANSWER

An **active role**: change **government spending and taxes** to counteract shifts in investment.

Increased government spending tackles **recession and unemployment** (Q7).

Keynes advocated activist policies (Q3), through fiscal and monetary policies (2.8 Q2).

MEMORY TRICK **Government is the shock-absorber**: when private spending dips, public spending steps in.

CARD 5.39 T 2.1 · MEMORISE

★ OL 2.1.5, 2.1.6, 2.1.4 · Scanner Q4, Q5, Q9 · SM pp.6.36, 6.53; macroeconomics defined in SM Ch.1

FRONT · RECALL ALOUD

Name Keynes's three **building blocks**. Is Keynesian analysis short-run or long-run, and what is **macroeconomics**?

BACK · ANSWER

- **Consumption–income relation** and the **multiplier**; **liquidity preference** (demand for money, Q5); **expectations**.

Keynesian analysis is **short-run** (Q9): short-period equilibrium, **comparative statics**.

Macroeconomics studies the economy **as a whole** (Q4).

MEMORY TRICK **C-L-E**: Consumption, Liquidity, Expectations; snapshots, not film.

CARD 5.40 T 2.2 · MEMORISE

★★ OL 2.2.2, 2.6.1, 2.7.6 · Scanner 2.6 Q4; 2.7 Q5 · SM p.6.36

FRONT · RECALL ALOUD

Name the **two-, three- and four-sector** models. Which pair is common to all?

BACK · ANSWER

- **Two-sector**: households + firms.
- **Three-sector**: + government.
- **Four-sector**: + foreign sector.

Households and firms are common to all sector models (2.7 Q5); the foreign sector is not in the three-sector model (2.6 Q4).

MEMORY TRICK **Add one guest at a time**: Government, then Foreigner.

CARD 5.41 T 2.2 · CONCEPT

★ OL 2.2.3, 2.2.4 · Scanner Model 1.2 Q2, Q3 · SM pp.6.37–6.38

FRONT · RECALL ALOUD

In the two-sector circular flow, what are **real** and **money** flows? State the identity.

BACK · ANSWER

Real flows: factor services and goods. **Money flows**: factor payments and consumption payments.

Factor payments = household income = household expenditure = firms' receipts = value of output.

No injections or leakages in this model.

MEMORY TRICK **Goods go one way, money comes back the other**.

CARD 5.42 T 2.2 · MCQ TRAP

★ OL 2.2.5 · Scanner Q1 · SM p.6.15

FRONT · RECALL ALOUD

Which three phases make up the circular flow? Does 'consumption' appear among them?

BACK · ANSWER

Production, distribution and disposition (Q1, answer c).

'Consumption' is not a phase name: it is part of **disposition**.

MEMORY TRICK **P-D-D** again, **disposition** is the umbrella over consumption and investment.

CARD 5.43 T 2.3 · FORMULA

★ OL 2.2.1, 2.3.1, 2.3.11 · Scanner Q13 · SM pp.6.38, 6.42

FRONT · RECALL ALOUD

What are **aggregate demand** and **aggregate supply** in the two-sector economy?

BACK · ANSWER

AD = total planned expenditure = C + I; I is exogenous and constant in the short run.

AS = C + S = national income, either consumed or saved (Q13, answer a).

MEMORY TRICK **Two spenders (C, I) on the demand side; two exits (C, S) on the supply side**.

CARD 5.44 T 2.3 · CONCEPT

★★ OL 2.3.3 · Scanner Q4 · SM pp.6.38–6.39

FRONT · RECALL ALOUD

What is the **consumption function** a relationship between?

BACK · ANSWER

C = f(Y): aggregate consumption and **aggregate disposable income** (Q4, answer a).

When income is low, households may **dissave**; as income rises, consumption rises by **less** than income.

MEMORY TRICK Consumption **follows disposable income**, not demand or supply.

CARD 5.45 T 2.3 · FORMULA

★★ OL 2.3.4, 2.3.5, 2.5.8 · Scanner Q8, Q19; 2.5 Q16 · SM p.6.39

FRONT · RECALL ALOUD

Write the Keynesian consumption function and explain **a** and **b**.

BACK · ANSWER

C = a + bY.

a = autonomous consumption, consumption at zero income (the intercept) (Q19).

b = MPC, the slope.

A rise in **a** shifts the C line **upward** (2.5 Q16).

MEMORY TRICK **a** is the **a**nchor you start with; **b** is the **b**ounce per extra rupee.

CARD 5.46 T 2.3 · MCQ TRAP

★★ OL 2.3.6 · Scanner Q1, Q7, Q9 · SM pp.6.39–6.40

FRONT · RECALL ALOUD

Within what range does **MPC** lie? Can it exceed one?

BACK · ANSWER

0 < MPC < 1 (Q1, Q7, answer b).

Consumption rises with income, but **by less** than the rise in income (Q9, answer d).

It is never above one, below zero or income-dependent.

MEMORY TRICK **Spend some, never all**: MPC is a fraction.

CARD 5.47 T 2.3 · FORMULA	★★ OL 2.3.7 · Scanner Q12, Q15, Q25 · SM p.6.39
FRONT · RECALL ALOUD Define **MPC**. What does it show on the graph?	BACK · ANSWER **MPC = ΔC ÷ ΔY = b**, the **slope** of the consumption function (Q12). Higher MPC → **steeper** C line (Q25). Example (Q15): income 300 → 400, consumption up by 75, MPC = 75 ÷ 100 = **0.75**.

MEMORY TRICK **Slope = Spend share**: steeper line, bigger spender.

CARD 5.48 T 2.3 · FORMULA	★★ OL 2.3.8 · Scanner Q2, Q6, Q20 · SM p.6.40
FRONT · RECALL ALOUD Define **APC**. What happens to it as income rises?	BACK · ANSWER **APC = C ÷ Y** (Q6). APC **falls** as income rises: consumption grows slower than income (Q20). Example (Q2): C = ₹900 crore, APC 0.45 → Y = ₹**2,000 crore**.

MEMORY TRICK **Total ratio** (APC) shrinks as the pie grows; **extra ratio** (MPC) stays put.

CARD 5.49 T 2.3 · FORMULA	★★ OL 2.3.9, 2.3.10 · Scanner Q5, Q10, Q11, Q14 · SM pp.6.40–6.42
FRONT · RECALL ALOUD How are **Y, C, S, MPC, MPS** linked? Define **APS** and use it.	BACK · ANSWER **Y = C + S**, so S = Y − C; **MPS = 1 − b**; **MPC + MPS = 1** (Q10). **APS = S ÷ Y**, so **S = APS × Y**. Example (Q11): APS 0.4, Y = ₹25,000 → S = ₹**10,000**. Example (Q14): Y = 500, C = 400 → S = 100, APS = **0.20**.

MEMORY TRICK Every extra rupee is **spent or saved**; the shares make **one**.

CARD 5.50 T 2.4 · MCQ TRAP	★★ OL 2.4.1 · Scanner Q8; Model 1.4 Q1 · SM pp.6.43–6.44
FRONT · RECALL ALOUD State the condition for equilibrium in the two-sector model.	BACK · ANSWER **C + I = C + S**, which reduces to **I = S** (Q8, answer b). Not C + I = S, and not C − I = C + S.

MEMORY TRICK **Cancel the C**: what is left is **I = S**.

CARD 5.51 T 2.4 · FORMULA	★★★ OL 2.4.2, 2.4.3 · Scanner Q2, Q5 · SM pp.6.47–6.49
FRONT · RECALL ALOUD Find equilibrium income by solving **Y = C + I**, e.g. C = 10 + 0.5Y and I = ₹200.	BACK · ANSWER Y = 10 + 0.5Y + 200 → 0.5Y = 210 → **Y = ₹420** (Q5). Check (Q2): C = 30 + 0.5Y, I = 12 + 0.15Y → Y = 42 + 0.65Y → Y = **120**.

MEMORY TRICK **Collect Y on one side**: Y minus bY, then divide by (1 − b).

CARD 5.52 T 2.4 · FORMULA	★★★ OL 2.4.2, 2.4.3 · Scanner Q6, Q7 · SM p.6.49
FRONT · RECALL ALOUD Find equilibrium Y from the **saving function** (S = I), then C = Y − S.	BACK · ANSWER Q6: S = −20 + 0.5Y, I = 100 → 0.5Y = 120 → Y = 240; **C = Y − S = 240 − 100 = ₹140 crore**. Q7: S = −20 + 0.25Y, I = 100 → Y = **₹480 crore**.

MEMORY TRICK **Set S equal to I, then recover C by subtraction**.

CARD 5.53 T 2.4 · CONCEPT	★ OL 2.4.4, 2.3.14 · Scanner 2.3 Q21, Q22 · SM pp.6.44–6.46, 6.58
FRONT · RECALL ALOUD What happens when AD is below or above output? How is equilibrium restored?	BACK · ANSWER **AD < output** → unsold inventories pile up → output and income **fall**. **AD > output** → income **rises**. Adjustment continues until **AD = AS** (2.3 Q22), through **output and employment, not prices**.

MEMORY TRICK **Stock piles up, output steps down**.

CARD 5.54 T 2.4 · CONCEPT	★ OL 2.4.5 · Scanner Q1 · SM pp.6.45–6.46
FRONT · RECALL ALOUD What is a **deflationary (recessionary) gap**?	BACK · ANSWER Aggregate demand **below** the full-employment level of output: **deficient demand** (Q1, answer b). Firms see unplanned stock build-up and cut output and employment until under-employment equilibrium.

MEMORY TRICK **Deflationary = Deficient**: both begin with D.

CARD 5.55 T 2.4 · MCQ TRAP	★ OL 2.4.5 · Scanner Q1 · SM pp.6.45–6.46
FRONT · RECALL ALOUD Must Keynesian equilibrium occur at **full employment**?	BACK · ANSWER **No.** Equilibrium (planned expenditure = output) **need not** be at full employment. It may settle **below** it, or above.

MEMORY TRICK **Balanced is not the same as employed**.

CARD 5.56 T 2.4 · CONCEPT	★★ OL 2.4.6, 2.7.7 · Scanner Q4; 2.7 Q8 · SM p.6.46
FRONT · RECALL ALOUD What is an **inflationary gap**, and what happens to output and prices?	BACK · ANSWER **Excess demand** (2.7 Q8): AD exceeds the full-employment level. **Real output stays constant**, the price level rises (Q4, answer d: both b and c). Nominal output and income rise only because of inflation.

MEMORY TRICK **Excess demand: more rupees, same goods**.

CARD 5.57 T 2.5 · CONCEPT

★★ OL 2.5.1 · Scanner Q2, Q6, Q14 · SM p.6.51

FRONT · RECALL ALOUD

Define the **investment multiplier**.

BACK · ANSWER

k = ΔY ÷ ΔI, the ratio of change in national income to change in investment (Q6, answer d).

A change in investment causes a **multiple**, more than proportionate, change in income.

MEMORY TRICK **Ripple in a pond**: one stone, many rings.

CARD 5.58 T 2.5 · FORMULA

★★★ OL 2.5.2, 2.5.3 · Scanner Q11, Q13, Q15, Q8 · SM pp.6.51–6.52

FRONT · RECALL ALOUD

Write the multiplier formula. What happens as MPC rises, and when MPC = 1?

BACK · ANSWER

k = 1 ÷ (1 − MPC) = 1 ÷ MPS (Q15).

Higher MPC → larger k (Q11); example MPC 0.8 → k = **5** (Q13).

If **MPC = 1**, k = **infinity** (Q8).

MEMORY TRICK **More spent, more multiplied**: MPC up, k up.

CARD 5.59 T 2.5 · FORMULA

★★★ OL 2.5.4, 2.5.5, 2.3.15 · Scanner Q5, Q7, Q9 · SM pp.6.51–6.53

FRONT · RECALL ALOUD

Use **ΔY = k × ΔI** and **MPC = 1 − 1/k**.

BACK · ANSWER

ΔY = k × ΔI; **MPC = 1 − 1/k**.

Q5: ΔI = ₹300 crore, MPC 0.6 → k = 2.5 → ΔY = **₹750 crore**.

Q9: ΔY = 2,000, ΔI = 200 → k = 10 → MPC = **0.9**.

Q7: ΔY = 12,000, ΔI = 4,000 → k = **3**.

MEMORY TRICK **Find k first**, then whichever of ΔY, ΔI or MPC is missing drops out.

CARD 5.60 T 2.5 · CONCEPT

★ OL 2.5.6 · No direct Q · SM pp.6.50–6.51

FRONT · RECALL ALOUD

How does a change in investment, or in MPC, appear on the AD diagram?

BACK · ANSWER

A rise in autonomous investment **shifts the AD schedule upward** (C + I to C + I + ΔI).

A change in MPC changes the **slope**: higher MPC gives a steeper line (2.3 Q25).

MEMORY TRICK **Autonomous moves the line; MPC tilts it**.

CARD 5.61 T 2.5 · MEMORISE

★★ OL 2.5.7, 2.6.4 · Scanner Q1, Q4 · SM p.6.52

FRONT · RECALL ALOUD

List the **leakages** that reduce the multiplier.

BACK · ANSWER

- **Progressive taxation**.
- **High liquidity preference** and idle saving.
- Demand met from **existing stocks or imports**.
- Income used to buy **existing wealth or securities**.
- **Undistributed profits** of corporations.
- **Payment of debts**; at full employment, inflation. Saving is a withdrawal (Q4).

MEMORY TRICK **P-L-S-W-U-D**: Progressive tax, Liquidity, Stocks and imports, Wealth, Undistributed profits, Debts.

CARD 5.62 T 2.5 · MCQ TRAP

★★ OL 2.5.7 · Scanner Q1, Q10 · SM p.6.52

FRONT · RECALL ALOUD

Are **distributed profits** a leakage from the multiplier?

BACK · ANSWER

No. Distributed profits (dividends) reach households and are **spent**, so they stay in the circular flow (Q1, Q10, answer c and b).

It is the **UNdistributed** profits that leak.

MEMORY TRICK **UNdistributed** = **UN**spent, so it leaks.

CARD 5.63 T 2.6 · FORMULA

★ OL 2.6.1 · Scanner Q2, Q4 · SM pp.6.54, 6.56

FRONT · RECALL ALOUD

Write **AD and AS** in the three-sector model and the equilibrium condition.

BACK · ANSWER

AD = C + I + G; **AS = C + S + T**.

Equilibrium: **C + I + G = Y = C + S + T**, which means **I + G = S + T**.

Components: household, business and government sectors (foreign sector excluded).

MEMORY TRICK **Demand adds G, supply adds T**.

CARD 5.64 T 2.6 · FORMULA

★ OL 2.6.2 · Scanner Q1, Q3 · SM pp.6.58–6.59

FRONT · RECALL ALOUD

Write the equilibrium Y with lump-sum tax and transfers, then solve Q3.

BACK · ANSWER

Y = (a – bT + bTR + I + G) ÷ (1 – b).

Q3: C = 8 + 0.6Yd, I = 60, G = T = 10 → Y = (8 – 6 + 60 + 10) ÷ 0.4 = **180**.

Q1: C = 200 + 0.8Yd, G = T = 150, I = 200, TR = 75 → Y = **₹2,450**.

MEMORY TRICK **Tax is cut by b, transfer is added by b**: only the **spent part** matters.

CARD 5.65 T 2.6 · CONCEPT

★ OL 2.6.3 · Scanner Q6 · SM p.6.56

FRONT · RECALL ALOUD

Why does government spending affect income through a multiplier?

BACK · ANSWER

G is autonomous: it does not depend on income, so it works like investment.

Introducing government spending brings a **multiplier effect** on income (Q6, answer c).

MEMORY TRICK **G is a first push; income does the rest**.

CARD 5.66 T 2.7 · FORMULA	★ OL 2.7.1, 2.7.2 · Scanner Q1 · SM pp.6.62–6.63
FRONT · RECALL ALOUD Write four-sector AD and equilibrium.	BACK · ANSWER **Y = C + I + G + (X − M)**. Q1: 2,000 + 700 + 750 + (150 − 50) = **₹3,550 crore**.

MEMORY TRICK **Three-sector plus the world's balance**: net exports.

CARD 5.67 T 2.7 · FORMULA	★ OL 2.7.3 · Scanner Q3 · SM pp.6.64, 6.66
FRONT · RECALL ALOUD What is the **foreign trade multiplier**? What does higher m do?	BACK · ANSWER **1 ÷ (1 − b + m)**, where m = marginal propensity to import (against 1 ÷ (1 − b) in a closed economy). Higher **m** → **smaller** multiplier. Q3: b = 0.6, m = 0.04 → 1 ÷ 0.44 = **2.27**.

MEMORY TRICK **Imports sit in the denominator**: more imports, smaller multiplier.

CARD 5.68 T 2.7 · CONCEPT	★ OL 2.7.4 · Scanner Q4 · SM pp.6.63, 6.66
FRONT · RECALL ALOUD What are the effects of exports and autonomous imports on equilibrium income?	BACK · ANSWER **Exports are expansionary**: foreign demand for domestic output. **Autonomous imports are contractionary** (Q4, answer b).

MEMORY TRICK **X adds, M subtracts**.

CARD 5.69 T 2.7 · CONCEPT	★ OL 2.7.5 · Scanner Q6, Q7 · SM p.6.65
FRONT · RECALL ALOUD What is the leakage–injection condition in the four-sector model?	BACK · ANSWER **S + T + M = I + G + X** at equilibrium. Leakages: saving, taxes, imports. Injections: investment, government spending, exports. Investment is **not** a leakage (Q6); savings is a leakage (Q7).

MEMORY TRICK **S-T-M out, I-G-X in**: alphabet drain, alphabet fill.

Flash Cards with Memory Tricks

Chapter 6 · Business Cycles · 38 cards

How to use these cards

- Read the **front** and answer **aloud** before you look at the back.
- Then read the **memory trick**. If it does not click, make up your own and write it beside the card.
- Each card carries its **Scanner question numbers**, so you can attempt those MCQs straight after the card.
- Give every card a **second look after 1 day and again after 1 week.**

Reading the stars

★★★	Asked by ICAI 6 or more times. Learn word for word.
★★	Asked 3 to 5 times. Know the key terms and the lists.
★	Asked once or twice. Read once; recognise it in an MCQ.
–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
6.0	Introduction	6.01 – 6.03	3	★★★
6.1	Phase of Business Cycle	6.04 – 6.19	16	★★★
6.2	Features of Business Cycle	6.20 – 6.24	5	★★★
6.3	Causes of Business Cycles	6.25 – 6.35	11	★★★
6.4	Relevance of Business Cycles in Business Decision Making	6.36 – 6.38	3	★★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 6.01 T 6.0 · CONCEPT

★★★ OL 6.0.1, 6.1.9 · Scanner Q3, Q4, Q9, Q10 (also 6.1 Q88) · SM p.5.3

FRONT · RECALL ALOUD

What is a **business (trade) cycle**? What do **good trade** and **bad trade** look like?

BACK · ANSWER

- **Business cycle** (trade cycle) = **rhythmic fluctuations in aggregate economic activity** that an economy experiences over a period of time.
- It is alternate expansion and contraction of overall business activity, measured by **GNP, employment and income**.
- **Good trade** = rising prices and low unemployment.
- **Bad trade** = falling prices and high unemployment.

Scanner Q9 and Q10 describe expansion and contraction measured by real GDP; the answer is still **business cycle**.

MEMORY TRICK Good trade: prices **up**, jobless **down**. Bad trade: prices **down**, jobless **up**. The two arrows always point opposite ways.

CARD 6.02 T 6.0 · MEMORISE

★★ OL 6.0.2, 6.0.3, 6.0.4 · Scanner Q2, Q5, Q6 · SM p.5.2; pp.5.8–5.9

FRONT · RECALL ALOUD

Which four real examples does the SM give of business cycles (UK 1920s, China, IT bubble, US housing)? State the key fact on each.

BACK · ANSWER

- **UK, 1920s**: rapid growth in GDP, production and living standards, with rising stock market values = a **boom**.
- **China's slowdown**: fostering a **cycle of decline and panic** across much of the world = the beginning of a **recessionary phase** (Q2). Wrong option: countries insulated themselves.
- **IT / Dot.Com bubble**: covered roughly **1997–2000**; its burst (2000) is an example of a business cycle (Q6).
- **US housing bubble**: burst in the **second half of 2007** (Q5), leading to the global crisis of **2008–09**.

MEMORY TRICK Timeline hook: **boom in the 20s, dot-com burst in 2000, houses burst in 2007**. China is the live warning: panic spreads, nobody is insulated.

CARD 6.03 T 6.0 · MEMORISE

★★ OL 6.0.6, 6.1.23, 6.1.24 · Scanner 6.0 Q1; 6.1 Q105, Q106 · Not in SM text (Scanner only)

FRONT · RECALL ALOUD

Define a **counter-cyclical** variable, **stagflation** and **recession** as the Scanner tests them.

BACK · ANSWER

- **Counter-cyclical variable**: moves in the **opposite direction** to aggregate economic activity, down in expansions and up in contractions (6.0 Q1).
- **Stagflation**: a **low rate of growth combined with a general price level increase** (6.1 Q105).
- **Recession**: a decline in **real GDP that lasts six months or longer** (6.1 Q106).

MEMORY TRICK **Stag**flation = **stag**nation + in**flation**: growth stuck, prices still climbing. **Counter** = against the cycle.

CARD 6.04 T 6.1 · MEMORISE

★★★ OL 6.1.1 · Scanner Q5, Q28, Q89 · SM p.5.3

FRONT · RECALL ALOUD

Name the **four phases** of a typical business cycle, with their alternative names.

BACK · ANSWER

- **Expansion** (also called boom or upswing)
- **Peak** (boom or prosperity)
- **Contraction** (also called downswing or recession)
- **Trough** (or depression)

Q5: how many phases? **Four**.

MEMORY TRICK **Up, Top, Down, Bottom**: climb the hill (Expansion), stand on top (Peak), slide down (Contraction), reach the bottom (Trough).

CARD 6.05 T 6.1 · MCQ TRAP

★★★ OL 6.1.1 · Scanner Q11, Q65 (also Q78) · SM p.5.3

FRONT · RECALL ALOUD

'Which is **NOT** a phase of the business cycle?' Which tempting option do examiners use?

BACK · ANSWER

- Answer: **Reconstruction** (Q11, Q65). It is not a phase.
- Valid labels: **prosperity, upswing, depression, peak, trough, expansion** (Q11 offers prosperity, upswing and depression as the genuine alternatives).
- Q78 (RTP) key reads 'Peak, recession, trough and recovery'. The SM's own four names (and its MCQ 12 key) are Expansion, Peak, Contraction and Trough.

MEMORY TRICK 'Re-construction' is what a country does **after a war** (an external cause, see 6.3), not a stage of the cycle.

CARD 6.06 T 6.1 · CONCEPT

★★★ OL 6.1.2, 6.1.3 · Scanner Q7, Q12, Q24, Q38, Q54, Q73, Q81, Q82 · SM p.5.3

FRONT · RECALL ALOUD

In what order do the phases run, and which two are the **turning points**?

BACK · ANSWER

- **Trough → expansion → peak → contraction → trough**; then a new cycle starts.
- Expansion cannot go on for ever: the **peak starts the contraction** (Q7, Q81). The period from peak to trough is a **contraction** (Q82).
- **Turning points = peak and trough** (Q38, Q54, Q73). Q12 words it as 'boom and depression'.

MEMORY TRICK Turning points are where the road **turns**: the hilltop (peak) and the valley floor (trough). The slopes between them are the phases.

CARD 6.07 T 6.1 · MEMORISE

★★★ OL 6.1.4, 6.1.5 · Scanner Q13, Q17, Q19, Q43, Q45, Q55, Q60, Q66, Q85 · SM p.5.4

FRONT · RECALL ALOUD

What **rises** in **Expansion**, and what is the unemployment position? Which option is the MCQ trap?

BACK · ANSWER

- **Rise**: national output, employment, aggregate demand, capital and consumer expenditure, sales, profits, stock prices and bank credit.
- **Involuntary unemployment is almost zero** (Q66, Q85); what remains is **frictional** (job changes, strikes, imperfect mobility of labour) or **structural** (caused by structural changes in the economy).
- Prices and costs tend to rise faster; business confidence is high.
- MCQ trap: **'unemployment' (rising) is NOT a feature of expansion** (Q13, Q55).

MEMORY TRICK Expansion = everything **up** except the jobless queue. If an option says unemployment rises, cross it out.

CARD 6.08 T 6.1 · MEMORISE

★★★ OL 6.1.6, 6.1.7 · Scanner Q16, Q18, Q21, Q40, Q46, Q48, Q92, Q95, Q102 · SM p.5.4

FRONT · RECALL ALOUD

What marks the **Peak**? Give its position, what happens to prices, who is squeezed and what happens to demand.

BACK · ANSWER

- **Highest point** of the cycle, with **maximum production**; the **later stage of expansion** (Q102).
- Inputs become hard to find, so **input prices rise**; **output prices rise rapidly**, lifting the **cost of living** and straining **fixed income earners** (Q95).
- **Actual demand stagnates** (Q21, Q40, Q48, Q92).
- Growth stabilises for a short time, then moves in the **reverse direction** (Q16).

MEMORY TRICK **P**eak: **P**rices peak, demand **P**auses.

CARD 6.09 T 6.1 · MEMORISE

★★★ OL 6.1.8 · Scanner Q9, Q22, Q30, Q63, Q76, Q91, Q98, Q103 · SM p.5.5

FRONT · RECALL ALOUD

What happens in **Contraction** after the peak? Why does supply exceed demand?

BACK · ANSWER

- Increase in demand is **halted**; **investment and employment fall**.
- Producers **do not instantly recognise** the pulse of the economy and keep up investment and production, so **supply far exceeds demand**.
- They then hold back investment and **cancel orders** for equipment, inputs and labour; capital-goods and raw-material producers do the same. This is the **turning point and beginning of recession**.
- Other names: **downswing** (Q91) and **recession** (Q63, Q98).

MEMORY TRICK Domino chain: **peak → demand halts → stock piles up → orders cancelled → recession begins.**

CARD 6.10 T 6.1 · MEMORISE

★★★ OL 6.1.9 · Scanner Q26, Q33, Q71, Q83, Q90 · SM p.5.5

FRONT · RECALL ALOUD

As the **recession deepens**, what happens to prices, unemployment, output, bank credit and stock prices?

BACK · ANSWER

- **Prices fall**; consumers expect further falls and postpone purchases. Fall in price level is the most visible sign (Q26).
- **Unemployment rises** (despite falling wage rates) and **output falls** (Q33).
- **Bank credit shrinks**; **stock prices fall**; investor confidence is at its lowest.
- MCQ trap: **'bank credit expands'** is NOT a feature of contraction (Q90).

MEMORY TRICK Think of a **deflating balloon**: prices, output, credit and shares all sag; only the jobless count swells.

CARD 6.11 T 6.1 · COMPARE

★★★ OL 6.1.10, 6.1.11 · Scanner Q1, Q3, Q15, Q23, Q31, Q41, Q49, Q53, Q56, Q86 · SM pp.5.5–5.6

FRONT · RECALL ALOUD

Recession or depression: which is the severe form? List the features of **depression**.

BACK · ANSWER

- **Depression is the severe form of recession**, never the reverse (Q53); it is the last stage of recession (Q3).
- **Growth rate becomes negative**; national income and expenditure **decline rapidly**; prices at their lowest; **rampant unemployment** (Q1, Q56, Q86).
- **Interest rate falls**, so **liquidity preference rises** (people hold more cash); demand for credit still declines because confidence has fallen (Q31, Q49).
- **Excess capacity** in capital goods and consumer durable goods industries (Q15, Q41).

MEMORY TRICK Alphabet hook: **R** comes before **D**. Recession comes first; Depression is what it becomes when it gets severe.

CARD 6.12 T 6.1 · MEMORISE

★★ OL 6.1.12, 6.1.13, 6.1.14 · Scanner Q20, Q27, Q75, Q77, Q104 · SM p.5.6

FRONT · RECALL ALOUD

What is the **Trough**, and how does **Recovery** begin?

BACK · ANSWER

- **Trough = lowest point** of economic activity: production is low and growth rate negative (Q20, Q27, Q77, Q104).
- It **marks the end of pessimism and the beginning of optimism**.
- In **Recovery**, the reversal is **first felt in the labour market** (Q75): pervasive unemployment makes workers accept lower wages, so producers expect lower costs.
- At the trough, **aggregate economic activity** hits its lowest point (SM MCQ 3).
- Rising investment is the **turning point from depression to expansion**.

MEMORY TRICK **T**rough = **T**urn: pessimism turns to optimism, and the first sign shows up among the workers (labour market).

CARD 6.13 T 6.1 · MEMORISE

★★★ OL 6.1.22 · Scanner Q2, Q6, Q10, Q36 · SM p.5.8; also p.5.6

FRONT · RECALL ALOUD

State the key facts on the **Great Depression**: when, where it began, Keynes' view and the monetarists' view.

BACK · ANSWER

- The **longest, deepest and most widespread depression of the 20th century**: the **1930s** (cited as **1929–33**) (Q2, Q6, Q36).
- It **started in the US** and became worldwide.
- **Keynes**: **lower aggregate expenditure** caused the massive fall in income and employment.
- **Monetarists**: the **banking crisis and low money supply**.
- Trap (Q10): **excess money supply** is NOT related to it.

MEMORY TRICK Keynes says **spending** fell; monetarists say **money** fell.

CARD 6.14 T 6.1 · COMPARE

★★★ OL 6.1.15, 6.1.16, 6.1.18, 6.1.20 · Scanner Q8, Q25, Q34, Q35, Q37, Q39, Q42, Q44, Q47, Q50, Q51, Q57, Q59, Q61, Q62, Q67, Q70, Q74, Q80, Q87 · SM pp.5.6–5.8

FRONT · RECALL ALOUD

Turning points are hard to predict, so economists use **indicators**. Distinguish **leading, lagging and coincident** indicators.

BACK · ANSWER

- **Leading**: change **BEFORE** real output; precursors of upturns and downturns.
- **Lagging**: change **AFTER** real output; reflect the economy's **history** and **confirm** trends.
- **Coincident (concurrent)**: move **WITH** the cycle; describe the **current state** and the **rate of change** of expansion or contraction.
- To predict the turning point all three are used (Q47: 'all of the above').

MEMORY TRICK Leading = Looks ahead (headlights). Lagging = Looks back (rear-view mirror). Coincident = Current (the dashboard).

CARD 6.15 T 6.1 · MEMORISE

★★★ OL 6.1.17 · Scanner Q4, Q52, Q69, Q79, Q101 · SM p.5.7

FRONT · RECALL ALOUD

Give the **leading indicators** that the SM lists.

BACK · ANSWER

- Changes in **stock prices**; value of **new orders for consumer goods**; **new orders for plant and equipment**.
- **Building permits** for private houses; index of **consumer confidence**; **money growth rate**.
- Scanner: **residential investment** is a leading variable (Q4); **prime rate** is not in the index (Q101).
- Leading indicators are widely used but not always accurate; experts disagree on timing.

MEMORY TRICK Look for **forward-looking** items: shares, orders, permits, confidence, money. People act on them **before** production moves.

CARD 6.16 T 6.1 · MEMORISE

★★★ OL 6.1.19 · Scanner Q58, Q64, Q72, Q93, Q96 · SM p.5.7

FRONT · RECALL ALOUD

List the **lagging indicators**. Which common options are NOT lagging?

BACK · ANSWER

- **Unemployment, corporate profits, labour cost per unit of output, interest rates, consumer price index (CPI), commercial lending activity.**
- MCQ traps: **personal income** is NOT lagging (Q64); **changes in stock price** is NOT lagging (Q93).

MEMORY TRICK Understand Cycles Later, then Interest, CPI, Commercial lending (Unemployment, Corporate profits, Labour cost, Interest rates, CPI, Commercial lending).

CARD 6.17 T 6.1 · MEMORISE

★★★ OL 6.1.21 · Scanner Q68, Q87 · SM pp.5.7–5.8

FRONT · RECALL ALOUD

Which indicators are **coincident (concurrent)**?

BACK · ANSWER

- **GDP, industrial production, inflation, personal income, retail sales** and **financial market trends**.
- They give information on the **rate of change** of expansion or contraction at about the same time it happens (Q87).

MEMORY TRICK **Now-items** coincide: output, income, sales, prices. Picture a live scoreboard showing the game as it is played.

CARD 6.18 T 6.1 · MCQ TRAP

★★★ OL 6.1.21 · Scanner Q14, Q29, Q69, Q84, Q94 · SM pp.5.7–5.8

FRONT · RECALL ALOUD

'Which is **NOT** a coincident indicator?' Which options does the Scanner key give?

BACK · ANSWER

- **New orders for plant and equipment** = **leading** (Q14, Q84; Q69).
- **Interest rate** = **lagging** (Q29).
- **Changes in stock prices** = **leading** (Q94, Scanner key).
- Safe coincident set: **inflation, industrial production, retail sales, personal income, GDP**.

MEMORY TRICK Orders look **ahead**, rates look **behind**; only the 'now' items coincide.

CARD 6.19 T 6.1 · RECALL CHAIN

★★★ OL 6.1.1, 6.1.4, 6.1.7, 6.1.8, 6.1.10, 6.1.12 · Scanner Q28, Q45, Q92, Q98, Q56, Q77 · SM pp.5.3–5.6

FRONT · RECALL ALOUD

Retell the whole cycle as one chain, from the trough to the next expansion.

BACK · ANSWER

- **Trough** (lowest point, pessimism ends) → labour market stirs → **investment revives**.
- **Expansion**: output, jobs, demand, profits and credit rise; involuntary unemployment almost zero → **Peak**: prices and costs rise, demand stagnates.
- **Contraction**: demand halted, orders cancelled, supply exceeds demand → **Recession** deepens: prices, output, credit and shares fall → **Depression**: negative growth, low interest rate, excess capacity → **Trough** again.

MEMORY TRICK A **seesaw**: bottom (Trough) → rising (Expansion) → top, balanced (Peak) → falling (Contraction) → bottom again.

CARD 6.20 T 6.2 · MCQ TRAP

★★★ OL 6.2.1 · Scanner Q4, Q12, Q13, Q14, Q16, Q19, Q22 · SM p.5.9; also pp.5.3, 5.6

FRONT · RECALL ALOUD

Business cycles are periodic. Are they **regular**? Which MCQ options are the traps?

BACK · ANSWER

- Business cycles are **recurrent and periodic but NOT regular**: they do not occur at regular intervals.
- **Duration and intensity of fluctuations vary**, and so does the length of each phase (some cycles last several years, others two to three).
- Traps: 'occur at regular intervals' (Q16) and 'length of each phase is **definite**' (Q12, Q14) are NOT features.
- Q13, Q19, Q22: phases and cycles differ in length and severity, but share common features.

MEMORY TRICK Like buses in a busy city: they **do come back**, but never to a timetable.

CARD 6.21 T 6.2 · MEMORISE

★★★ OL 6.2.2 · Scanner Q3, Q4, Q5, Q11, Q15 · SM p.5.9

FRONT · RECALL ALOUD

How many phases do business cycles have, where do they originate, and what does **pervasive** mean?

BACK · ANSWER

- **Four distinct phases**: expansion, peak, contraction and trough, though they seldom display smoothness and regularity.
- They generally **originate in free market economies** (Q15).
- **Pervasive**: disturbances in one or more sectors get easily transmitted to all other sectors (Q5, Q11).

MEMORY TRICK **P-F-P**: **P**hases (four), **F**ree market, **P**ervasive.

CARD 6.22 T 6.2 · MCQ TRAP

★★ OL 6.2.3 · Scanner Q6, Q8, Q9 · SM p.5.9

FRONT · RECALL ALOUD

'Business cycles have **uniform** characteristics and causes': true or false? What are they instead?

BACK · ANSWER

- **False** (Q6, Q8): business cycles are **exceedingly complex** and do **NOT** have uniform characteristics and causes; they are caused by varying factors (Q9: complex in nature).
- So it is **difficult to make an accurate prediction** before they occur.
- They have **serious consequences on the well-being of society**.

MEMORY TRICK Complex means **no copy-paste**: every cycle has its own causes, so no single formula predicts it.

CARD 6.23 T 6.2 · MEMORISE

★★★ OL 6.2.4, 6.2.5, 6.0.7 · Scanner Q2, Q7, Q10, Q20 · SM p.5.10

FRONT · RECALL ALOUD

How do business cycles spread, and how are their effects felt on economic variables?

BACK · ANSWER

- **Contagious and international in character**: they begin in one country and mostly spread to others **through trade relations** (Q2, Q7).
- Repercussions are felt **simultaneously** on nearly all variables: output, employment, investment, consumption, interest, trade and price levels (Q20).
- Trap: **'asynchronous'** is NOT a feature (Q10).
- Example: the Great Depression of the 1930s in the USA and Great Britain affected almost all countries.

MEMORY TRICK Like **flu on a flight**: one country coughs, trade routes carry it across the world, and every variable catches it at once.

CARD 6.24 T 6.2 · MEMORISE

★★ OL 6.2.6, 6.4.3 · Scanner Q1 (also 6.4 Q2, Q4, Q10) · SM p.5.9

FRONT · RECALL ALOUD

Which sectors are **hit hardest** by business cycles? Which is more prone, industry or agriculture?

BACK · ANSWER

- **Capital goods** and **durable consumer goods** industries are **disproportionately affected** (Q1).
- The **industrial sector** is more prone to the adverse effects than the **agricultural sector**.
- Scanner: **durable goods industries** have more volatile output (6.4 Q10); **food-grain processing** is less sensitive (6.4 Q4).

MEMORY TRICK **Big-ticket, long-life goods** ride the biggest waves; **daily-food** businesses ride the small ripples.

CARD 6.25 T 6.3 · MEMORISE

★★★ OL 6.3.1 · Scanner Q3, Q5, Q10, Q13, Q36 · SM p.5.10

FRONT · RECALL ALOUD

Name the **six internal (endogenous) causes** of business cycles.

BACK · ANSWER

- **Fluctuations in effective demand**
- **Fluctuations in investment**
- **Variations in government spending**
- **Macroeconomic policies** (monetary and fiscal)
- **Money supply**
- **Psychological factors**

MEMORY TRICK **E-I-G-M-M-P**: **E**ager **I**nvestors **G**ain **M**ore **M**oney **P**atiently.

CARD 6.26 T 6.3 · MCQ TRAP

★★★ OL 6.3.1 · Scanner Q8, Q20, Q23, Q27, Q29, Q33 · SM p.5.10

FRONT · RECALL ALOUD

Which causes are **NOT internal**? Which are the favourite wrong options?

BACK · ANSWER

- **External, not internal**: natural factors, technology shocks, population growth, post-war reconstruction (and war).
- Scanner answers: post-war reconstruction (Q20), technology shock (Q23, Q29), natural factors (Q33).
- Reverse check: effective demand (Q8) and money supply (Q27) are **internal**, so they are NOT external.

MEMORY TRICK **Internal** = inside the economy's own engine (demand, investment, spending, policy, money, mood). **External** = shocks from outside.

CARD 6.27 T 6.3 · MEMORISE

★★★ OL 6.3.2 · Scanner Q2, Q21, Q22, Q24, Q30 · SM p.5.10

FRONT · RECALL ALOUD

Name the **five external (exogenous) causes** of business cycles.

BACK · ANSWER

- **War**
- **Post-war reconstruction**
- **Technology shock**
- **Natural factors**
- **Population growth**

MEMORY TRICK **5 outside forces**: two from war (war, rebuilding), one from the lab (technology), one from sky and soil (nature), one from the cradle (population).

CARD 6.28 T 6.3 · CONCEPT

★★ OL 6.3.3, 6.3.4 · Scanner Q6, Q16, Q17 (also 6.1 Q107) · SM pp.5.10–5.11

FRONT · RECALL ALOUD

What does **Keynes** say causes cycles? What do 'some economists' say, and which part of AD is most volatile?

BACK · ANSWER

- **Keynes**: fluctuations in economic activity are due to fluctuations in **aggregate effective demand** (the willingness and ability of consumers to purchase at different prices) (Q16).
- Higher AD → more output, income and employment; low AD → less. If AD outstrips aggregate supply, there is inflation.
- **Some economists**: fluctuations in **investment** are the prime cause (Q6); investment is the **most volatile component of AD**, moving with entrepreneurs' profit expectations.
- Scanner: Keynes also links cycles to a mismatch between AD and AS (Q17); insufficient AD causes involuntary unemployment (6.1 Q107).

MEMORY TRICK Keynes watches **demand**; 'some economists' watch the wobbliest wheel of AD: **investment**.

CARD 6.29 T 6.3 · CONCEPT

★★ OL 6.3.5, 6.1.25 · Scanner Q31, Q37 (also 6.1 Q97) · SM p.5.11

FRONT · RECALL ALOUD

How do **macroeconomic policies** cause booms and slowdowns?

BACK · ANSWER

- **Expansionary policies** (more government spending and/or tax cuts) **boost aggregate demand** and result in **booms**.
- **Anti-inflationary measures** (reduction in government spending, higher taxes and interest rates) put **downward pressure on AD**; the economy slows, sometimes to negative growth or recession (Q31).
- Monetary and fiscal policy changes work by **altering aggregate demand** (Q37); a decrease in government spending shifts the AD curve to the left (SM MCQ 8).
- Expansionary fiscal policy is most appropriate in a **contraction** (6.1 Q97).

MEMORY TRICK **Accelerator**: spend more, tax less. **Brake**: spend less, tax more, raise rates.

CARD 6.30 T 6.3 · COMPARE

★★★ OL 6.3.6, 6.3.7, 6.3.8, 6.3.9 · Scanner Q1, Q4, Q7, Q9, Q11, Q12, Q14, Q15, Q18, Q19, Q25, Q34, Q35 · SM pp.5.10–5.12

FRONT · RECALL ALOUD

Match the **economist** to the **theory**: Hawtrey, Pigou, Schumpeter, Kaldor (and Keynes).

BACK · ANSWER

- **Hawtrey**: trade cycle is a **purely monetary phenomenon**; an increase in money supply expands AD, a decrease may initiate recession. Q19: monetarists also name money supply.
- **Pigou**: **psychological factors**, waves of optimism or pessimism.
- **Schumpeter**: **innovations** that take place in the system from time to time.
- **Kaldor**: **cobweb theory**, present prices substantially influence production at some future date.
- **Keynes**: aggregate effective demand. Trap (Q4): '**Pigou, fluctuations in investment**' is the false pairing.

MEMORY TRICK Hawtrey = **H**andles money; Pigou = **P**sychology; Schumpeter = **S**park of new ideas; Kaldor = **C**obweb (**K**aldor's **C**obweb).

CARD 6.31 T 6.3 · CONCEPT

★★★ OL 6.3.7 · Scanner Q7, Q9, Q11, Q14, Q28 (also 6.4 Q8) · SM p.5.12

FRONT · RECALL ALOUD

Explain **Pigou's** psychological explanation: what happens when entrepreneurs are optimistic, and when pessimistic?

BACK · ANSWER

- Modern business activities rest on the **anticipations of the business community** and are affected by **waves of optimism or pessimism** (Q7, Q9, 6.4 Q8).
- **Optimistic** entrepreneurs invest, so the **expansionary phase may begin**.
- **Pessimistic** entrepreneurs restrict investment; employment, income and consumption fall, and the economy faces **contraction** (Q28).

MEMORY TRICK Mood moves markets: **optimism → invest → expand; pessimism → hold back → contract.**

CARD 6.32 T 6.3 · MEMORISE

★★ OL 6.3.10, 6.3.11 · Scanner Q26, Q30 · SM p.5.12

FRONT · RECALL ALOUD

How do **war** and **post-war reconstruction** each affect the cycle?

BACK · ANSWER

- **War**: resources are diverted to **weapons and arms**, so production of capital and consumer goods falls; income, profits and employment fall → **contraction** (Q26).
- **Post-war reconstruction**: houses, roads and bridges are built; **effective demand** rises, so output, employment and income go up.
- Q30: the end of a war and the start of rebuilding is an **external cause**.

MEMORY TRICK **War drains, rebuilding refills.**

CARD 6.33 T 6.3 · MEMORISE

★★ OL 6.3.12, 6.3.13 · Scanner Q21, Q32 · SM pp.5.12–5.13

FRONT · RECALL ALOUD

Give the SM's example of a **technology shock**, and explain how **natural factors** can cause a slump.

BACK · ANSWER

- **Technology shock**: the advent of **mobile phones** led to a **telecom boom** with more production, employment, income and profits (Q32).
- **Natural factors**: **droughts or excessive floods** cut agricultural output; farmers' incomes fall and food prices rise, so demand for industrial goods falls → **industrial recession**. Agrarian economies are hit most.
- Natural factor = **exogenous** (Q21).

MEMORY TRICK Mobile phones **boomed** a sector; droughts and floods **busted** one.

CARD 6.34 T 6.3 · CONCEPT

SM text · No direct Q · SM p.5.13

FRONT · RECALL ALOUD

How can **population growth** slow down economic activity?

BACK · ANSWER

- If population grows **faster than the economy**, there are **lesser savings**.
- Fewer savings → **lower investment** → less income and employment.
- Less employment and income → **less effective demand** → a **slowdown** in economic activity.

MEMORY TRICK Five arrows down: **population > growth → savings ↓ → investment ↓ → income ↓ → demand ↓.**

CARD 6.35 T 6.3 · RECALL CHAIN

★★★ OL 6.3.1, 6.3.2, 6.3.6, 6.3.7, 6.3.8, 6.3.9 · Scanner Q5, Q25 · SM pp.5.10–5.13

FRONT · RECALL ALOUD

Recall the whole map of causes: internal versus external, and who said what.

BACK · ANSWER

- **Internal (6)**: effective demand, investment, government spending, macro policies, money supply, psychological factors.
- **External (5)**: war, post-war reconstruction, technology shock, natural factors, population growth.
- **Thinkers**: Keynes → AD; Hawtrey → money; Pigou → psychology; Schumpeter → innovations; Kaldor → cobweb.

MEMORY TRICK **6 inside, 5 outside, 5 thinkers.** Anchor the thinkers: demand = Keynes, money = Hawtrey, mood = Pigou.

CARD 6.36 T 6.4 · MEMORISE

★★★ OL 6.4.1 · Scanner Q1, Q2, Q3, Q5, Q6 (also 6.1 Q32) · SM p.5.14

FRONT · RECALL ALOUD

What are **cyclical businesses**, and which examples does the SM give?

BACK · ANSWER

- Businesses **whose fortunes are closely linked to the rate of economic growth** (more vulnerable to the cycle).
- **Examples**: fashion retailers, electrical goods, house-builders, restaurants, advertising, overseas tour operators, construction and other infrastructure firms.
- Strong demand in a boom, a **sharp drop** in a slump.
- Scanner: agriculture (Q2) and washing powder (Q3) are NOT cyclical examples.

MEMORY TRICK **F**or **E**very **H**ome, **R**estaurant, **A**d, **O**verseas trip and **C**onstruction site (Fashion, Electrical, House-building, Restaurants, Advertising, Overseas tours, Construction).

CARD 6.37 T 6.4 · MCQ TRAP

★ OL 6.4.2 · Scanner Q7 · SM p.5.14

FRONT · RECALL ALOUD

'**All producers** are negatively affected in a recession': true? Which businesses can gain?

BACK · ANSWER

- **False** (Q7, the incorrect statement): **not all firms suffer** in a slump.
- Some businesses **actually benefit** from a downturn when customers see their products as **good value for money** or a **cheaper alternative** to costlier products.
- Q7: normal-goods makers expect lower demand; **inferior-goods** makers are not expected to.

MEMORY TRICK '**All**' is the alarm word: in a slump the **bargain** seller can win.

CARD 6.38 T 6.4 · CONCEPT

★ OL 6.4.4 · Scanner Q9 · SM p.5.14

FRONT · RECALL ALOUD

Which business decisions depend on the **stage of the business cycle**?

BACK · ANSWER

- **Market entry** for a new business.
- **New product launch** (Q9: the phase of the business cycle is the deciding factor).
- **Expansion versus down-sizing**: adjust production and input use, especially labour, to the stage of the cycle.
- Firms plan **product, prices and promotion** to survive sluggish phases.

MEMORY TRICK Three timing calls: **In** (entry), **Launch**, **Resize** (expand or down-size).

Flash Cards with Memory Tricks

Chapter 7 · Public Finance · 70 cards

How to use these cards

- Read the **front** and answer **aloud** before you look at the back.
- Then read the **memory trick**. If it does not click, make up your own and write it beside the card.
- Each card carries its **Scanner question numbers**, so you can attempt those MCQs straight after the card.
- Give every card a **second look after 1 day and again after 1 week.**

Reading the stars

★★★	Asked by ICAI 6 or more times. Learn word for word.
★★	Asked 3 to 5 times. Know the key terms and the lists.
★	Asked once or twice. Read once; recognise it in an MCQ.
–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
1.2	The Role of Government in an Economic System	7.01 – 7.03	3	★★★
1.3	The Allocation Function	7.04 – 7.05	2	★★
1.4	The Redistribution Function	7.06 – 7.07	2	★★
1.5	Stabilization Function	7.08 – 7.16	9	★★★
2.3	Why Do Markets Fail	7.17 – 7.19	3	★★
2.4	Public Goods	7.20	1	★★
2.5	Incomplete Information	7.21 – 7.22	2	★★★
2.6	Government Intervention to Minimise Market Power	7.23	1	★
2.7	Government Intervention to Correct Externalities	7.24 – 7.26	3	★★
2.8	Government Intervention in the Case of Merit Goods	7.27	1	★★
2.12	Government Intervention for Correcting Information Failure	7.28	1	★
3.1	Introduction	7.29 – 7.31	3	★
3.2	The Process of Budget Making	7.32 – 7.37	6	★★
3.3	Sources of Revenue	7.38 – 7.42	5	★★
3.4	Public Expenditure Management	7.43 – 7.48	6	★★★
3.5	Public Debt Management	7.49 – 7.54	6	★★
4.1	Introduction	7.55 – 7.58	4	★★★
4.2	Objectives of Fiscal Policy	7.59 – 7.60	2	★
4.3	Types of Fiscal Policy	7.61 – 7.64	4	★★
4.4	The Instruments of Fiscal Policy	7.65 – 7.70	6	★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 7.01 T 1.2 · MEMORISE

★ OL 1.5.7 · Scanner 1.5 Q13 · SM p.7.3

FRONT · RECALL ALOUD

What are the **three main macroeconomic goals** for any nation?

BACK · ANSWER

- **Economic growth**
- **High level of employment**
- **Stable price levels**

MCQ trap: "universal education to all" is NOT one of the three.

MEMORY TRICK **G-E-P**: Growth, Employment, Prices. Think of a nation's health check: pulse, work, prices.

CARD 7.02 T 1.2 · MEMORISE

★★★ OL 1.2.1 · Scanner 1.2 Q2, Q5 · SM p.7.4

FRONT · RECALL ALOUD

Who gave the **three-branch taxonomy** of the role of government, and what are the three branches?

BACK · ANSWER

Richard Musgrave, in The Theory of Public Finance (1959).

- **Resource allocation** (efficiency)
- **Income redistribution** (fairness)
- **Macroeconomic stabilisation** (price stability)

MEMORY TRICK **A-R-S**: Allocate, Redistribute, Stabilise. Musgrave's three hats on one government head.

CARD 7.03 T 1.2 · COMPARE

★ OL 1.2.2 · Scanner 1.2 Q1 · SM p.7.4

FRONT · RECALL ALOUD

Which of the three government functions are **micro** and which is **macro**?

BACK · ANSWER

- **Allocation and distribution** = microeconomic functions.
- **Stabilisation** = macroeconomic function.

Hence the allocative and distributive functions together are a **micro** economic function (answer (a)).

MEMORY TRICK **Two small, one big**: allocation and distribution are small-scale (micro); stabilisation covers the whole economy (macro).

CARD 7.04 T 1.3 · CONCEPT

★★ OL 1.3.1, 1.3.2 · Scanner 1.3 Q1 · SM p.7.5

FRONT · RECALL ALOUD

How are resources allocated in an economy: by the market, by the State, or both?

BACK · ANSWER

- **Market**: through the **price mechanism** (consumer sovereignty, profit motive); consumer preferences and demand primarily decide allocation.
- **State**: through the **budget** (taxes and public spending).

In reality **both** are used (market mechanism plus public sector units).

MEMORY TRICK **Price vs Budget**: the market votes with prices, the State votes with its budget. Real economies use both ballots.

CARD 7.05 T 1.3 · MEMORISE

★ OL 1.3.3, 1.3.4 · Scanner 1.3 Q2, Q4 · SM pp.7.5–7.7

FRONT · RECALL ALOUD

Why does the allocation function exist, and what **instruments** does government use for it?

BACK · ANSWER

Market failures are the rationale: allocation corrects inefficiencies caused by market failure.

- **Direct production** (electricity, public transport)
- **Taxes and subsidies** (price mechanism)
- **Legislation**, **competition policy**, **regulation** (licensing, controls, minimum wages)

MEMORY TRICK **Make it, Tax it, Ban it, Police it**: produce directly, tax or subsidise, legislate, regulate competition.

CARD 7.06 T 1.4 · CONCEPT

★★ OL 1.4.1, 1.4.2, 1.4.3, 1.4.5 · Scanner 1.4 Q1, Q2 · SM p.7.8

FRONT · RECALL ALOUD

Which basic question does redistribution answer, and through which sides of the budget does it work?

BACK · ANSWER

It answers **'for whom'** to produce.

- **Expenditure side**: subsidised services, supply of food grains to **BPL** households at subsidised prices.
- **Revenue side**: **progressive** taxes (higher-income groups pay a higher rate).

MCQ trap: redistribution works through **both sides** of the budget, NOT through taxation alone.

MEMORY TRICK **Two hands, one purse**: one hand takes (progressive tax), the other gives (subsidy). Never just one hand.

CARD 7.07 T 1.4 · MEMORISE

★ OL 1.4.4, 1.4.6, 1.4.7 · Scanner 1.4 Q3, Q4 · SM pp.7.8–7.9

FRONT · RECALL ALOUD

What is the **equity v. efficiency** conflict in redistribution, and what is the modern state called?

BACK · ANSWER

High taxes on the rich can be a **disincentive to work and enterprise**, causing **deadweight loss**.

Aims of redistribution: equality of income, wealth and opportunities; a minimum standard of living.

The modern state is a **welfare state**.

MEMORY TRICK **Fairness costs a little efficiency**: squeeze the rich too hard and the work-and-risk engine slows.

CARD 7.08 T 1.5 · CONCEPT

★ OL 1.5.1, 1.5.2, 1.5.3 · Scanner 1.5 Q9, Q12 · SM p.7.10

FRONT · RECALL ALOUD

Define the **stabilisation function** and **stagflation**.

BACK · ANSWER

Stabilisation (Keynesian rationale) is a key function of **fiscal policy**; it aims at eliminating macroeconomic fluctuations.

Stagflation = inflation and unemployment existing side by side.

MEMORY TRICK **Stag + flation** = stagnation plus inflation: a stuck economy with rising prices.

CARD 7.09 T 1.5 · MCQ TRAP

★ OL 1.5.4, 1.5.5 · Scanner 1.5 Q22 · SM pp.7.10–7.11

FRONT · RECALL ALOUD

Which is NOT a fiscal measure to control inflation: raising taxes, cutting spending or raising interest rates?

BACK · ANSWER

Raising interest rates is a **monetary** measure, NOT fiscal.

- Monetary tools: money supply, interest rate.
- Fiscal tools: government spending, taxes.

Against inflation government may cut spending, raise taxes and reduce the money supply.

MEMORY TRICK **Rates are RBI's, taxes are the Treasury's.** If the lever is a rate, it is monetary.

CARD 7.10 T 1.5 · CONCEPT

★★ OL 1.5.8, 1.5.9 · Scanner 1.5 Q1, Q5, Q20 · SM p.7.11

FRONT · RECALL ALOUD

What is **fiscal federalism** and who does what, according to Musgrave?

BACK · ANSWER

Division of **functions and finances** among different levels of government.

- **Centre**: stabilisation and redistribution.
- **States (and local)**: allocation.

The Finance Commission maintains fiscal federalism in India.

MEMORY TRICK **Centre steadies and shares; States serve locally.**

CARD 7.11 T 1.5 · MEMORISE

★★ OL 1.5.10, 1.5.11 · Scanner 1.5 Q7, Q16, Q24 · SM pp.7.11–7.12

FRONT · RECALL ALOUD

What does **Article 246** deal with, and which taxes belong to the states?

BACK · ANSWER

Art. 246 divides legislative powers into the **union, state and concurrent lists**.

States levy taxes on **agricultural income** and **vehicles** (also lands and buildings, mineral rights, electricity, tolls, professions).

The Centre taxes non-agricultural income, customs, corporation tax.

MEMORY TRICK **Farm and Fleet**: farm income and vehicles go to the States.

CARD 7.12 T 1.5 · MEMORISE

★★ OL 1.5.12, 1.5.13 · Scanner 1.5 Q3, Q10, Q14 · SM pp.7.12–7.13

FRONT · RECALL ALOUD

Which Articles cover finance distribution, surcharge and statutory grants? What is the divisible pool?

BACK · ANSWER

- **Arts. 268–281**: distribution of finances.
- **Art. 271**: surcharge for purposes of the union.
- **Art. 275**: statutory grants-in-aid to certain states.

After the 2000 amendment the **divisible pool consists of all taxes of the union**.

MEMORY TRICK **271 = surcharge, 275 = statutory grants**: say "two-seven-one sur, two-seven-five give".

CARD 7.13 T 1.5 · MEMORISE

★★★ OL 1.5.14, 1.5.15, 1.5.16 · Scanner 1.5 Q4, Q8, Q11; 1.4 Q5 · SM pp.7.12–7.13

FRONT · RECALL ALOUD

What does the **Finance Commission** (Art. 280) do, and what is the **Net Divisible Pool**?

BACK · ANSWER

Recommends **tax sharing** between union and states and **grants-in-aid**, considering **vertical equity** (share of all states in Centre's revenue) and **horizontal equity** (allocation among states).

NDP = gross tax revenue minus cesses, surcharges and non-tax revenue.

MEMORY TRICK **Vertical = Up-down (Centre to states); Horizontal = side-to-side (state to state).**

CARD 7.14 T 1.5 · MEMORISE

★ OL 1.5.17 · Scanner 1.5 Q2, Q15 · SM pp.7.13–7.14

FRONT · RECALL ALOUD

What did the **15th Finance Commission** (2021-26) recommend for states, and by which criteria?

BACK · ANSWER

States' share: **41%**.

Criteria: **income distance, area, population (2011), demographic performance, forest and ecology, tax and fiscal efforts**.

NOT criteria: infrastructure performance, adult literacy.

MEMORY TRICK **IAP-DFT**: Income, Area, Population, Demographic, Forest, Tax.

CARD 7.15 T 1.5 · MEMORISE

★ OL 1.5.18, 1.5.19, 1.5.21 · Scanner 1.5 Q17, Q23 · SM pp.7.14–7.15

FRONT · RECALL ALOUD

When did GST start, how big is its share, and who handles which functions (Centre, states, local bodies)?

BACK · ANSWER

GST: **1 July 2017**, subsumes most indirect taxes; **35%** of union gross tax revenue.

- **Centre**: defence, foreign affairs, money and banking.
- **States**: police, health, education.
- **Local bodies**: water supply, sanitation.

MEMORY TRICK **Big three levels**: Centre guards the nation, States guard the citizen, Locals guard the tap.

CARD 7.16 T 1.5 · MEMORISE

★★ OL 1.2.3, 1.2.4, 1.5.6, 1.5.20 · Scanner 1.2 Q3, Q4; 1.5 Q18, Q25 · Not in SM text (Scanner only)

FRONT · RECALL ALOUD

Match: canon of equity; Economic Survey; automatic stabiliser; cascading effect.

BACK · ANSWER

- Canon of **equity**: given by **Adam Smith**.
- **Economic Survey**: published by the **Ministry of Finance**.
- Automatic stabilisers include **progressive taxes**.
- **Cascading effect** = tax on tax, leading to increased costs.

MEMORY TRICK **Smith = Square deal (equity)**; the Survey belongs to Finance; stabilisers work by themselves.

CARD 7.17 T 2.3 · CONCEPT

★★ OL 2.2.1, 2.2.2, 2.3.1, 2.4.5 · Scanner 2.2 Q5; 2.3 Q3, Q6 · SM pp.7.25, 7.41

FRONT · RECALL ALOUD

What is **market failure**, what are its two types, and what are the **four reasons**?

BACK · ANSWER

Free market misallocates scarce resources: **over- or under-production** of goods.

Types: **complete** (missing markets) and **partial**.

Four reasons: **market power, externalities, public goods, incomplete information**.

Market power = ability of a firm to profitably raise price over marginal cost (price makers).

MEMORY TRICK **MEPI**: Market power, Externalities, Public goods, Information.

CARD 7.18 T 2.3 · MCQ TRAP

★★ OL 2.3.2, 2.2.3, 2.3.3 · Scanner 2.2 Q1; 2.3 Q5, Q7 · SM p.7.25

FRONT · RECALL ALOUD

Are **externalities** internal costs of production? Give the classic classroom example.

BACK · ANSWER

NO. Externalities are costs or benefits **not reflected in market prices**, falling on **third parties**.

Undisciplined students disrupting a lecture = **negative consumption externality**.

The Scanner key for 2.3 Q7 conflicts with this (see notes).

MEMORY TRICK **External = Outside the price tag.** If the price tag already carries it, it is internal.

CARD 7.19 T 2.3 · FORMULA

★ OL 2.3.4, 2.2.4 · Scanner 2.2 Q4; 2.3 Q8 · SM p.7.27

FRONT · RECALL ALOUD

State the **social cost** formula and what happens to output under a negative externality.

BACK · ANSWER

Social Cost = Private Cost + External Cost

Under a negative externality the market quantity is **above the socially optimal** quantity.

MEMORY TRICK **Society pays the bill the firm skips**: private bill + the neighbour's bill.

CARD 7.20 T 2.4 · CONCEPT

★★ OL 2.4.1, 2.4.2, 2.4.3, 2.1.1, 2.1.2, 2.1.3 · Scanner 2.1 Q2, Q3, Q4; 2.4 Q1, Q3 · SM pp.7.27–7.28

FRONT · RECALL ALOUD

Who introduced **collective consumption goods**, and what makes a good a **public good**?

BACK · ANSWER

Samuelson (1954) introduced collective consumption goods.

Public goods are **non-rival, non-excludable** and **indivisible**.

This causes the **free-rider problem**, so markets **under-provide** them.

MEMORY TRICK **Street lamp**: everyone enjoys the light, nobody pays, so nobody builds it.

CARD 7.21 T 2.5 · CONCEPT	★★★ OL 2.5.1, 2.5.2, 2.5.3, 2.5.5, 2.5.6 · Scanner 2.5 Q1, Q2, Q3, Q6 · SM pp.7.29–7.30
FRONT · RECALL ALOUD What is **adverse selection**, and what is Akerlof's **lemons problem**?	BACK · ANSWER Information failure results in **market failure**; asymmetric information can run **either way** (buyer or seller better informed). **Adverse selection** (before the deal): high-risk buyers seek insurance more. **Lemons** = poor-quality used cars; good cars are driven out, and buyers end up with **sub-standard goods**.

MEMORY TRICK **Bad drives out good**: lemons crowd the lot until only lemons remain.

CARD 7.22 T 2.5 · CONCEPT	★ OL 2.5.7 · Scanner 2.5 Q5, Q7 · SM p.7.31
FRONT · RECALL ALOUD Define **moral hazard** with an example.	BACK · ANSWER Risky behaviour **after the deal**: an insured driver drives carelessly, knowing losses are covered.

MEMORY TRICK **Adverse = Before, Moral = After.** Selection first, behaviour later.

CARD 7.23 T 2.6 · CONCEPT	★ OL 2.6.1, 2.6.2 · Scanner 2.6 Q1 · SM pp.7.32–7.33
FRONT · RECALL ALOUD How does government curb market power, and what is a **natural monopoly**?	BACK · ANSWER Competition laws, liberalisation, price regulation. **Natural monopoly**: one firm produces the whole output at the lowest cost (electricity, gas, water); price is regulated.

MEMORY TRICK **One pipe, one firm**: duplicating pipes costs more.

CARD 7.24 T 2.7 · CONCEPT	★★ OL 2.7.1, 2.7.2, 2.7.4 · Scanner 2.3 Q1, Q2; 2.7 Q2, Q5 · SM pp.7.34–7.35
FRONT · RECALL ALOUD Name the two routes to correct **negative externalities**.	BACK · ANSWER • **Direct controls** (command solutions; smoking ban). • **Market-based tools**: **Pigouvian tax** and **cap and trade**. Tax: pollution tax makes the polluter pay.

MEMORY TRICK **Order or Price**: command it, or price it.

CARD 7.25 T 2.7 · CONCEPT	★ OL 2.7.3 · Scanner 2.7 Q3 · SM p.7.35
FRONT · RECALL ALOUD Who bears a tax when demand is inelastic, and when elastic?	BACK · ANSWER **Inelastic** demand: burden shifted to **buyers**. **Elastic** demand: burden **more on sellers**.

MEMORY TRICK **Inelastic = buyer stuck.**

CARD 7.26 T 2.7 · CONCEPT	★★ OL 2.7.5 · Scanner 2.7 Q1, Q4 · SM pp.7.36–7.37
FRONT · RECALL ALOUD How are **positive externalities** corrected?	BACK · ANSWER **Producer or consumer subsidies**, lowering cost and price. Example: fertiliser subsidy (producer); education fee subsidy (consumer).

MEMORY TRICK **Sweeten the good**: subsidy lowers price, demand rises.

CARD 7.27 T 2.8 · MCQ TRAP	★★ OL 2.8.1, 2.8.2, 2.3.7, 2.5.8 · Scanner 2.3 Q4; 2.8 Q1, Q2; 2.5 Q8; 2.5 model (demerit) Q1 · SM pp.7.37–7.38
FRONT · RECALL ALOUD Do merit goods have negative externalities? How does government respond?	BACK · ANSWER NO: merit goods have **positive** externalities and are **under-consumed**. Responses: regulation, **compulsory insurance**, **RTE Act 2009**, subsidies. Demerit goods are **over-produced** (and over-consumed) under free markets; contrast with merit goods (SM p.7.38).

MEMORY TRICK **Merit = Make more.**

CARD 7.28 T 2.12 · CONCEPT	★ OL 2.12.1, 2.5.9 · Scanner 2.5 Q4; 2.12 Q1 · SM p.7.40
FRONT · RECALL ALOUD Give examples of intervention for information failure.	BACK · ANSWER Product **labelling**, mandatory disclosure (SEBI; mutual-fund disclaimer), advertising rules.

MEMORY TRICK **Label, Disclose, Advertise honestly.**

CARD 7.29 T 3.1 · MEMORISE	★ OL 3.1.1, 3.1.2, 3.1.5 · No direct Q · SM p.7.52
FRONT · RECALL ALOUD What is the **budget**, what are its aims, who prepares it and what is the fiscal year?	BACK · ANSWER Schedule of next year's **revenues and expenditures**; the most comprehensive report of government finances. Aims: **allocation, redistribution, stability, real GDP growth, regional balance**. Prepared by the **Ministry of Finance** with NITI Aayog; fiscal year **1 April – 31 March**.

MEMORY TRICK **Budget = Where from, Where to.**

CARD 7.30 T 3.1 · MEMORISE	★ OL 3.1.7, 3.2.2 · Scanner 3.1 Q2; 3.2 Q5 · SM pp.7.52–7.53
FRONT · RECALL ALOUD Which term does **Art. 112** use for the budget, and in which House is it presented first?	BACK · ANSWER **Annual Financial Statement** (the Constitution never says 'budget'). Presented first in the **Lok Sabha**.

MEMORY TRICK **112 = AFS**: one-one-two, Art. Fin. Statement.

CARD 7.31 T 3.1 · MEMORISE	★ OL 3.1.8 · Scanner 3.1 Q4 · SM p.7.53
FRONT · RECALL ALOUD Which figures appear in the budget documents: BE, RE, Actuals?	BACK · ANSWER • **BE** (budget estimates): current and ensuing year. • **RE** (revised estimates): current year. • **Actuals**: the year preceding the current year.

MEMORY TRICK **BE ahead, RE now, Actuals behind**: future, present, past.

CARD 7.32 T 3.2 · MEMORISE	★ OL 3.1.6, 3.2.1 · Scanner 3.1 Q1; 3.2 Q9 · SM p.7.52
FRONT · RECALL ALOUD What are the **three procedures** of budget making?	BACK · ANSWER **Preparation → Presentation and enactment → Execution**. The administrative process prepares it; the legislative process passes it.

MEMORY TRICK **P-P-E**: Prepare, Pass, Execute.

CARD 7.33 T 3.2 · MEMORISE	★★ OL 3.2.3, 3.5.6 · Scanner 3.2 Q6 · SM p.7.54
FRONT · RECALL ALOUD List the **budget documents**, including the FRBM statements.	BACK · ANSWER • **AFS**, **Demands for Grants**, **Finance Bill** • FRBM statements: **Macro-Economic Framework Statement** and **Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement** The Macro-Economic Framework Statement is mandated by the FRBM Act.

MEMORY TRICK **A-D-F-F**: AFS, Demands, Finance Bill, FRBM.

CARD 7.34 T 3.2 · MCQ TRAP	★ OL 3.2.2 · Scanner 3.2 Q5 · SM pp.7.53, 7.55
FRONT · RECALL ALOUD Does the **Rajya Sabha** vote on demands for grants?	BACK · ANSWER NO. The budget speech is made in the **Lok Sabha** first; the Rajya Sabha holds only a **general discussion**.

MEMORY TRICK **Lok Sabha votes, Rajya Sabha talks.**

CARD 7.35 T 3.2 · CONCEPT	★ OL 3.1.9, 3.2.4 · Scanner 3.2 Q8 · SM p.7.55
FRONT · RECALL ALOUD What is the **Finance Bill** and what are its time limits?	BACK · ANSWER Gives effect to **tax proposals**; introduced in **Lok Sabha** immediately after the budget. Parliament passes it within **75 days**; Rajya Sabha returns it within **14 days**.

MEMORY TRICK **75 to pass, 14 to return.**

CARD 7.36 T 3.2 · CONCEPT	★ OL 3.1.11, 3.5.15, 3.1.12 · Scanner 3.1 Q3; 3.5 Q12 · SM pp.7.55, 7.64
FRONT · RECALL ALOUD What are the **guillotine** and **cut motions**?	BACK · ANSWER **Guillotine**: once time is over, the Speaker puts **all outstanding demands** to vote together. **Cut motions** reduce demands for grants (economy, policy, grievance).

MEMORY TRICK **Guillotine chops the debate**; cut motions trim the demand.

CARD 7.37 T 3.2 · MCQ TRAP	★ OL 3.5.10 · Scanner 3.5 Q16 · SM p.7.54
FRONT · RECALL ALOUD Is **charged expenditure** subject to a vote of Parliament?	BACK · ANSWER NO. It is **charged on the Consolidated Fund**, not voted: President, SC Judges, constitutional authorities and interest on public debt.

MEMORY TRICK **Charged = Chosen not to vote.**

CARD 7.38 T 3.3 · COMPARE	★ OL 3.3.1, 3.2.7 · Scanner 3.2 Q2, Q3 · SM pp.7.56, 7.62
FRONT · RECALL ALOUD Distinguish **revenue receipts** from **capital receipts**.	BACK · ANSWER • **Revenue**: tax + non-tax; creates **no liability**, no asset reduction. • **Capital**: lead to reduction of assets or increase in liabilities; **debt** and **non-debt**.

MEMORY TRICK **Revenue just comes; capital comes with strings.**

CARD 7.39 T 3.3 · MEMORISE	★★ OL 3.3.2, 3.2.6 · Scanner 3.3 Q4 · SM p.7.56
FRONT · RECALL ALOUD List the **tax revenue** sources of the Centre.	BACK · ANSWER **Corporation tax, taxes on income, wealth tax, customs duties, union excise duties, GST** (including GST compensation cess), **taxes of union territories**. GST compensation cess is **tax revenue**, not non-tax.

MEMORY TRICK **C-I-W-C-U-G-U**: one letter per tax, in the order listed.

CARD 7.40 T 3.3 · MEMORISE	★★ OL 3.3.3 · Scanner 3.3 Q4, Q5 · SM pp.7.56–7.57
FRONT · RECALL ALOUD List **non-tax revenue** sources.	BACK · ANSWER Interest receipts; **dividends and profits** of PSEs plus **RBI surplus**; other non-tax revenue; receipts of **union territories**.

MEMORY TRICK **Earn, don't tax**: interest, dividends, surplus.

CARD 7.41 T 3.3 · MEMORISE	★ OL 3.3.4 · Scanner 3.2 Q2 · SM p.7.57
FRONT · RECALL ALOUD Split **capital receipts** into non-debt and debt.	BACK · ANSWER • **Non-debt**: loan recoveries + disinvestment. • **Debt**: market loans, T-bills, small savings, State PF, external debt.

MEMORY TRICK **Non-debt = Nothing owed back.**

CARD 7.42 T 3.3 · MCQ TRAP	★★ OL 3.3.5 · Scanner 3.3 Q1, Q2, Q3 · SM p.7.14
FRONT · RECALL ALOUD Which tax did GST **not** subsume, and what are its features?	BACK · ANSWER GST did NOT subsume **income tax**. It is **consumption-based**; subsumed excise, service tax, VAT; **IGST** applies on inter-state and imports/exports.

MEMORY TRICK **GST gobbles goods-and-services taxes, never income.**

CARD 7.43 T 3.4 · CONCEPT	★ OL 3.4.1 · Scanner 3.4 Q17, Q22 · SM p.7.58
FRONT · RECALL ALOUD What are the harmful effects of unproductive or excessive spending?	BACK · ANSWER Unproductive public expenditure leads to **larger deficits, higher taxation, lower economic growth**, fewer resources elsewhere and a **greater future debt burden**.

MEMORY TRICK **Waste now, bills later.**

CARD 7.44 T 3.4 · MEMORISE	★ OL 3.4.2, 3.4.3, 3.5.8 · Scanner 3.4 Q16; 3.5 Q3, Q6 · SM pp.7.13, 7.54, 7.58–7.59
FRONT · RECALL ALOUD How is expenditure classified, and who is the nodal department?	BACK · ANSWER Centre's expenditure vs **CSS and transfers**; **revenue vs capital**; **charged vs voted**. Plan/non-Plan classification is abolished. **Department of Expenditure** is the nodal department for public financial management.

MEMORY TRICK **Three splits**: who spends, what for, who votes.

CARD 7.45 T 3.4 · FORMULA	★ OL 3.4.6 · Scanner 3.4 Q8 · SM p.7.62
FRONT · RECALL ALOUD Define balanced, surplus and deficit budgets.	BACK · ANSWER Balanced: **R = E**; surplus: **R > E**; deficit: **R < E**.

MEMORY TRICK **The bigger side wins its name**: more revenue is surplus.

CARD 7.46 T 3.4 · FORMULA

★ OL 3.4.7, 3.4.8 · Scanner 3.4 Q13, Q14, Q15 · SM pp.7.63

FRONT · RECALL ALOUD

State budgetary deficit and revenue deficit, with the PYQ numbers.

BACK · ANSWER

Budgetary deficit = total expenditure − total receipts (revenue + capital). Example: 60,000 − 54,000 = ₹6,000 crore.

Revenue deficit = revenue expenditure − revenue receipts. Example: 30,000 − 25,000 = ₹5,000 crore.

MEMORY TRICK **Revenue deficit looks at the home account only.**

CARD 7.47 T 3.4 · FORMULA

★★★ OL 3.4.9, 3.4.10, 3.5.13 · Scanner 3.4 Q7, Q24; 3.5 Q7 · SM pp.7.63–7.64

FRONT · RECALL ALOUD

State the **fiscal deficit** and its equivalent forms.

BACK · ANSWER

Fiscal deficit = total expenditure − receipts excluding borrowing.

= Revenue deficit + (Capital expenditure − non-debt capital receipts).

It equals the **borrowing requirement**. Example: expenditure 17,000, receipts excl. borrowing 12,000 → ₹5,000 crore.

MEMORY TRICK **Fiscal = what you must borrow.** Total spend minus everything that is not a loan.

CARD 7.48 T 3.4 · FORMULA

★★ OL 3.4.11 · Scanner 3.4 Q2, Q12, Q25 · SM p.7.64

FRONT · RECALL ALOUD

State **primary deficit** with a worked example.

BACK · ANSWER

Primary deficit = fiscal deficit − net interest liabilities.

Example: primary deficit ₹20,500 crore, net interest ₹3,500 crore → fiscal deficit = **₹24,000 crore**.

MEMORY TRICK **Peel off the interest**: primary is fiscal without interest.

CARD 7.49 T 3.5 · CONCEPT

★★ OL 3.5.1, 3.4.14, 3.5.2, 3.4.16 · Scanner 3.4 Q11; 3.5 Q10, Q15 · SM pp.7.59–7.60

FRONT · RECALL ALOUD

Define public debt and public debt management (PDM) and its aims.

BACK · ANSWER

Public debt = government debt contracted in the **Consolidated Fund of India**. PDM covers size, composition, maturity, interest and redemption.

Aim: **lowest possible long-term borrowing cost**, debt within sustainable levels. Three pillars: **low cost, risk mitigation, market development**.

MEMORY TRICK **Cheap, safe, deep**: low cost, low risk, developed market.

CARD 7.50 T 3.5 · MEMORISE

★★ OL 3.5.3, 3.4.15 · Scanner 3.4 Q1, Q4; 3.5 Q9, Q13 · SM pp.7.60–7.61

FRONT · RECALL ALOUD

Who manages internal and external debt? When was the PDMC created?

BACK · ANSWER

RBI (IDMD): domestic marketable debt. **DEA** (Ministry of Finance): external debt.

PDMC created in **2016** (under the DEA). SEBI is not responsible.

MEMORY TRICK **RBI at home, DEA abroad.**

CARD 7.51 T 3.5 · MEMORISE	★ OL 3.5.4, 3.4.13 · Scanner 3.4 Q10; 3.5 Q17 · SM p.7.60
FRONT · RECALL ALOUD What are **T-bills** and **WMA**?	BACK · ANSWER **T-bills**: issued to meet short-term cash requirements. **WMA**: RBI short-term credit, up to **three months**, to states banking with it, bridging temporary cash-flow mismatches.

MEMORY TRICK **T-bills Tide over the day; WMA bridges the Weeks (up to 3 months).**

CARD 7.52 T 3.5 · MEMORISE	★ OL 3.5.5 · Scanner 3.5 Q5 · SM p.7.61
FRONT · RECALL ALOUD What is the **FRBM Act 2003** and its objectives?	BACK · ANSWER Provides a framework to **reduce deficit and debt** to sustainable level. • **Inter-generational equity**; long-run macroeconomic stability; fiscal–monetary coordination; transparency.

MEMORY TRICK **I-L-C-T**: Inter-generational, Long-run, Coordination, Transparency.

CARD 7.53 T 3.5 · COMPARE	★ OL 3.5.9, 3.5.11, 3.5.12, 3.2.8 · Scanner 3.5 Q2; 3.2 Q4 · SM p.7.65
FRONT · RECALL ALOUD Compare the **Consolidated Fund**, **Contingency Fund** and **Public Account**.	BACK · ANSWER • **CFI**: all revenues, loans, repayments; spend only if appropriated by Parliament. • **Contingency**: with the **President**, urgent unforeseen spending, recouped from CFI. • **Public Account**: government as banker (PF, small savings); no Parliamentary approval.

MEMORY TRICK **Main purse, Emergency purse, Trust purse.**

CARD 7.54 T 3.5 · CONCEPT	★ OL 3.1.10, 3.5.16 · Scanner 3.5 Q14 · SM p.7.64
FRONT · RECALL ALOUD What does an **outcome budget** link?	BACK · ANSWER Links **budget allocations** to output and outcome targets (performance).

MEMORY TRICK **Outlay meets outcome.**

CARD 7.55 T 4.1 · MEMORISE	★★★ OL 4.1.1, 4.4.10 · Scanner 4.1 Q1, Q4, Q9, Q15 · SM pp.7.72, 7.83
FRONT · RECALL ALOUD Define **fiscal policy**.	BACK · ANSWER **Deliberate** use of government **taxation, public expenditure and borrowing** to influence **aggregate demand, output and employment**.

MEMORY TRICK **T-E-B**: Taxes, Expenditure, Borrowing, steering AD.

CARD 7.56 T 4.1 · MCQ TRAP

★★★ OL 4.1.1 · Scanner 4.1 Q5 · Not in SM text (Scanner conflict, see notes)

FRONT · RECALL ALOUD

Who frames fiscal policy: Finance Ministry or RBI?

BACK · ANSWER

Deck: framed by the **Finance Ministry**, NOT the RBI (RBI frames monetary policy).

The Scanner key for 4.1 Q5 shows RBI, which conflicts; editor to confirm before print.

MEMORY TRICK **Fiscal = Finance; Monetary = RBI.**

CARD 7.57 T 4.1 · CONCEPT

★ OL 4.1.3 · Scanner 4.1 Q11 · SM p.7.72

FRONT · RECALL ALOUD

Is fiscal policy supply-side or demand-side? Is it needed at full employment?

BACK · ANSWER

Demand-side policy; an economy at full employment does not require it.

MEMORY TRICK **Fiscal pushes Demand.**

CARD 7.58 T 4.1 · MEMORISE

★ OL 4.1.2 · Scanner 4.1 Q3, Q4 · SM pp.7.76, 7.83

FRONT · RECALL ALOUD

Which are the **tools** of fiscal policy?

BACK · ANSWER

Taxes, government expenditure, public debt, budget. The interest rate is a monetary tool.

MEMORY TRICK **TEDB**: Taxes, Expenditure, Debt, Budget.

CARD 7.59 T 4.2 · MEMORISE

★ OL 4.2.1, 4.1.4 · Scanner 4.1 Q14; 4.2 Q8 · SM pp.7.73, 7.83

FRONT · RECALL ALOUD

List the **objectives** of fiscal policy.

BACK · ANSWER

Full employment, **price stability**, **faster development**, **equitable distribution** of income and wealth.

Promotion of exports and imports is NOT one.

MEMORY TRICK **Jobs, Prices, Growth, Fairness.**

CARD 7.60 T 4.2 · FORMULA

★ OL 4.2.2 · No direct Q · SM p.7.74

FRONT · RECALL ALOUD

How does government influence GDP = C + I + G + NX?

BACK · ANSWER

GDP = C + I + G + NX. **G directly**; **C, I and NX indirectly** through taxes, transfers and spending.

MEMORY TRICK **G is the steering wheel; C, I, NX respond.**

CARD 7.61 T 4.3 · CONCEPT

★★ OL 4.3.1, 4.2.3 · Scanner 4.2 Q5, Q6; 4.3 Q6, Q7 · SM pp.7.74, 7.84

FRONT · RECALL ALOUD

What is **expansionary** fiscal policy and when is it used?

BACK · ANSWER

Used in **recession / recessionary gap**: **cut taxes and/or raise spending** to raise aggregate demand.

MEMORY TRICK **Expand = Spend and Slash taxes.**

CARD 7.62 T 4.3 · CONCEPT	★★ OL 4.3.2, 4.2.4, 4.3.3 · Scanner 4.2 Q1, Q7; 4.3 Q4 · SM p.7.75
FRONT · RECALL ALOUD What is **contractionary** fiscal policy?	BACK · ANSWER Used in **inflation / inflationary gap**: **cut spending and/or raise taxes**, leading to a smaller deficit.

MEMORY TRICK **Contract = Cut spending, Climb taxes.**

CARD 7.63 T 4.3 · CONCEPT	★★ OL 4.3.4, 4.4.4 · Scanner 4.3 Q3 · SM p.7.78
FRONT · RECALL ALOUD What is the effect of deficit, surplus and balanced budgets on AD?	BACK · ANSWER Deficit **stimulates**; surplus **slows**; balanced has **no net effect** on AD.

MEMORY TRICK **Injections vs leakages**: more in than out lifts demand.

CARD 7.64 T 4.3 · CONCEPT	★★ OL 4.3.5, 4.2.6 · Scanner 4.2 Q4, Q9; 4.3 Q5 · Not in SM text (Scanner only)
FRONT · RECALL ALOUD What is **pump priming**?	BACK · ANSWER **One-shot** public spending to revive a **depressed economy** (deflation), boosting business confidence.

MEMORY TRICK **Prime the pump** with one pour.

CARD 7.65 T 4.4 · CONCEPT	★★ OL 4.4.1, 4.4.2, 4.1.7 · Scanner 4.4 Q3, Q4 · SM pp.7.76–7.77
FRONT · RECALL ALOUD How does government spending work, and how is it financed?	BACK · ANSWER Spending → incomes + **multiplier** → output and employment. Financed by **borrowing or monetisation**.

MEMORY TRICK **Spend, multiply, finance.**

CARD 7.66 T 4.4 · CONCEPT	★ OL 4.4.3 · Scanner 4.4 Q8 · SM p.7.77
FRONT · RECALL ALOUD How are taxes used?	BACK · ANSWER Main revenue source; **cut in recession, raised in inflation**.

MEMORY TRICK **Cut when cold, raise when hot.**

CARD 7.67 T 4.4 · MEMORISE	★ OL 4.4.5, 4.1.5 · Scanner 4.1 Q12 · SM p.7.80
FRONT · RECALL ALOUD How does fiscal policy redistribute?	BACK · ANSWER **Progressive direct taxes**, **differential indirect taxes**, **welfare spending**.

MEMORY TRICK **Tax the able, tilt the rates, fund the needy.**

CARD 7.68 T 4.4 · MEMORISE	★★ OL 4.4.6 · Scanner 4.4 Q1 · SM p.7.81
FRONT · RECALL ALOUD Name the four **lags**.	BACK · ANSWER **Recognition, decision, implementation, impact** (results not yet visible).

MEMORY TRICK **R-D-I-I**: Recognise, Decide, Implement, Impact.

CARD 7.69 T 4.4 · MEMORISE	★★ OL 4.4.7, 4.1.8 · Scanner 4.1 Q10; 4.4 Q2, Q5, Q10 · SM pp.7.81–7.82
FRONT · RECALL ALOUD List the **limitations** of fiscal policy.	BACK · ANSWER Rigid spending, long gestation, **disincentives**, **price spiral**, **debt burden** on future generations.

MEMORY TRICK **Stiff, Slow, Sour, Spiral, Debt.**

CARD 7.70 T 4.4 · CONCEPT	★★ OL 4.4.8, 4.4.9 · Scanner 4.4 Q7 · SM p.7.82
FRONT · RECALL ALOUD What is **crowding out**?	BACK · ANSWER Government borrowing → **higher interest rates** → **less private investment**; unlikely in a deep recession.

MEMORY TRICK **Government elbows private investors out of the credit queue.**

CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

Flash Cards with Memory Tricks

Chapter 8 · Money Market · 60 cards

How to use these cards

- Read the **front** and answer **aloud** before you look at the back.
- Then read the **memory trick**. If it does not click, make up your own and write it beside the card.
- Each card carries its **Scanner question numbers**, so you can attempt those MCQs straight after the card.
- Give every card a **second look after 1 day and again after 1 week.**

Reading the stars

★★★	Asked by ICAI 6 or more times. Learn word for word.
★★	Asked 3 to 5 times. Know the key terms and the lists.
★	Asked once or twice. Read once; recognise it in an MCQ.
–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
1.1	Introduction	8.01 – 8.04	4	★★
1.2	The Demand for Money	8.05 – 8.07	3	★★
1.3	Theories of Demand for Money	8.08 – 8.16	9	★★★
1.4	Post-Keynesian Developments in the Theory of Demand for Money	8.17 – 8.21	5	★★
1.5	Conclusion	8.22	1	★
2.1	Introduction	8.23	1	★
2.2	Rationale of Measuring Money Supply	8.24 – 8.25	2	★★
2.3	The Sources of Money Supply	8.26 – 8.28	3	★★★
2.4	Measurement of Money Supply	8.29 – 8.33	5	★★★
2.5	Determinants of Money Supply	8.34 – 8.39	6	★★★
2.7	The Money Multiplier Approach to Supply of Money	8.40 – 8.42	3	★★★
2.8	Monetary Policy and Money Supply	8.43 – 8.44	2	★★★
3.2	Monetary Policy Defined	8.45	1	★★
3.3	The Monetary Policy Framework	8.46 – 8.56	11	★★★
3.4	The Organisational Structure for Monetary Policy Decisions	8.57 – 8.59	3	★★
3.5	Conclusion	8.60	1	★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 8.01 T 1.1 · MEMORISE

★ OL 1.1.1 · Scanner Q4 · SM p.8.3

FRONT · RECALL ALOUD

Name the **functions of money**. Which function lets people save purchasing power for the future?

BACK · ANSWER

Store of value, unit of account, medium of exchange (and standard of deferred payments).

Saving purchasing power for the future = **store of value** (Q4).

MEMORY TRICK **Store** it, **count** it, **swap** it: store of value, unit of account, medium of exchange.

CARD 8.02 T 1.1 · MEMORISE

★★ OL 1.1.2 · Scanner Q2, Q3 · SM pp.8.3–8.4

FRONT · RECALL ALOUD

List the **characteristics** money should possess.

BACK · ANSWER

Generally acceptable, durable, effortlessly recognisable, difficult to counterfeit, relatively scarce, portable, possessing uniformity, divisible.

A **perishable** (Q3) or **easily reproducible** (Q2) item fails the test.

MEMORY TRICK Think of a coin: **A-D-R-C-S-P-U-D** (acceptable, durable, recognisable, counterfeit-proof, scarce, portable, uniform, divisible). Eight letters, eight traits.

CARD 8.03 T 1.1 · MCQ TRAP

★★ OL 1.1.1, 1.1.2 · Scanner Q1, Q2, Q3 · SM p.8.4

FRONT · RECALL ALOUD

Which option is the usual **NOT** answer on functions and characteristics of money?

BACK · ANSWER

Easily reproducible by people is NOT a function (Q1) and NOT a characteristic (Q2) of money; **perishable** is also not (Q3).

The SM wants money **difficult to counterfeit**, so easy copying defeats it.

MEMORY TRICK If anyone can **copy** it, it cannot **count** as money.

CARD 8.04 T 1.1 · CONCEPT

★ OL 1.1.3 · Scanner Q5 · SM p.8.3

FRONT · RECALL ALOUD

What gives **fiat money** its value, since it is materially worthless?

BACK · ANSWER

Value comes only because a nation **collectively agrees** to ascribe a value to it.

In modern fiat systems value rests on **government authority and public trust** (Q5), not gold reserves.

MEMORY TRICK Fiat money is a **promise everyone keeps**: no trust, no value.

CARD 8.05 T 1.2 · CONCEPT

★ OL 1.2.1 · Scanner Q1 · SM p.8.5

FRONT · RECALL ALOUD

What is **real money**, and why is demand for money called a demand for **real balances**?

BACK · ANSWER

Real money = **nominal money adjusted to the price level** (Q1).

People demand money for command over real goods and services, so it is a **derived demand**.

MEMORY TRICK **Real = nominal ÷ prices.** Rupees matter for what they buy.

CARD 8.06 T 1.2 · MEMORISE

★★ OL 1.2.2, 1.4.1 · Scanner Q2, Q3 · SM p.8.5

FRONT · RECALL ALOUD

What does the **quantity of money demanded** depend on, and how does each factor act?

BACK · ANSWER

- **Income** (+): richer people hold more money.
- **Price level** (+): higher prices, more money held.
- **Interest rate** (−): it is the opportunity cost of holding cash.
- Also real GDP and degree of **financial innovation**.

MEMORY TRICK **I-P-I-R-F**: Income, Prices up; Interest down (opportunity cost); Real GDP; Financial innovation.

CARD 8.07 T 1.2 · MCQ TRAP

★★ OL 1.2.2 · Scanner Q2 · SM p.8.5

FRONT · RECALL ALOUD

Which factor does **NOT** directly affect demand for money?

BACK · ANSWER

The government's fiscal deficit (Q2).

Interest rates, income or output and the price level do affect it; the SM lists income, prices, interest rate, real GDP and financial innovation.

MEMORY TRICK The **budget gap** is the Government's worry, not the **wallet** decision.

CARD 8.08 T 1.3 · FORMULA

★★★ OL 1.3.1, 1.3.2 · Scanner Q7, Q22 · SM p.8.7

FRONT · RECALL ALOUD

State **Fisher's equation of exchange** and what follows when V and T are constant.

BACK · ANSWER

MV = PT, extended to MV + M'V' = PT.

With **V and T constant**, P varies in **proportion** to M: money supply up, prices up proportionately (Q7, Q22).

MEMORY TRICK **M-V on the left, P-T on the right**; hold V and T still and P simply follows M.

CARD 8.09 T 1.3 · FORMULA

★★ OL 1.3.3 · Scanner 2.1 Q1 · SM p.8.7

FRONT · RECALL ALOUD

Rearrange MV = PT to find P or V. What is the worked example from PYQ?

BACK · ANSWER

V = PT ÷ M and P = MV ÷ T.

Example: M = ₹500 crore, V = 5, T = 10,000 gives P = 500 × 5 ÷ 10,000 = 0.25 crore = ₹25 lakh.

Watch the crore and lakh conversion.

MEMORY TRICK Cover the letter you want and **read what is left**: P = MV over T.

CARD 8.10 T 1.3 · COMPARE

★★ OL 1.3.4, 1.3.6 · Scanner Q4, Q15 · SM p.8.7

FRONT · RECALL ALOUD

Distinguish Fisher from Cambridge on what drives the value of money.

BACK · ANSWER

Fisher: PT is the demand for money and the supply of money determines prices.

Cambridge: the value of money depends on **demand for money** (Q4).

Scanner Q15 (Fisher's value of money) keys demand **and** supply.

MEMORY TRICK **F**isher looks at the **F**low of supply; **C**ambridge looks at **C**ash people want to hold.

CARD 8.11 T 1.3 · FORMULA

★ OL 1.3.5 · Scanner Q3, Q9 · SM p.8.7

FRONT · RECALL ALOUD

What is the **Cambridge equation**, and what do k and Y stand for?

BACK · ANSWER

Md = kPY.

Y = **real national income**; P = average price level; PY = nominal income.

k = proportion of nominal income people want to hold as cash balances.

MEMORY TRICK **Kept cash = k × PY**: k is the slice you keep.

CARD 8.12 T 1.3 · MCQ TRAP

OL 1.3.8 · No direct Q (model 1.1 Q1) · SM p.8.8

FRONT · RECALL ALOUD

Keynes gave three motives for holding money. Which popular option is **not** one of them?

BACK · ANSWER

Three motives: **transactions, precautionary, speculative** (Keynes, 1936, liquidity preference).

Investment motive is NOT one.

MEMORY TRICK **T-P-S**: Transactions, Precautionary, Speculative. No **I**.

CARD 8.13 T 1.3 · FORMULA

★★ OL 1.3.9 · Scanner Q1, Q14 · SM p.8.8

FRONT · RECALL ALOUD

How does the **transactions motive** depend on income and interest, and what is its formula?

BACK · ANSWER

Lr = **kY**: directly proportional to income.

Keynes did **not** treat transaction balances as affected by interest rates.

Wrong options in Q14: Y – k, k + Y, Y ÷ k.

MEMORY TRICK **Spend with the paycheque**: more income, more cash for daily needs; the interest rate is not consulted.

CARD 8.14 T 1.3 · CONCEPT

OL 1.3.10 · Scanner Q6 · SM pp.8.8–8.9

FRONT · RECALL ALOUD

What is the **precautionary motive** and what does it depend on?

BACK · ANSWER

Cash for unforeseen and unpredictable contingencies.

Depends on size of income, economic and political conditions and personal traits (optimism or pessimism, farsightedness).

Income elastic and by itself not very sensitive to interest.

MEMORY TRICK **Umbrella money**: kept for the rain you cannot forecast.

CARD 8.15 T 1.3 · CONCEPT

★ OL 1.3.11 · Scanner Q2, Q12 · SM pp.8.9–8.10

FRONT · RECALL ALOUD

What is the **speculative motive** and how is it linked to the interest rate?

BACK · ANSWER

Cash held to exploit an **attractive investment opportunity**; it is **inversely** related to the interest rate.

Expecting interest rates to **rise** (bond prices to fall) means holding cash; expecting a fall means converting cash into bonds.

MEMORY TRICK **Rates up, bonds down, cash is crown.**

CARD 8.16 T 1.3 · CONCEPT

★★★ OL 1.3.12, 1.4.9 · Scanner Q5, Q10, Q11, Q17, Q18, Q21 · SM p.8.11

FRONT · RECALL ALOUD

What is a **liquidity trap**? Describe the curve and the effect on monetary policy.

BACK · ANSWER

Interest rate **near zero**; speculative demand becomes **perfectly elastic** and the curve runs **parallel to the X-axis** (Q11).

Public hoards any money supplied, so monetary policy is **ineffective** (Q17; 3.3 Q39 elsewhere).

It is the extreme effect of **monetary** policy (Q5).

MEMORY TRICK **Flat line, full pockets**: a flat curve, and every extra rupee is pocketed.

CARD 8.17 T 1.4 · MEMORISE

OL 1.4.2 · No direct Q (model 1.3 Q1) · SM p.8.17

FRONT · RECALL ALOUD

What do Post-Keynesian theories stress about money?

BACK · ANSWER

Money as an **asset**, a store of value.

Scanner model Q (1.3 Q1) also lists the Endogenous Money and Horizontalist theories as Post-Keynesian developments.

MEMORY TRICK **Post** = money kept in the **post-box of wealth**: an asset, not just a payment tool.

CARD 8.18 T 1.4 · CONCEPT

★★ OL 1.4.3, 1.3.16 · Scanner 1.3 Q13, Q20; 1.4 Q8 · SM p.8.13

FRONT · RECALL ALOUD

Which approach assumes **two media** for storing value, and what is its opportunity cost of cash?

BACK · ANSWER

The **Baumol–Tobin inventory approach**: money is an inventory held for transactions; media are money and an interest-bearing asset.

Opportunity cost = **interest forgone**; it minimises total transaction cost.

MEMORY TRICK Cash is **stock on the shelf**: holding it costs the interest you did not earn.

CARD 8.19 T 1.4 · FORMULA

★★ OL 1.4.4 · Scanner Q5 · SM pp.8.13, 8.17

FRONT · RECALL ALOUD

Give the **Square Root Rule** and the direction in which optimal money holding moves.

BACK · ANSWER

$C = \sqrt{(2bY/r)}$, b = broker's fee, Y = income, r = interest rate.

Optimal average holding **rises** with income Y, price level P and transaction cost c; it **falls** with the nominal interest rate i (Q5).

MEMORY TRICK **Y, P, c push up; i pulls down**: three ups, one down.

CARD 8.20 T 1.4 · CONCEPT

★★ OL 1.4.5 · Scanner Q2, Q3, Q7 · SM p.8.14

FRONT · RECALL ALOUD

What is **Friedman's** view of money demand (1956)?

BACK · ANSWER

Demand for money is an application of the theory of demand for **capital assets** (Q2).

Key determinant: **permanent income**, not current income (Q7).

Nominal demand is **positively related to the price level** (Q3).

MEMORY TRICK Friedman = **F**uture-looking: **permanent** income, not today's pay.

CARD 8.21 T 1.4 · CONCEPT	★★ OL 1.4.7, 1.4.8 · Scanner Q1, Q4 · SM pp.8.14–8.15
FRONT · RECALL ALOUD What does **Tobin** say about risk and the liquidity preference curve?	BACK · ANSWER Individuals show **risk aversion** (Q1) and hold a **diversified** portfolio of money, bonds and shares. More bonds and shares mean higher return but higher risk. His liquidity preference function relates the **rate of interest and demand for money** (Q4); the curve slopes downwards.

MEMORY TRICK **Don't put all eggs in one basket**: Tobin mixes cash, bonds and shares.

CARD 8.22 T 1.5 · CONCEPT	★ OL 1.5.1, 1.5.2, 1.3.7 · Scanner Q1 · SM p.8.17
FRONT · RECALL ALOUD Which theory first brought the **interest rate** into money demand, and what is the common finding of the theories?	BACK · ANSWER **Keynesian theory** (Q1). Post-Keynesian view: demand for money is driven by changes in **income and interest rates** (+ real income, − interest rate).

MEMORY TRICK **Keynes let interest in the door.**

CARD 8.23 T 2.1 · CONCEPT	★ OL 2.1.1, 2.4.5 · Scanner 2.1 Q1 (model); 2.4 Q10 · SM p.8.37
FRONT · RECALL ALOUD What is **money supply**, and for whom is it counted?	BACK · ANSWER The **stock** of money held by the **public** at a particular **point of time** (Q10). It is the money available to the public as a means of payment and store of value; inter-bank deposits are not included.

MEMORY TRICK Money supply is a **photograph**, not a film: a stock at one moment.

CARD 8.24 T 2.2 · CONCEPT	OL 2.2.1, 2.1.2 · Scanner 2.2 Q1 (model) · SM p.8.25
FRONT · RECALL ALOUD Why do we **measure** money supply?	BACK · ANSWER It helps frame **monetary policy**: it checks whether the stock of money is consistent with **price stability** and shows the nature of deviations. Central banks mainly manage the **monetary base**.

MEMORY TRICK **Measure to steer**: you cannot steer prices without a gauge for money.

CARD 8.25 T 2.2 · MCQ TRAP	★★ OL 2.2.2 · Scanner Q1, Q2 · SM pp.8.24, 8.37
FRONT · RECALL ALOUD Who is **not** the 'public' in money supply? Which holding is **NOT** part of money supply?	BACK · ANSWER 'Public' covers households, firms and institutions; it excludes the producers of money, the **government and the banking system** (Q1). So currency held by the **central bank** is NOT part of money supply (Q2), and inter-bank deposits are not counted. Demand, savings and time deposits with banks are the public's.

MEMORY TRICK **Banker's own pocket is not the public's pocket.**

CARD 8.26 T 2.3 · CONCEPT

★★ OL 2.3.1 · Scanner Q1, Q2, Q3 · SM p.8.25

FRONT · RECALL ALOUD

What is **central bank currency** called, and what backs it?

BACK · ANSWER

Fiat money: legal tender backed by supporting reserves, its value guaranteed by the government (Q3).

Currency notes are fiat (Q1); gold and silver coins are not. RBI is the regulator of money supply (Q5).

MEMORY TRICK **Fiat = by decree**: the State says it is money.

CARD 8.27 T 2.3 · COMPARE

★★★ OL 2.3.2, 2.3.3 · Scanner Q4, Q7, Q8 · SM pp.8.25–8.26

FRONT · RECALL ALOUD

Name the **two sources** of money supply and the name of the money each creates.

BACK · ANSWER

Central bank → high-powered money (the source of all other forms of money).

Banks → credit money, created on deposits (Q4, Q7).

High-powered money has three components in Q8: currency with public, bank reserves with the central bank and currency with banks.

MEMORY TRICK **Mint vs. Lend**: the central bank mints base money; banks lend credit money.

CARD 8.28 T 2.3 · MCQ TRAP

★ OL 2.3.4 · Scanner 2.5 Q15 · SM p.8.26

FRONT · RECALL ALOUD

True or false: crypto currencies are legal currency in India and count as money?

BACK · ANSWER

False. Crypto currencies are **NOT legally recognised** in India as currency and are **NOT money** (Statements II and III are the correct pair).

No legislative recognition and not a legitimate form of payment.

MEMORY TRICK **No law, no legal tender.**

CARD 8.29 T 2.4 · FORMULA

★★★ OL 2.4.1, 2.1.3 · Scanner Q1, Q3, Q4, Q6, Q9 · SM p.8.27

FRONT · RECALL ALOUD

Write the RBI's **M1, M2, M3 and M4**.

BACK · ANSWER

- M1 = Currency notes and coins with the people + demand deposits with the banking system (Current and Saving deposit accounts) + other deposits with the RBI.
- M2 = M1 + savings deposits with post office savings banks.
- M3 = M1 + time deposits with the banking system.
- M4 = M3 + total deposits with the Post Office Savings Organisation (excluding National Savings Certificates).

MEMORY TRICK **One, Two-Post, Three-Time, Four-All-Post**: M2 adds Post savings, M3 adds Time, M4 adds all Post.

CARD 8.30 T 2.4 · MCQ TRAP

★★★ OL 2.4.1 · Scanner Q9, Q4 · SM p.8.27

FRONT · RECALL ALOUD

Which item is **NOT** in M1? In the M3 sum, are post office deposits included?

BACK · ANSWER

Time (term) deposits are NOT part of M1 (Q9); they enter at M3.

Q4: M3 = 2,250 + 630 + 535 = ₹3,415 crore; **post office deposits are not in M3**.

MEMORY TRICK **Time is tied up**, so it waits for M3.

CARD 8.31 T 2.4 · MEMORISE

★ OL 2.4.4 · Scanner Q8 · SM p.8.24

FRONT · RECALL ALOUD

Complete: broad money includes deposits of maturity up to __ years, notice up to __ months and debt securities up to __ years.

BACK · ANSWER

2 years, 3 months, 2 years (option d in Q8).

Wrong options use 3 years or 6 months.

MEMORY TRICK **2-3-2**: two years, three months, two years.

CARD 8.32 T 2.4 · FORMULA

★★★ OL 2.4.3 · Scanner Q2, Q5, Q7; 2.9 Q1 · SM p.8.36

FRONT · RECALL ALOUD

Give the formula for **currency with the public**. Try Q5: notes ₹45,000 cr, rupee coins ₹1,500 cr, small coins ₹750 cr, cash with banks ₹27,500 cr.

BACK · ANSWER

Currency with the public = notes + rupee coins + small coins − cash with banks.

Q5: 45,000 + 1,500 + 750 − 27,500 = **₹19,750 crore**.

Cash held by banks is deducted because it is not held by the public.

MEMORY TRICK **All the cash, minus the banks' tills.**

CARD 8.33 T 2.4 · MEMORISE

SM text · No direct Q · SM p.8.38

FRONT · RECALL ALOUD

Write **Reserve Money** and the new NM1, NM2, NM3 aggregates (Working Group on Money, 1998).

BACK · ANSWER

- Reserve Money = Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI.
- NM1 = Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI.
- NM2 = NM1 + short-term time deposits of residents (up to contractual maturity of one year).
- NM3 = NM2 + long-term time deposits of residents + call/term funding from financial institutions.

MEMORY TRICK **Reserve = C-B-O** (currency, bankers', other); **NM climbs by maturity**: short in NM2, long in NM3.

CARD 8.34 T 2.5 · FORMULA

★★★ OL 2.5.2, 2.5.3, 2.6.1, 2.7.4 · Scanner Q1, Q4, Q6, Q7, Q16, Q19; 2.6 Q1 · SM pp.8.28, 8.38

FRONT · RECALL ALOUD

State the **money multiplier** relation. Q16: M = ₹1,000 bn, monetary base = ₹200 bn.

BACK · ANSWER

M = m × MB, so **m = M/MB** (ΔM/ΔMB).

m = M/MB; SM: ₹100 cr OMO injection giving ₹500 cr money supply means m = 5. Q16: 1,000 ÷ 200 = **5**; Q4: 1,000 ÷ 250 = 4.

Money supply is directly proportional to the **monetary base** (Q6).

MEMORY TRICK **M is made by m on MB**: multiplier times base.

CARD 8.35 T 2.5 · FORMULA

★★★ OL 2.6.2, 2.5.4, 2.9.1 · Scanner Q8, Q12, Q17; 2.6 Q4; 2.9 Q2 · SM pp.8.28–8.29, 8.36

FRONT · RECALL ALOUD

Give the **simple/credit multiplier** and credit created. Q17: RRR 8% and 12.5%?

BACK · ANSWER

Simple multiplier = **1/R**; credit multiplier = **1/RRR**; credit created = initial deposit × 1/RRR.

Q17: 1 ÷ 0.08 = **12.5**; 1 ÷ 0.125 = **8**. Q8: RRR 50% gives 2. SM: R = 10% gives 10; R = 5% gives 20.

MEMORY TRICK **Flip the ratio**: reserve one-tenth, multiply by ten.

CARD 8.36 T 2.5 · COMPARE

★ OL 2.5.5 · Scanner Q21; 2.3 Q8 · SM pp.8.27, 8.38

FRONT · RECALL ALOUD

What are the other names of **high-powered money**, and what does it comprise?

BACK · ANSWER

High-powered money = **reserve money = base money** (central bank money) = currency + bank reserves.

Deck note: it is not M1. Scanner Q21 keys 'all of the above' (including 'narrow money'), see notes.

MEMORY TRICK **H-R-B**: High-powered, Reserve, Base: three names, one pool.

CARD 8.37 T 2.5 · FORMULA

★★ OL 2.5.6 · Scanner Q2, Q3 · SM pp.8.30, 8.39

FRONT · RECALL ALOUD

How are **excess reserves** found, and how do they affect the multiplier?

BACK · ANSWER

ER = TR – RR (total reserves minus required reserves) (Q3).

Fewer excess reserves mean a **larger multiplier**: if banks cut ER, money supply **increases** (Q2).

Excess reserves lead to no additional loans or deposits.

SM example: TR ₹800 bn, RR ₹600 bn gives ER ₹200 bn.

MEMORY TRICK **Idle reserves are idle money**: put them to work and the multiplier grows.

CARD 8.38 T 2.5 · FORMULA

★★ OL 2.5.7, 2.7.3, 2.5.1 · Scanner 2.7 Q6; Q20 · SM p.8.32

FRONT · RECALL ALOUD

Write the full **money multiplier** with currency and excess reserves. Who sets each ratio?

BACK · ANSWER

m = (1 + c)/(r + e + c).

c is set by the **public**, e by the **banks**, r by the **central bank**.

Reserve ratio is the central-bank policy factor (Q20).

MEMORY TRICK **P-B-C**: Public sets c, Banks set e, Central bank sets r.

CARD 8.39 T 2.5 · FORMULA

SM text · No direct Q · SM pp.8.32–8.33

FRONT · RECALL ALOUD

Work the SM example: r = 0.10, currency ₹400 bn, deposits ₹800 bn, excess reserves ₹0.8 bn. What is m?

BACK · ANSWER

c = 400 ÷ 800 = 0.5; e = 0.8 ÷ 800 = 0.001.

m = (1 + 0.5)/(0.1 + 0.001 + 0.5) = 1.5 ÷ 0.601 = **2.5**; the simple multiplier 1/r = 10.

If r rises to 15%, m falls to about **2.3**.

MEMORY TRICK Plug in **c first** (currency over deposits), then add r, e, c below.

CARD 8.40 T 2.7 · CONCEPT

★★★ OL 2.7.1 · Scanner Q1, Q2, Q3; 2.5 Q20 · SM pp.8.29–8.30, 8.39

FRONT · RECALL ALOUD

What happens to money supply and lending when the **required reserve ratio** rises or CRR is cut?

BACK · ANSWER

Reserve ratio **up** → money supply **down**; a change in it directly affects the supply of money (Q1).

To decrease money supply, **increase the reserve requirement** (Q2).

A **CRR cut** raises banks' lending capacity (Q3).

MEMORY TRICK **Reserve rises, lending sinks**: a see-saw.

CARD 8.41 T 2.7 · COMPARE

★★★ OL 2.7.2, 2.6.2 · Scanner Q4, Q5; 2.5 Q18; 2.4 Q11; 2.6 Q3 · SM p.8.31

FRONT · RECALL ALOUD

What is the **currency–deposit ratio** and how does it move the multiplier?

BACK · ANSWER

c = C/D: money held as currency ÷ money held in bank deposits; it shows **banking habits** (Q4, Q5).

Smaller ratio → **larger** multiplier (2.5 Q18); more cash held → **smaller** money supply (2.4 Q11, 2.6 Q3).

MEMORY TRICK **Cash under the mattress does not multiply.**

CARD 8.42 T 2.7 · CONCEPT

★ OL 2.5.8 · Scanner 2.5 Q13 · SM p.8.31

FRONT · RECALL ALOUD

What does a higher **TD/DD ratio** do to monetary expansion?

BACK · ANSWER

A higher time deposit to demand deposit ratio means greater availability of **free reserves** and enlarges multiple deposit and **monetary expansion** (Q13, option a).

The wrong options claim it restricts expansion or has no impact.

MEMORY TRICK **Time deposits free the reserves.**

CARD 8.43 T 2.8 · COMPARE

★ OL 2.8.1 · Scanner Q1, Q2 · SM pp.8.48–8.49

FRONT · RECALL ALOUD

Contrast an **OMO purchase** with an **OMO sale** on money supply.

BACK · ANSWER

Purchase of government securities injects **high-powered money** (Q1).

Sale reduces money supply (Q2); liquidity is sucked from the market.

MEMORY TRICK **Buy to pour, sell to drain.**

CARD 8.44 T 2.8 · RECALL CHAIN

★★★ OL 2.3.2, 2.4.1, 2.5.2, 2.6.2 · No direct Q · SM pp.8.27, 8.36–8.38

FRONT · RECALL ALOUD

Recall the Unit 2 chain from sources to multiplier.

BACK · ANSWER

Central bank → **high-powered money**; banks → **credit money**.

Measures: M1 → M2 (+post savings) → M3 (+time) → M4 (+post).

M = m × MB, with m = 1/RRR (simple) or (1 + c)/(r + e + c).

Lower r, e, c → larger m.

MEMORY TRICK **Source, Size, Spin**: who creates it, how it is measured, how it multiplies.

CARD 8.45 T 3.2 · CONCEPT

★★ OL 3.2.1, 3.2.2 · Scanner Q1, Q2, Q3 · SM p.8.45

FRONT · RECALL ALOUD

Who implements monetary policy in India and why? What are easing and tightening?

BACK · ANSWER

The **RBI** (Q1) manages fluctuations and aims at **price stability**; it is the tool used to manage the business cycle (Q2).

Cutting rates is **easing**; raising them is **tightening**.

In the short run it directly influences the **interest rate** (Q3).

MEMORY TRICK **Cut = Cheap = Easing; Raise = Reined-in = Tightening.**

CARD 8.46 T 3.3 · CONCEPT

★★ OL 3.3.1, 3.1.1 · Scanner Q9, Q11, Q16; 3.1 Q1 · SM p.8.45

FRONT · RECALL ALOUD

What is the **primary objective** of monetary policy in India?

BACK · ANSWER

A judicious **balance between price stability and growth** (Q16).

Scanner also keys 'control the money supply and curb inflation' (Q11) and the SM test keys economic growth with price stability.

Not government spending, exports or budget balance.

MEMORY TRICK **Stable prices, steady growth**: a seesaw kept level.

CARD 8.47 T 3.3 · MCQ TRAP

★★ OL 3.3.3, 3.3.4 · Scanner Q1, Q20 · SM pp.8.46–8.48

FRONT · RECALL ALOUD

Name the **transmission channels**. Which options are **NOT** channels?

BACK · ANSWER

Channels: **saving and investment, cash-flow, asset prices and wealth, exchange rate**.

'**International trade**' (Q1) and '**Open market**' (Q20) are NOT channels.

MEMORY TRICK **S-C-A-E**: Save, Cash, Assets, Exchange rate. No trade, no open market.

CARD 8.48 T 3.3 · COMPARE

★★★ OL 3.3.6, 3.3.5, 3.3.10 · Scanner Q8, Q14, Q17, Q21, Q25, Q28 · SM pp.8.48–8.49

FRONT · RECALL ALOUD

Classify the tools: **quantitative vs qualitative**. What is NOT monetary?

BACK · ANSWER

- **Quantitative:** CRR, SLR, OMO (affect money supply of the entire economy).
- **Qualitative:** margin requirements, moral suasion, selective credit control (sector-specific).
- LAF is not a quantitative tool (Q14); selective credit control is not quantitative (Q17).
- **Taxes and public spending are fiscal**, NOT monetary (Q8, Q25).

MEMORY TRICK **Q-C-S-O for the whole economy; M-M-S for a sector**: CRR, SLR, OMO versus Margin, Moral suasion, Selective control.

CARD 8.49 T 3.3 · MEMORISE

★★★ OL 3.3.7, 3.3.8 · Scanner Q31, Q37 · SM pp.8.48, 8.52

FRONT · RECALL ALOUD

Define **CRR** and **SLR**. How is the extra CRR requirement found?

BACK · ANSWER

- **CRR:** cash set aside **with the RBI**; banks can neither lend it nor earn interest on it.
- **SLR:** set aside in **liquid assets** such as gold or RBI-approved government securities (Q31).
- Extra CRR = **NDTL × ΔCRR** (SM defines CRR as a fraction of NDTL, p.8.52).

MEMORY TRICK **C = Cash, kept at RBI, calm and idle; S = Securities, kept by the bank, earn a little.**

CARD 8.50 T 3.3 · CONCEPT

★★ OL 3.3.9 · Scanner Q2, Q12, Q19, Q30 · SM pp.8.48–8.49

FRONT · RECALL ALOUD

How does **OMO** work and what is it used for?

BACK · ANSWER

RBI buys and sells **government securities**: buying injects liquidity, selling absorbs it (Q2: purchases increase reserves).

Used to check **temporary liquidity mismatches** due to foreign capital flows (Q19).

MEMORY TRICK **Open market, open tap**: buy opens the tap, sell shuts it.

CARD 8.51 T 3.3 · CONCEPT

★★ OL 3.3.11 · Scanner Q3, Q24, Q41 · SM pp.8.49, 8.53

FRONT · RECALL ALOUD

What is the **Bank Rate** and what does a higher rate do?

BACK · ANSWER

Rate at which RBI lends **long-term** funds to banks and **rediscounts bills** (Q24: both).

A **penalty** if CRR or SLR is not maintained.

A higher rate **discourages borrowing and spending** (Q3).

MEMORY TRICK **Bank Rate = Bill discount, Borrowing penalty.**

CARD 8.52 T 3.3 · COMPARE

★★★ OL 3.3.12, 3.3.13 · Scanner Q4, Q7, Q15, Q29, Q34 · SM pp.8.49, 8.52

FRONT · RECALL ALOUD

What is **LAF**, and how are repo and reverse repo related?

BACK · ANSWER

LAF (Narasimham Committee, Q7) = **repo + reverse repo** (Q29).

Reverse repo = repo − 1 (Q4, Q15): the rate RBI pays banks to park funds; it **absorbs liquidity** (Q34).

Repo: banks borrow from RBI against securities.

MEMORY TRICK **Repo = Rent from RBI; Reverse repo = Rest your cash at RBI.**

CARD 8.53 T 3.3 · FORMULA

★★ OL 3.3.14 · Scanner Q6, Q13, Q18, Q32 · SM p.8.49

FRONT · RECALL ALOUD

What is **MSF** and how is its rate fixed?

BACK · ANSWER

MSF rate = repo rate + 1: a **penal** rate for overnight lending.

Banks may use a maximum of **1% of SLR securities** (Q13).

MEMORY TRICK **MSF = Max penalty: +1, and 1% of SLR.**

CARD 8.54 T 3.3 · MCQ TRAP

★ OL 3.3.15 · Scanner Q26, Q27 · SM p.8.53

FRONT · RECALL ALOUD

Under the **MSS**, who borrows and what is NOT true about the money raised?

BACK · ANSWER

The **Government of India borrows from the RBI** (additional to normal borrowing) and issues treasury bills/dated securities.

NOT true: MSS account liquidity can be used for **normal government expenditure** (Q27).

MEMORY TRICK **Frozen in the vault, not for the shop.**

CARD 8.55 T 3.3 · CONCEPT

SM text · Scanner Q21, Q23, Q28 · SM p.8.49

FRONT · RECALL ALOUD

Match: **margin requirements**, **moral suasion**, **selective credit control**.

BACK · ANSWER

- **Margin requirements:** RBI prescribes margin against collateral; a higher margin means customers borrow less.
- **Moral suasion:** persuasion to keep money in government securities (Q21).
- **Selective credit control:** not lending to selective industries or speculative businesses (Q23).

MEMORY TRICK **Margin = Money down; Moral = Mouth; Selective = Say no.**

CARD 8.56 T 3.3 · RECALL CHAIN

★★★ OL 3.3.6, 3.3.12, 3.3.14 · No direct Q · SM pp.8.48–8.49

FRONT · RECALL ALOUD

Run the Unit 3 chain of RBI rates and tools.

BACK · ANSWER

Quantitative: CRR, SLR, OMO; qualitative: margin, moral suasion, selective control.

Reverse repo = repo − 1; MSF = repo + 1; LAF = repo + reverse repo.

Bank rate: long-term lending and penalty.

MEMORY TRICK **Floor, Rate, Ceiling**: reverse repo at the floor, repo in the middle, MSF at the ceiling.

CARD 8.57 T 3.4 · MEMORISE

★★ OL 3.4.1, 3.3.21 · Scanner Q3, Q4, Q7 · SM p.8.50

FRONT · RECALL ALOUD

What was amended on 27 June 2016, and what is the inflation target?

BACK · ANSWER

RBI Act amended on **27 June 2016** for the **MPFA** (Government of India and RBI) and the **MPC**.

Target **4% CPI** (5 August 2016 to 31 March 2021), tolerance 2% to 6%, set by the **Central Government with RBI** once every five years (Q3, Q4, Q7).

The SM states the MPFA band as 2 to 6 per cent.

MEMORY TRICK **Four, give or take two**: 2 to 6.

CARD 8.58 T 3.4 · MEMORISE	★ OL 3.4.2, 3.4.3 · Scanner Q1, Q2, Q6 · SM pp.8.50, 8.53
FRONT · RECALL ALOUD How often is the Monetary Policy Report published, and who sets the repo rate?	BACK · ANSWER Every **six months** with inflation forecasts for **6–18 months** (Q1, Q2). The **MPC (six members)** determines the policy rate (repo) by debate and majority vote (Q6).

MEMORY TRICK **Six months, six members, six-to-eighteen horizon.**

CARD 8.59 T 3.4 · MEMORISE	SM text · No direct Q · SM p.8.50
FRONT · RECALL ALOUD When is the **inflation target** deemed to have failed?	BACK · ANSWER • Average inflation above the upper tolerance level for any **three consecutive quarters**; or • Average inflation below the lower tolerance level for any **three consecutive quarters**.

MEMORY TRICK **Three strikes**: three quarters in a row, above or below, and the target is missed.

CARD 8.60 T 3.5 · CONCEPT	★★ OL 3.5.1, 3.5.2 · Scanner Q1, Q2, Q4 · SM pp.8.51, 8.53
FRONT · RECALL ALOUD What limits monetary policy in an **emerging market** like India?	BACK · ANSWER Rudimentary, non-competitive financial systems and lack of integrated money and interbank markets; Bank rate and OMO need a **well-developed** market (Q1, Q4). **Fiscal and monetary coordination** is needed (Q2); inflation is also driven by petroleum and food prices.

MEMORY TRICK **Shallow pond, small waves.**

CA FOUNDATION · PAPER 4 · BUSINESS ECONOMICS

Flash Cards with Memory Tricks

Chapter 9 · International Trade · 70 cards

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★★★	Asked by ICAI 6 or more times. Learn word for word.
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–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
1.1	Introduction	9.01	1	★
1.2	Important Theories of International Trade	9.02 – 9.11	10	★★★
2.1	Introduction	9.12	1	★
2.2	Tariffs	9.13 – 9.20	8	★★★
2.3	Non-Tariff Measures (NTMs)	9.21 – 9.26	6	★★
2.4	Export-Related Measures	9.27	1	★
3.1	Introduction	9.28	1	★
3.2	Taxonomy of Regional Trade Agreements (RTAs)	9.29 – 9.33	5	★★★
3.3	The General Agreement on Tariffs and Trade (GATT)	9.34	1	★
3.4	The Uruguay Round and the Establishment of WTO	9.35 – 9.36	2	★
3.5	The World Trade Organisation (WTO)	9.37 – 9.42	6	★★
3.6	The Doha Round	9.43	1	★★
3.7	G 20 Economies: Facilitating Trade	9.44	1	★
4.1	Introduction	9.45	1	–
4.3	The Exchange Rate Regimes	9.46 – 9.48	3	★★
4.4	Nominal versus Real Exchange Rates	9.49 – 9.50	2	★★
4.5	The Foreign Exchange Market	9.51 – 9.52	2	★★
4.6	Determination of Nominal Exchange Rate	9.53	1	★
4.7	Changes in Exchange Rates	9.54	1	★
4.8	Devaluation Vs Depreciation	9.55	1	★
4.9	Impacts of Exchange Rate Fluctuation on Domestic Economy	9.56 – 9.58	3	★★★
5.2	Type of Foreign Capital	9.59	1	★★
5.3	Foreign Direct Investment (FDI)	9.60 – 9.61	2	★★
5.4	Foreign Portfolio Investment (FPI)	9.62 – 9.64	3	★
5.5	Reason for Foreign Direct Investment	9.65	1	★★

Topic	Name	Card numbers	Count	Highest stars
5.6	Modes of Foreign Direct Investment (FDI)	9.66 – 9.67	2	★★★
5.7	Benefits of Foreign Direct Investment	9.68	1	★
5.8	Potential Problems Associated with Foreign Direct Investment	9.69	1	★
5.9	Foreign Direct Investment in India (FDI)	9.70	1	★★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 9.01 T 1.1 · MCQ TRAP

★ OL 1.1.1, 1.1.2 · Scanner Q1, Q3 · SM pp.9.3–9.4

FRONT · RECALL ALOUD

Name the **benefits** of international trade and the **arguments against** it. Which tempting statements are NOT benefits?

BACK · ANSWER

- Benefits: **efficiency and growth**, **new markets and materials**, **innovative services**, **quality upgrade** for emerging economies.
- Against: **exploitation** of underprivileged countries by global corporations, **risky dependence**, and **transmission of trade cycles**.
- Q1: "underprivileged countries will be **less vulnerable** to exploitation" is NOT a benefit. Q3: "**dependence on foreign countries**" is NOT an advantage.

MEMORY TRICK Trade lifts four things: efficiency, markets, services, quality. Its three costs: exploitation, dependence, borrowed cycles.

CARD 9.02 T 1.2 · MEMORISE

★★★ OL 1.2.1 · Scanner Q2, Q6, Q20 · SM p.9.4; SM p.9.10

FRONT · RECALL ALOUD

What is **Mercantilism**? What did it want from trade, and what policy did it use?

BACK · ANSWER

Mercantilism (16th–18th century): **aggressive exports over imports** to accumulate wealth.

- Aim: **wealth, bullion** (precious metals), a **favourable balance of trade**.
- Policy: the state imposed **very high import tariffs** on foreign goods.
- Q20: the theory that treats **bullion** as part of trade is Mercantilism.

MEMORY TRICK Mercantilists treat a country like a **piggy bank**: coins in (exports), the door shut on goods coming in (high tariffs).

CARD 9.03 T 1.2 · MCQ TRAP

★★★ OL 1.2.1 · Scanner Q19 · SM p.9.4

FRONT · RECALL ALOUD

Q19: what is the key **limitation** of mercantilist trade theory?

BACK · ANSWER

Its focus on the **balance of trade rather than overall welfare**.

- Tempting wrong options: comparative cost differences, international capital flows, factor proportions. These belong to other theories or topics.

Remember: the yardstick is the **balance of trade**, NOT overall welfare.

MEMORY TRICK **Mercantilism measures the till, not the people.** Till = balance of trade; people = welfare.

CARD 9.04 T 1.2 · CONCEPT

★ OL 1.2.2 · Scanner Q4, Q17 · SM p.9.5; SM p.9.10

FRONT · RECALL ALOUD

What is **Adam Smith's absolute advantage**? What is the only input in the theory?

BACK · ANSWER

A country specialises in and exports the commodity in which it has an **absolute cost advantage**.

- Absolute advantage = ability to produce a **greater quantity** of a good using the **same amount of resources** as competitors (Q4).
- **Labour** is the only input (Q17).

MEMORY TRICK **Absolute = outright better.** Same hours of labour, more output. One input, one winner per good.

CARD 9.05 T 1.2 · MEMORISE

★ OL 1.2.3, 1.1.3 · Scanner 1.1 Q2; 1.2 Q17 · SM p.9.5

FRONT · RECALL ALOUD

List the **assumptions** of the absolute advantage theory. Which one is NOT an assumption?

BACK · ANSWER

- **Two countries** and **two goods**.
- **No transport cost**.
- Cost measured on a **labour** basis (labour is the only input).
- Labour is **mobile within** a country but **immobile between** countries.

MCQ trap (1.1 Q2): "existence of transportation cost" is NOT an assumption.

MEMORY TRICK **2 × 2, zero freight, one input, labour stays home.** Count the four on your fingers.

CARD 9.06 T 1.2 · CONCEPT

★★ OL 1.2.4 · Scanner Q8, Q12, Q15 · SM pp.9.5–9.6; SM p.9.10

FRONT · RECALL ALOUD

What is **Ricardo's comparative advantage**? Why can a country that is better at everything still gain from trade?

BACK · ANSWER

Export the good in which the **absolute advantage is greatest**; import the good in which it is **comparatively less** (Q12). The SM puts it as: specialise where the absolute **disadvantage is smaller**.

- Trade is possible if cost ratios are **different** (Q15).
- Even a country with absolute advantage in everything **gains from trade**.

MEMORY TRICK A top lawyer who is also the fastest typist still hires a typist: **do the job where your edge is biggest**, buy the rest.

CARD 9.07 T 1.2 · MEMORISE

★★ OL 1.2.5, 1.2.6 · Scanner Q3, Q10, Q21 · SM p.9.7; SM p.9.10

FRONT · RECALL ALOUD

On what basis is the **comparative cost theory** built? How did **Haberler** improve it?

BACK · ANSWER

- Based on the **labour theory of value**; **one factor** (labour) model (Q3).
- **Haberler** resolved the dependence on labour alone by introducing **opportunity cost**.
- Classical theory assumes **constant** opportunity costs (Q21).

MCQ trap (Q10): "trade occurs ONLY due to differences in technology" is NOT an assumption.

MEMORY TRICK **Ricardo = labour, Haberler = opportunity.** R-L, H-O: Haberler Opens the opportunity-cost door.

CARD 9.08 T 1.2 · COMPARE

★★ OL 1.2.7, 1.2.8 · Scanner Q1, Q11, Q13, Q16 · SM pp.9.7–9.8

FRONT · RECALL ALOUD

Distinguish the **Theory of Comparative Costs** from the **Modern Theory** (nature, cost basis, factor prices).

BACK · ANSWER

- Comparative costs: **normative**; **ignores factor price differences**; based on labour theory of value (Q1, Q11: answer III and IV).
- Modern theory: **positive**; based on **money cost**; **factor price differences** are the main cause of commodity price differences.
- Modern theory treats international trade as only a **special case of inter-regional trade**.

MEMORY TRICK **Normative = Narrow** (labour only, no prices); **Positive = Prices** (money cost, factor prices).

CARD 9.09 T 1.2 · MEMORISE

★★★ OL 1.2.9 · Scanner Q5, Q7, Q9, Q18 · SM p.9.6; SM pp.9.10–9.11

FRONT · RECALL ALOUD

State the **Heckscher-Ohlin theory**: other names, number of factors, and what a country exports.

BACK · ANSWER

H-O = **Factor-Endowment** Theory = **Modern** Theory (Q7).

- **Two** factors of production (Q5): labour and capital.
- A country exports goods whose production uses **intensively its abundant factor** (Q9, Q18: Factor Proportions Theory).
- Capital-abundant: capital-intensive goods; labour-abundant: labour-intensive goods.

MEMORY TRICK **H-O: Two factors, Two names, export what you have Oodles of.**

CARD 9.10 T 1.2 · MCQ TRAP

★★ OL 1.2.8 · Scanner Q13, Q16 · SM p.9.7

FRONT · RECALL ALOUD

Q13: which feature is NOT part of the Modern (Heckscher-Ohlin) theory?
Q16: which theory considers **money cost**?

BACK · ANSWER

- Q13: "based on the **labour theory of value**" is NOT a feature of the modern theory.
- Q16: **Modern theory** considers money cost.

Heckscher-Ohlin is NOT based on the labour theory of value; that belongs to the classical comparative cost theory.

MEMORY TRICK **Labour value = old school (Ricardo); money cost = modern school (H-O).**

CARD 9.11 T 1.2 · MCQ TRAP

★ OL 1.2.10 · Scanner Q14 · Not in SM

FRONT · RECALL ALOUD

Q14: is the **balance of trade** a stock or a flow concept?

BACK · ANSWER

It is a **flow concept**.

Balance of trade is NOT a stock measured at a point of time.

(The deck notes this is not in the SM; it is tested through the Scanner MTP question.)

MEMORY TRICK **Trade is a river, not a pond.** Flows over a period; stocks sit at a moment.

CARD 9.12 T 2.1 · CONCEPT

★ OL 2.1.1, 2.1.2, 2.1.3 · Scanner Model Q1, Q2; PYQ Q1 · SM pp.9.15–9.16

FRONT · RECALL ALOUD

What is **trade policy**? How are its instruments classified? Define **protectionism** and **liberalisation**.

BACK · ANSWER

Trade policy = **all instruments** that governments use to promote or restrict imports and exports.

- Classified as **price-related** (tariffs) and **non-price** measures (NTMs).
- **Protectionism**: tariffs, quotas and NTMs to shield domestic producers (PYQ Q1).
- **Liberalisation**: bringing down trade barriers.

MEMORY TRICK **Price tag or no price tag?** Tariff = price tag on imports; NTM = everything else. Protect = wall up, liberalise = wall down.

CARD 9.13 T 2.2 · COMPARE

★★ OL 2.2.1, 2.2.2 · Scanner Q1, Q9 · SM pp.9.16–9.17

FRONT · RECALL ALOUD

Distinguish a **specific tariff** from an **ad valorem tariff**, with the effect of a price change.

BACK · ANSWER

- **Specific**: a **fixed monetary sum per physical unit**.
- **Ad valorem**: a **constant percentage of the value** of the good (Q1, Q9).
- Duty change under ad valorem = **rate × price change**. Example (Q9): 10% on a car of ₹10 lakh = ₹1 lakh; on ₹20 lakh = ₹2 lakh.

MEMORY TRICK **Specific = Spot amount per piece; Ad valorem = A percentage of value.** S for sum, A for ad (%).

CARD 9.14 T 2.2 · COMPARE

★★ OL 2.2.3, 2.2.4 · Scanner Q6, Q8, Q11, Q14 · SM p.9.17

FRONT · RECALL ALOUD

Define **mixed**, **compound** and **technical** tariffs. Which is the ₹800-per-tonne example?

BACK · ANSWER

- **Mixed**: ad valorem **or** specific, **whichever is higher** (Q6, Q11: 5% or ₹800 per tonne, whichever is higher).
- **Compound**: ad valorem **and** specific **added together**.
- **Technical**: based on **contents or components** (Q8: ₹3000 on each solar panel plus ₹50 per kg on the battery).

MEMORY TRICK **Mixed = OR, Compound = AND, Technical = parts.** One duty, two duties added, or duty by ingredients.

CARD 9.15 T 2.2 · MEMORISE

★ OL 2.2.5 · Scanner Q13, Q17 · SM p.9.17

FRONT · RECALL ALOUD

What is a **Tariff Rate Quota (TRQ)**?

BACK · ANSWER

TRQs **combine quotas and tariffs** (Q13).

- A **low tariff** applies **inside the quota**; a **high tariff** applies **beyond** it (Q17).

MEMORY TRICK **Cheap inside the fence, costly outside it.** Quota is the fence, tariff is the toll.

CARD 9.16 T 2.2 · MEMORISE

★★ OL 2.2.6, 2.2.7, 2.2.8 · Scanner Q4, Q5, Q15 · SM p.9.18

FRONT · RECALL ALOUD

Define **preferential**, **bound** and **variable** tariffs. Which countries formed NAFTA?

BACK · ANSWER

- **Preferential**: lower than the MFN rate; e.g. NAFTA among **USA, Canada and Mexico** (Q5).
- **Bound**: a WTO member's legal commitment **not to raise** the rate above a level (Q4). **Applied** tariff can be lower than or equal to the bound, never higher.
- **Variable**: a duty bringing the import price up to the **domestic support price** (Q15).

MEMORY TRICK **Bound = a ceiling you promised; Variable = a floor-raiser** that lifts imports to the support price.

CARD 9.17 T 2.2 · COMPARE

★★ OL 2.2.9, 2.2.10 · Scanner Q3, Q7, Q10, Q18 · SM pp.9.18–9.19

FRONT · RECALL ALOUD

What are **escalated** and **prohibitive** tariffs? Which way does the escalated structure run?

BACK · ANSWER

- **Escalated**: nominal tariff on **manufactured goods is higher** than on intermediate inputs and raw materials (Q3 option c, Q7, Q18).
- **Prohibitive**: so high that **no imports enter** (Q10).
- Trap (Q3): do not pick the option with raw materials taxed more than manufactures.

MEMORY TRICK **Escalator goes up with value added:** raw material at the bottom floor, finished goods at the top.

CARD 9.18 T 2.2 · CONCEPT

★★★ OL 2.2.11, 2.2.12, 2.3.11 · Scanner 2.2 Q16, Q19; 2.3 Q7, Q10 · SM p.9.19

FRONT · RECALL ALOUD

What is **dumping**? What is an **anti-dumping duty**?

BACK · ANSWER

Dumping: selling goods abroad **below the price in the home market** or **below the full average cost**.

- **Anti-dumping duty (ADD)**: a protectionist tariff on imports priced **below fair market value** (2.3 Q10), offsetting the unfair price advantage.
- Justified only if the domestic industry is seriously injured.

MEMORY TRICK **Dump = Discount abroad, Dearer at home.** ADD is the **Anti-Discount Duty**.

CARD 9.19 T 2.2 · CONCEPT

★★★ OL 2.2.12, 2.4.2 · Scanner 2.2 Q12; 2.4 Q1 · SM p.9.20

FRONT · RECALL ALOUD

What is a **countervailing duty (CVD)**, and when may it be levied?

BACK · ANSWER

A tariff that **offsets export subsidies** (and tax concessions) given by the exporter's government (2.2 Q12).

- Levied only if the subsidy relates to **export performance**, to **use of domestic over imported goods**, and is given to a **limited number of persons** (2.4 Q1: all the above).

MEMORY TRICK **ADD fights a low price made by the firm; CVD fights a low price made by the government.**

CARD 9.20 T 2.2 · CONCEPT

★ OL 2.2.13 · Scanner Q2 · SM pp.9.20–9.21

FRONT · RECALL ALOUD

List the **effects of a tariff** on consumers, producers, revenue and efficiency.

BACK · ANSWER

- Consumers **lose consumer surplus**.
- Producers in the importing country **gain** (higher prices, less foreign competition).
- Government **revenue rises**.
- Tariffs **ignore comparative advantage**, discouraging efficient production elsewhere.

Q2: "producers increase well-being" is NOT a negative outcome.

MEMORY TRICK **Consumers pay, producers cheer, treasury gains, efficiency loses.**

CARD 9.21 T 2.3 · MCQ TRAP

★ OL 2.3.1 · Scanner Q4, Q15 · SM p.9.21

FRONT · RECALL ALOUD

How do **NTMs** differ from **NTBs**? Is a countervailing duty an NTB?

BACK · ANSWER

NTMs: **non-tariff, invisible** measures. **NTBs** are the **discriminatory subset** of NTMs.

- Q4: **countervailing duty** is NOT a non-tariff barrier. Q15: **tariff** is NOT an NTB.

Tariffs, including CVD and ADD, are NOT non-tariff barriers.

MEMORY TRICK **NTB sits inside NTM, like a bad apple in the basket;** tariffs are in a different shop.

CARD 9.22 T 2.3 · CONCEPT

★ OL 2.3.2, 2.3.5 · Scanner Q11 · SM p.9.22

FRONT · RECALL ALOUD

How are NTMs classified into **technical** and **non-technical**?

BACK · ANSWER

- **Technical**: product properties and **production processes** (SPS, TBT). Q11: production processes is a technical measure.
- **Non-technical**: trade requirements, split into **hard** (price and quantity control), **threat** (anti-dumping, safeguards) and **other** (finance and investment).

MEMORY TRICK **Technical = the thing itself; non-technical = the paperwork and pressure** around it. Hard, Threat, Other: H-T-O.

CARD 9.23 T 2.3 · COMPARE

★★ OL 2.3.3, 2.3.4 · Scanner Q2, Q5, Q9, Q14 · SM pp.9.22–9.23

FRONT · RECALL ALOUD

Distinguish **SPS** from **TBT**. Which one is NOT a TBT?

BACK · ANSWER

- **SPS**: protects **human, animal, plant life** and **biodiversity** (Q5).
- **TBT**: covers **food and non-food** products (Q2): standards, labels, eco-labels, organic certification (Q9).
- Trap (Q9): **import quotas** are NOT TBT.

MEMORY TRICK **SPS = Safety of Species; TBT = Tags, Brands, Trademarks of quality** (labels and standards).

CARD 9.24 T 2.3 · CONCEPT

★★ OL 2.3.6 · Scanner Q3, Q16 · SM pp.9.23–9.24

FRONT · RECALL ALOUD

What is an **import quota**? Who gains and does the government earn revenue?

BACK · ANSWER

A **physical limit**, usually per **year**, on the quantity allowed in (Q3).

- Government gets **no revenue**; licence holders earn **quota rents**.
- Quantitative restrictions curb **imports and exports** (Q16).

MEMORY TRICK **Tariff pays the treasury; quota pays the licence-holder.**

CARD 9.25 T 2.3 · CONCEPT

★ OL 2.3.7, 2.3.8 · Scanner Q8, Q12 · SM p.9.24

FRONT · RECALL ALOUD

What do **non-automatic licensing** and **financial measures** do?

BACK · ANSWER

- **Non-automatic licensing and prohibitions** limit the **quantity** of imports from any source (Q12).
- **Financial measures** raise import costs: **advance payment** requirements and **foreign exchange controls** (Q8: 25% paid three months ahead).

MEMORY TRICK **Licence limits the number; finance raises the price.**

CARD 9.26 T 2.3 · COMPARE

★★ OL 2.3.9, 2.3.10 · Scanner Q1, Q6, Q13 · SM p.9.26

FRONT · RECALL ALOUD

Distinguish **safeguard measures** from an **embargo**.

BACK · ANSWER

- **Safeguards**: **temporary**, **non-discriminatory** limits when a domestic industry is injured by an import **surge** (Q13).
- **Embargo**: a **total ban** on imports or exports to a country or region; the **most extreme** trade barrier (Q1, Q6).

MEMORY TRICK **Safeguard = seat-belt (temporary); embargo = locked door (total).**

CARD 9.27 T 2.4 · MEMORISE

★ OL 2.4.1 · No direct Q · SM pp.9.26–9.27

FRONT · RECALL ALOUD

What are **Voluntary Export Restraints (VERs)**?

BACK · ANSWER

An **informal quota** administered by the **exporting country** after **negotiation** with the importer, to avoid retaliation.

MEMORY TRICK **V-E-R: the Exporter Restrains itself** because the importer asked nicely.

CARD 9.28 T 3.1 · MEMORISE

★ OL 3.1.1, 3.5.1, 3.4.6 · Scanner 3.1 Q1; 3.5 Model Q1, Q2; 3.4 PYQ Q3 · SM pp.9.33–9.34; UNCTAD not in SM

FRONT · RECALL ALOUD

What does **UNCTAD** promote? What do trade negotiations balance, and which agreement succeeded NAFTA?

BACK · ANSWER

- **UNCTAD** promotes the **development-friendly integration** of developing countries into the world economy (not in SM).
- Trade negotiations: **market access** (tariff cuts) versus **protection** of domestic industry.
- **USMCA (2020)** is the successor of NAFTA: **USA, Mexico, Canada** (3.4 PYQ Q3: Mexico).

MEMORY TRICK UNCTAD: the U.N. Conference on Trade and Development, a development-friendly door into the world economy. USMCA = three North American neighbours, renamed from NAFTA.

CARD 9.29 T 3.2 · MEMORISE

★★★ OL 3.2.1, 3.2.2, 3.5.19 · Scanner 3.2 Q1; 3.5 PYQ Q3 · SM pp.9.34–9.35; SM p.9.46

FRONT · RECALL ALOUD

How many **RTAs** were in force on **1 February 2021**? Name the **eight types** of trade agreement in order.

BACK · ANSWER

339 RTAs were in force on 1 February 2021 (3.5 PYQ Q3).

- Eight types: **unilateral, bilateral, regional preferential trade agreements, trading bloc, free-trade area, customs union, common market, economic and monetary union**.
- **Bilateral** = between two countries or blocs; its aim is free trade between them (3.2 Q1).

MEMORY TRICK **339 on 1 Feb 2021.** Climb the staircase from **U**nilateral to **E**MU: U-B-R-T-F-C-C-E, eight steps.

CARD 9.30 T 3.2 · MCQ TRAP

★ OL 3.2.3 · Scanner 3.2 Q3 · SM p.9.43

FRONT · RECALL ALOUD

Which of these is a **multilateral** agreement: NAFTA, EU policies, WTO agreements or a bilateral pact?

BACK · ANSWER

WTO agreements: multilateral negotiations involve the **entire WTO membership**.

NAFTA and the EU are **regional**, not multilateral.

MEMORY TRICK **Multi = many, all of the WTO.** Regional means a club inside the world.

CARD 9.31 T 3.2 · MEMORISE

★★ OL 3.2.4 · Scanner 3.2 Q4; 3.5 PYQ Q2, Q5 · SM p.9.35

FRONT · RECALL ALOUD

Q4: which group has a free trade agreement among members and **may apply a common external tariff**?

BACK · ANSWER

Trading bloc (Arab League, EFTA; SM p.9.35).

- Tempting wrong options: **free-trade area**, **regional preferential trade agreement**, **economic and monetary union**.

MEMORY TRICK **Bloc = FTA plus a possible common wall.** Think of a bloc as a block of flats with an optional shared gate.

CARD 9.32 T 3.2 · COMPARE

★★ OL 3.2.5, 3.2.6 · Scanner 3.2 Q5; 3.5 PYQ Q8 · SM pp.9.35–9.36

FRONT · RECALL ALOUD

Distinguish **free-trade area**, **customs union**, **common market** and **economic and monetary union**.

BACK · ANSWER

- **FTA**: members keep their **own external tariffs**.
- **Customs union**: **common external tariff** (EU, GCC, MERCOSUR). GCC is a customs union (3.2 Q5); EU is a customs union (3.5 PYQ Q8).
- **Common market**: adds **factor mobility**.
- **EMU**: adds a **common currency** (SM: EU single currency).

MEMORY TRICK **Tariff, Tariff-common, Factors, Currency:** each step adds one more shared thing.

CARD 9.33 T 3.2 · CONCEPT

★ OL 3.2.7 · Scanner 3.2 Q2 · Not in SM

FRONT · RECALL ALOUD

Targeting key export industries: what is the likely effect?

BACK · ANSWER

It **increases employment in that sector** and **improves the current account balance** (Q2).

MEMORY TRICK **Back a winner, jobs rise, the account improves.**

CARD 9.34 T 3.3 · MCQ TRAP

★ OL 3.3.1, 3.4.1, 3.4.2 · Scanner 3.3 Model Q1, PYQ Q1; 3.4 Model Q1–Q2, PYQ Q1 · SM p.9.36; SM p.9.37; SM p.9.46

FRONT · RECALL ALOUD

What was **GATT**: scope, period, rounds and legal nature?

BACK · ANSWER

- Covered **goods**; ran **1948 to 1994** (47 years, SM); **eight trade rounds**.
- GATT was an **agreement**, NOT a treaty (SM p.9.37) and NOT an international organisation.
- Aim: **reduce tariffs** among members (3.3 PYQ Q1).
- Caution: one Scanner model question keys 1947; the PYQ and SM use 1948.

MEMORY TRICK **GATT = Goods, Agreement, Tariffs, Trade rounds (8).** Forty-seven years: 48 to 94.

CARD 9.35 T 3.4 · MEMORISE

★ OL 3.4.3 · Scanner 3.4 PYQ Q4 · SM pp.9.36–9.37

FRONT · RECALL ALOUD

Why did **GATT lose relevance** by the 1980s?

BACK · ANSWER

- **Investments, IPR and services** lay outside it.
- **Agriculture** liberalisation failed.
- **Weak institutions and dispute settlement**; it was not a treaty or organisation.

Q4 answer: **inadequate institutional structure and dispute settlement**.

MEMORY TRICK **Out of scope, out of date, out of teeth:** subjects missing, farming stuck, no strong referee.

CARD 9.36 T 3.4 · MEMORISE

★ OL 3.4.4, 3.4.5 · Scanner 3.4 Model Q1 (1.1), Q1–Q2 (1.4), Q1 (1.5); PYQ Q2 · SM p.9.37; SM p.9.46

FRONT · RECALL ALOUD

When was the **Uruguay Round**, which round was it, and what did it create?

BACK · ANSWER

- **1986–94**, the **8th** round, with **123 countries**; it began at Punta del Este (September 1986).
- It led to the **WTO**, effective **1 July 1995**, the single framework encompassing **GATT as modified**.
- Wrong options: Doha, Tokyo, Kennedy rounds.

MEMORY TRICK **86 to 94, then 95:** the round ends in 94, the WTO opens in 95.

CARD 9.37 T 3.5 · MCQ TRAP

★ OL 3.5.2, 3.5.3 · Scanner 3.5 PYQ Q9; Model Q1 (1.4) · SM p.9.38; SM p.9.46

FRONT · RECALL ALOUD

State the WTO's **principal objective** and its **six objectives**. Which is NOT one?

BACK · ANSWER

Principal objective: trade flows **smoothly, freely, fairly and predictably**.

- Six: **set and enforce rules**; **forum for negotiation**; **resolve disputes**; **increase transparency**; **cooperate** with other institutions; **help developing countries**.
- Trap: **maintaining secrecy** of decision making is NOT an objective.

MEMORY TRICK **Rules, Forum, Disputes, Transparency, Cooperation, Developing:** R-F-D-T-C-D. Transparency, never secrecy.

CARD 9.38 T 3.5 · MEMORISE

OL 3.5.4, 3.5.5 · Scanner 3.5 Model Q2 (1.5), Q1–Q2 (1.5.1) · SM p.9.38

FRONT · RECALL ALOUD

Describe the **WTO structure**: headquarters, head, and the tiers.

BACK · ANSWER

- **Secretariat** in **Geneva**, headed by a **Director General**.
- **Ministerial Conference**: top body, meets at least once every **two years**.
- **General Council**: also acts as **TPRB** and **DSB**.
- Below it: **Goods, Services and TRIPS Councils**. Appeals go to the **Appellate Body** (Scanner).

MEMORY TRICK **Top-down: Ministers, General, then Goods-Services-TRIPS.** Geneva houses them all.

CARD 9.39 T 3.5 · CONCEPT

★★ OL 3.5.6 · Scanner 3.5 Model Q1 (1.3); PYQ Q1, Q6, Q10, Q12 · SM p.9.39

FRONT · RECALL ALOUD

What is the **MFN** principle, and where does it appear in GATT?

BACK · ANSWER

No discrimination among trading partners: a favour to one must be given to **all** WTO members.

- It is **Article 1 of GATT**; introduced by GATT (Q6).
- Not preferential tariffs for allies.

MEMORY TRICK **Most Favoured = Equally Favoured:** everyone gets the best deal given to anyone.

CARD 9.40 T 3.5 · CONCEPT

★ OL 3.5.7 · Scanner 3.5 Model (ix) Q1; PYQ Q7 · SM p.9.39

FRONT · RECALL ALOUD

What is **national treatment**, and what violates it?

BACK · ANSWER

Imported and local goods are treated **equally once inside the market**.

- **Post-sales service restrictions** violate it.
- Charging **customs duty** on imports does not violate it.

MEMORY TRICK **MFN is the front door (between partners); national treatment is the room inside (foreign = local).**

CARD 9.41 T 3.5 · MEMORISE

★ OL 3.5.8, 3.5.10, 3.5.9 · Scanner 3.5 PYQ Q13 · SM pp.9.39–9.41; SM p.9.43

FRONT · RECALL ALOUD

List the WTO's **guiding principles**. What is the **TPRM**?

BACK · ANSWER

- **Non-discrimination**, **freer trade**, **predictability** (binding and transparency), **fair competition**, **development and reform**.
- **TPRM** (Trade Policy Review Mechanism): **periodical review** of members' trade policies, by the TPRB (Q13).

MEMORY TRICK **N-F-P-F-D:** No favourites, Freer, Predictable, Fair, Developing.

CARD 9.42 T 3.5 · MCQ TRAP

★★ OL 3.5.11–3.5.14 · Scanner 3.5 Model Q1 (1.5); PYQ Q4; 3.2 Q3 · SM pp.9.42–9.43

FRONT · RECALL ALOUD

Which agreement is **NOT** under the WTO? What does the **Agreement on Agriculture** cover? Expand TRIPS.

BACK · ANSWER

- **NAFTA** is a regional agreement, NOT a WTO agreement.
- **AoA**: **market access, domestic support, export subsidies**.
- WTO agreements include SPS, TBT, **TRIMs**, **TRIPS** (Trade-Related Aspects of Intellectual Property Rights) and **GATS**.

MEMORY TRICK **AoA = M-D-E:** Market, Domestic, Export. NAFTA is the odd one out, like a guest at the wrong wedding.

CARD 9.43 T 3.6 · MEMORISE

★★ OL 3.6.1, 3.6.2 · Scanner Q1, Q2 · SM p.9.44; SM p.9.47

FRONT · RECALL ALOUD

Which round is the **Doha Development Agenda**, when, and what was most controversial?

BACK · ANSWER

- **Ninth** round, launched in **Doha, Qatar, November 2001** (Fourth Ministerial Conference).
- Most controversial: **agriculture**.
- It addresses **developing-country concerns**.

MEMORY TRICK **Doha = 9th, 2001, Development;** the farm fight is the sticking point.

CARD 9.44 T 3.7 · MCQ TRAP

★ OL 3.7.1 · Scanner Q1 · SM p.9.45

FRONT · RECALL ALOUD

How many members does the **G20** have? Which of Argentina, India, Tunisia, Mexico is not one?

BACK · ANSWER

19 countries plus the EU (SM p.9.45 lists Argentina to the United States).

Tunisia is not a member.

MEMORY TRICK **19 + 1 = 20;** Tunisia is the outsider.

CARD 9.45 T 4.1 · MEMORISE

OL 4.1.1, 4.1.2, 4.3.1, 4.3.2 · Scanner 4.1 Model Q1 (1.1), Q1 (1.2); 4.3 Model Q1 (1.1), Q1 (1.3) · SM pp.9.51–9.52; SM p.9.64

FRONT · RECALL ALOUD

Define **exchange rate**, **exchange rate regime** and a **free float**. Convert 100 USD at 1 USD = 0.85 EUR.

BACK · ANSWER

- **Exchange rate**: the rate at which one currency exchanges for another. Convert by **multiplying by the quoted rate**: 100 × 0.85 = **85 EUR**.
- **Regime**: the system by which a country manages its currency against foreign currencies. Extremes: **floating (flexible)** and **fixed**.
- **Free float**: market-determined by **demand and supply**; governments and central banks stay out.

MEMORY TRICK **Rate = price of one currency in another.** Free float = a **free market stall** with no inspector.

CARD 9.46 T 4.3 · CONCEPT

★★ OL 4.3.3 · Scanner 4.3 Model Managed Float Q1–Q2; PYQ Q2, Q4, Q6 · SM pp.9.52–9.53

FRONT · RECALL ALOUD

What is a **managed float**? Which regime does India follow?

BACK · ANSWER

The rate **floats**, but the **central bank buys and sells** currencies to influence it (Model Q2).

- **India = managed float** (PYQ Q2, Q4).
- Trap (Q6): "dirty float is generally followed by countries with a **fixed** regime" is the false statement.

MEMORY TRICK **Managed = a kite with a string:** it flies free, but the central bank holds the string.

CARD 9.47 T 4.3 · MEMORISE

★ OL 4.3.4, 4.3.5, 4.3.6 · Scanner 4.3 Model Q2 (1.2), Q2–Q3 (1.3), Fixed Q1–Q2; PYQ Q1 · SM p.9.53; SM p.9.64; crawling peg and currency board not in SM

FRONT · RECALL ALOUD

Define a **fixed (pegged)** rate, **soft peg** and **hard peg**. Which peg do most IMF members use?

BACK · ANSWER

- **Fixed**: government decrees the value against a **currency, a basket or gold**; the central bank intervenes and keeps **reserves**.
- **Soft peg**: market-led; adopted by the **highest number of IMF members** (PYQ Q1). **Hard peg**: fixed, unchanging value.
- Beyond the SM: **crawling peg** adjusts gradually on indicators; **currency board** pegs to a foreign currency at a fixed rate.

MEMORY TRICK **Soft peg = soft landing (market leads); hard peg = hard stop (never moves).**

CARD 9.48 T 4.3 · COMPARE

★ OL 4.3.7, 4.3.8 · Scanner 4.3 PYQ Q3, Q5 · SM pp.9.53–9.54

FRONT · RECALL ALOUD

Give the **advantages** of fixed and of floating regimes, and the main **disadvantage** of floating.

BACK · ANSWER

- **Fixed**: no fluctuation risk, more trade and investment, **LESS speculation**, monetary discipline, credibility.
- **Floating**: independent monetary policy, rate as a policy tool, **no huge reserves**.
- Floating drawback: volatility, uncertainty, **risk premium** (Q5: trade uncertainty).
- Trap (Q3): "increase in speculation" is NOT an advantage of fixed rates.

MEMORY TRICK **Fixed = steady but stiff; floating = flexible but fluctuating.**

CARD 9.49 T 4.4 · FORMULA

★ OL 4.4.1, 4.4.2, 4.5.8, 4.1.3, 4.6.4 · Scanner 4.4 Q2, Q3; 4.1 Model Q1 (1.4); 4.6 Model Q1 (1.4) · SM p.9.55; SM p.9.65

FRONT · RECALL ALOUD

Distinguish **nominal** from **real** exchange rate and write the formula. Work Q3: NER 15, domestic index 250, foreign index 200.

BACK · ANSWER

- **Nominal**: currency for currency. **Real**: goods for goods (**'how many'** for **'one'**); trade flows follow the real rate.
- **RER = NER × Domestic price index ÷ Foreign price index**; rearrange to find NER.
- Q3: 15 × 250 ÷ 200 = **18.75**. Q2: 25 = NER × 140 ÷ 70, so NER = **12.5**.

MEMORY TRICK **Real = Nominal × (Home prices over Foreign prices).** Prices Home on top.

CARD 9.50 T 4.4 · CONCEPT

★★ OL 4.4.3, 4.4.4 · Scanner 4.4 Q1, Q4, Q5, Q6 · SM p.9.55; SM p.9.65

FRONT · RECALL ALOUD

What is **REER** and what does a **rise** in REER do?

BACK · ANSWER

REER = NEER ÷ price deflator (nominal effective exchange rate adjusted for inflation, Q4).

- Rising REER: exports **dearer**, imports **cheaper**, lost **competitiveness**, **current account deficit** (Q1, Q6).
- Q5: with NER constant, a REER rise implies **domestic inflation exceeds foreign inflation**.

MEMORY TRICK **REER up = Rich rupee, Expensive exports, Rising imports.**

CARD 9.51 T 4.5 · MEMORISE

★★ OL 4.5.1, 4.5.2, 4.5.3, 4.5.5 · Scanner 4.5 Model Q1; PYQ Q1, Q2, Q3 · SM p.9.65; SM p.9.56; FEMA not in SM

FRONT · RECALL ALOUD

Describe the **forex market**. What is a **vehicle currency**? What governs forex in India?

BACK · ANSWER

- An **over-the-counter**, electronically linked network (not a physical place) with very **narrow spreads**.
- **Vehicle currency**: widely used for international contracts even when it is not either party's national currency; the **US dollar** (Q1, Q2).
- **FEMA** governs foreign exchange in India (Q3).

MEMORY TRICK **The dollar is the taxi:** it carries trades between currencies that never meet directly.

CARD 9.52 T 4.5 · COMPARE

★★ OL 4.5.6, 4.5.7, 4.9.9 · Scanner 4.9 PYQ Q1, Q2, Q3 · SM pp.9.64–9.65

FRONT · RECALL ALOUD

Distinguish **direct** and **indirect** quotes. What are a **cross rate** and **arbitrage**?

BACK · ANSWER

- **Direct (European)**: local currency per **1 foreign** unit, e.g. ₹65/US$.
- **Indirect (American)**: foreign currency per **1 local** unit, e.g. $0.0151 per rupee (Q1).
- **Cross rate**: derived from two other pairs (Q2). **Arbitrage** makes all markets show the same rate (Q3).

MEMORY TRICK **Direct = Domestic coins needed; Indirect = Intake of foreign coins** per local one.

CARD 9.53 T 4.6 · CONCEPT

★ OL 4.6.1, 4.2.1, 4.5.4, 4.6.5, 4.6.6 · Scanner 4.2 Q1; 4.6 Model Q1–Q2 (1.6), Q1–Q2 (1.7) · SM pp.9.56–9.57; short-run and long-run factors not in SM

FRONT · RECALL ALOUD

Where is the **equilibrium rate** set? What drives **demand** and **supply** of dollars, and what moves the rate in the short and long run?

BACK · ANSWER

- Equilibrium where **D$ meets S$**.
- Demand: imports, transfers, income payments, assets, speculation. Supply: exports and **FDI/FPI inflows** (deck).
- Beyond SM: **short run** interest rates, inflation, trade balance; **long run** relative inflation.
- **Higher interest rates and political stability** lead to **appreciation**.

MEMORY TRICK **Demand pulls the rate up, supply pushes it down;** like a seesaw balanced at the equilibrium.

CARD 9.54 T 4.7 · CONCEPT

★ OL 4.7.1, 4.3.9, 4.7.2, 4.9.7 · Scanner 4.7 PYQ Q1, Model Q1 (1.6), Q1 (1.7); 4.3 Model Q1 (1.2) · SM pp.9.57–9.58

FRONT · RECALL ALOUD

Define **appreciation** and **depreciation**. If $1 = ₹70 becomes ₹75, what happened? What if demand for a currency rises?

BACK · ANSWER

- **Appreciation** = value up; **depreciation** = value down.
- $1 = ₹70 → ₹75: the **rupee depreciated**, the **dollar appreciated**. Similarly 1 EUR = 80 → 85 INR: INR depreciated (PYQ Q1).
- More demand for a currency: it **appreciates**. More demand for foreign currency (e.g. wider trade deficit): home currency **depreciates**.

MEMORY TRICK **Needing more rupees to buy a dollar = rupee shrinking.** Count the cost of one dollar.

CARD 9.55 T 4.8 · MCQ TRAP

★ OL 4.8.1, 4.8.2 · Scanner 4.8 Model Q1–Q2 (1.8); PYQ Q1 · SM pp.9.59–9.60

FRONT · RECALL ALOUD

Distinguish **devaluation/revaluation** from **depreciation/appreciation**. To which regime does revaluation apply?

BACK · ANSWER

- **Devaluation/revaluation**: **official** change in the **fixed par value**; fixed regime (PYQ Q1).
- **Depreciation/appreciation**: **market forces** under a **floating** rate.

Depreciation is caused by market forces, NOT by government action (that is devaluation).

MEMORY TRICK **De-VALUE-ation is a Value decree by the government; de-PRICE-ciation is the market's verdict.**

CARD 9.56 T 4.9 · CONCEPT

★★★ OL 4.9.1, 4.9.5, 4.8.3, 4.6.2 · Scanner 4.9 PYQ Q6, Q8; Model Q1 (1.7), Q1–Q2 (1.9); 4.8 PYQ Q2 · SM p.9.61; SM p.9.66

FRONT · RECALL ALOUD

What are the effects of **depreciation**? What is its drawback and what can it offset?

BACK · ANSWER

Exports **cheaper**, imports **dearer**: **output expansion**, better **trade balance** (Q6).

- It **offsets** the loss of price competitiveness from inflation (4.9 PYQ Q8).
- But it **adds to inflation** through costlier imports.
- 4.8 PYQ Q2 trap: "lowers the relative price of imports" is NOT associated with depreciation.

MEMORY TRICK **Weak currency: Exports Easy, Imports Ill-priced.** Growth up, inflation also up.

CARD 9.57 T 4.9 · CONCEPT

★★ OL 4.9.2, 4.9.3, 4.9.4 · Scanner 4.9 PYQ Q5, Q7, Q9 · SM pp.9.62–9.63

FRONT · RECALL ALOUD

What are the effects of **appreciation** on the currency, exports and imports?

BACK · ANSWER

The currency is **more valuable** and buys a **larger amount** of foreign currency (Q7).

- Exports become **dearer**, so their **quantity falls**; imports **cheaper**, so their quantity **rises**.
- Revaluation lowers the cost of imports (Q5).

MEMORY TRICK **Strong currency: Exports Expensive, Imports Inexpensive.**

CARD 9.58 T 4.9 · CONCEPT

★ OL 4.9.6, 4.6.3, 4.9.8 · Scanner 4.9 Model Q2–Q3 (1.9), Q2 (1.7); PYQ Q4 · SM p.9.62

FRONT · RECALL ALOUD

How does exchange rate **volatility** affect FDI, FPI and hedging? What is a **trade deficit / CAD**?

BACK · ANSWER

- Volatility **deters FDI and FPI** and raises **hedging** costs.
- **Trade deficit / CAD** = **imports exceed exports** (PYQ Q4).

MEMORY TRICK **Shaky rates scare investors and cost hedgers.** Deficit = Dearer imports than exports.

CARD 9.59 T 5.2 · MEMORISE

★★ OL 5.2.1, 5.2.2, 5.2.3, 5.2.4, 5.2.5 · Scanner 5.2 Model Q1–Q2 (1.1), Q1 (1.2); PYQ Q1, Q3 · SM p.9.71; IBRD and GDR not in SM

FRONT · RECALL ALOUD

What are **capital movements** and the **types of foreign capital**? What are the World Bank (IBRD) and a **GDR**?

BACK · ANSWER

Capital movements = cross-border flows of **financial assets and liabilities**; foreign capital = any capital inflow.

- Types: **aid, borrowings** (World Bank/IMF/ADB, **IDA soft loans**, **ECB**, trade credit), **NRI deposits**, **FPI** and **FDI**.
- Beyond SM: **World Bank = IBRD** (long-term development loans); **GDR** = receipt issued by an **overseas bank** against domestic shares.

MEMORY TRICK **A-B-N-P-D:** Aid, Borrowings, NRI deposits, Portfolio, Direct. GDR = a **Receipt issued Overseas** for shares kept at home.

CARD 9.60 T 5.3 · MCQ TRAP

★ OL 5.3.1, 5.3.2, 5.3.3, 5.3.6 · Scanner 5.3 Q1, Q4, Q6, Q7 · SM p.9.72; ECB and NIIP points not in SM

FRONT · RECALL ALOUD

How does the IMF define **FDI**? Which item is NOT a component, and is **ECB** FDI?

BACK · ANSWER

FDI: **lasting interest and control**; acquisition of at least **10%** of voting power (SM: "at least ten percent").

- Components: **equity capital, reinvested earnings, intra-company loans**.
- Portfolio investment is NOT a component of FDI (Q1).
- **ECB is debt, not FDI** (Q4). An FDI inflow improves the **capital account** but worsens **NIIP** (Q6).

MEMORY TRICK **FDI = F-ull control: Equity, Earnings, Intra-loans** (E-E-I); a loan from outside (ECB) is a debt, not a stake.

CARD 9.61 T 5.3 · COMPARE

★★ OL 5.3.4, 5.9.6 · Scanner 5.3 Q2, Q3; 5.9 PYQ Q4 · SM pp.9.72–9.73

FRONT · RECALL ALOUD

Distinguish **horizontal**, **vertical**, **conglomerate** and **two-way** FDI.

BACK · ANSWER

- **Horizontal**: the **same business** abroad (US cell-phone provider in India, 5.9 Q4).
- **Vertical**: a **supplementary** activity abroad.
- **Conglomerate**: **unrelated** business, often a **joint venture** (Q3).
- **Two-way**: **reciprocal** investments between countries (Q2).

MEMORY TRICK **Horizontal = Same, Vertical = Supplies, Conglomerate = Completely new, Two-way = Tit-for-tat.**

CARD 9.62 T 5.4 · MEMORISE

★ OL 5.4.1, 5.4.3 · Scanner 5.4 Model Q1–Q3 (1.4); PYQ Q1 · SM pp.9.73–9.74

FRONT · RECALL ALOUD

Define **FPI** and give its stake, control and time features.

BACK · ANSWER

Flow of **financial capital** (not real capital) in **stocks, bonds** and securities.

- Stake **below 10%**; **no control** or ownership.
- **Short-term**, **speculative**, **return-seeking** (PYQ Q1).

MEMORY TRICK **FPI = Financial, Fleeting, Fickle:** under 10%, no say.

CARD 9.63 T 5.4 · COMPARE

★ OL 5.4.2, 5.4.6 · Scanner 5.4 PYQ Q2; 5.3 Q7 · SM p.9.74

FRONT · RECALL ALOUD

Distinguish **FDI** from **FPI** on assets, duration, exit, technology and employment.

BACK · ANSWER

- Assets: FDI **physical**; FPI **financial**.
- Time: FDI **long**; FPI **short**.
- Exit: FDI **hard**; FPI **easy**.
- FDI brings **technology and employment**; FPI none directly.
- PYQ Q2: long-term interest = FDI; speculative = FPI.

MEMORY TRICK **Factory vs Folio:** a factory is hard to move, a folio of shares is easy to sell.

CARD 9.64 T 5.4 · CONCEPT

★ OL 5.4.4, 5.4.5 · Scanner 5.4 PYQ Q3 · Not in SM

FRONT · RECALL ALOUD

What does **FII** do for the economy? What is **capital flight**?

BACK · ANSWER

- **FII** develops the **capital market** and **equity flows** (PYQ Q3: all of capital market, flow of equity capital, financial innovation).
- **Capital flight**: **rapid outflow** of capital on uncertainty.

MEMORY TRICK **FII fills the market; flight empties it.**

CARD 9.65 T 5.5 · MEMORISE

★★ OL 5.5.1, 5.5.2, 5.5.3, 5.5.4, 5.5.5 · Scanner 5.5 Model Q1 (1.1), (1.3), Q1–Q2 (1.5); PYQ Q1, Q2, Q3 · SM pp.9.75–9.76

FRONT · RECALL ALOUD

Give the **chief motive** and the **reasons** for FDI. Which item is NOT used to encourage FDI in India?

BACK · ANSWER

Chief motive: **higher return** than at home; **firm-specific assets** (management skill, patents).

- Reasons: **markets, resources, low wages, scale, diversification, tariff-jumping, tax breaks, SEZs, stable climate**.
- PYQ Q3: **protectionist import bans** are NOT an FDI encouragement in India.

MEMORY TRICK Remember **Money, Markets, Materials, Wages, Walls (tariff-jumping), Tax:** six hooks for the reasons.

CARD 9.66 T 5.6 · MEMORISE

★ OL 5.6.1 · Scanner 5.6 Model Q1 (1.3), Q1 (1.6); PYQ Q5 · SM pp.9.77–9.78

FRONT · RECALL ALOUD

List the **modes of FDI**.

BACK · ANSWER

- **Subsidiary**, **equity injection**, **controlling interest**, **M&A**, **joint venture**, **greenfield**, **brownfield**.
- PYQ Q5: joint ventures, mergers and greenfield investments are modes.

MEMORY TRICK **S-E-C-M-J-G-B:** Subsidiary, Equity, Control, Merger, Joint venture, Green, Brown.

CARD 9.67 T 5.6 · COMPARE

★★★ OL 5.6.2, 5.6.3, 5.9.5 · Scanner 5.6 Model Q2 (1.6); PYQ Q1–Q4; 5.9 PYQ Q3 · SM p.9.78

FRONT · RECALL ALOUD

Distinguish **greenfield** from **brownfield**. In which is 100% automatic FDI allowed for airports?

BACK · ANSWER

- **Greenfield**: **new affiliate**, **fresh assets** and production (PYQ Q1). ONGC Videsh abroad = greenfield (Q4).
- **Brownfield**: **existing infrastructure** by merger, acquisition or **lease** (Q2, Q3).
- **100% automatic** route in **brownfield airport** projects (5.9 Q3).

MEMORY TRICK **Green = Grass, brand-new field; Brown = Built already,** buy or lease the ground.

CARD 9.68 T 5.7 · CONCEPT

★ OL 5.7.1, 5.7.2, 5.8.1, 5.8.2 · Scanner 5.7 PYQ Q1, Q2; 5.8 Model Q1 (1.1), Q1 (1.7) · SM pp.9.78–9.80

FRONT · RECALL ALOUD

List the **benefits of FDI**. How does it affect the host currency?

BACK · ANSWER

Direct and indirect employment, **technology**, **competition**, **finance beyond savings**, **exports**, **tax revenue**, **BoP**.

- FDI inflow **appreciates** the host currency; **imported inputs** and **profit repatriation** depreciate it.
- Trap: capital flight and loss of reserves is NOT a benefit.

MEMORY TRICK **E-T-C-F-E-T-B:** Employment, Technology, Competition, Finance, Exports, Tax, BoP.

CARD 9.69 T 5.8 · MEMORISE

★ OL 5.8.3, 5.8.4, 5.8.5 · Scanner 5.8 Model Q2–Q3 (1.8) · SM pp.9.80–9.82; SM pp.9.85–9.86

FRONT · RECALL ALOUD

List the **problems** of FDI. What are **tax competition** and the **race to the bottom**?

BACK · ANSWER

- **Capital-intensive methods**, **regional disparity**, **crowding-out**, **BoP instability**, **distortions**, **monopoly**, **dual economy**, **sovereignty** risk.
- **Tax competition**: host countries offer **excessive tax incentives** (Q2).
- **Race to the bottom**: competing with generous incentives and subsidies (Q3).

MEMORY TRICK **Capital-heavy, Regional gaps, Crowd-out, BoP, Distortion, Monopoly, Dual, Sovereignty:** C-R-C-B-D-M-D-S.

CARD 9.70 T 5.9 · CONCEPT

★★ OL 5.9.1, 5.9.2, 5.9.3, 5.9.4, 5.5.4; OL 5.10.1, 5.10.2, 5.10.3 · Scanner 5.9 Model Q2, Q3; PYQ Q1, Q2, Q5; 5.5 PYQ Q1; 5.10 Model Q1 (1.10), Q2 · SM pp.9.82–9.83; SM p.9.86; RBI, FEMA, Make in India not in SM

FRONT · RECALL ALOUD

Why is **FDI in India** important and who regulates it? What are the sectoral caps? Also define ODI.

BACK · ANSWER

- A major **non-debt resource**; **tax breaks and lower salaries** attract it (5.5 PYQ Q1).
- Regulated by **RBI and FEMA**; **Make in India** attracts investment and manufacturing.
- Scanner keys (dated): private banking 49% (2019); telecom 100%; food-product marketing 100% automatic. The deck marks caps as dated.
- **ODI** (outbound FDI): Indian companies investing abroad, enabled by relaxed capital controls; **RBI** monitors it and publishes the data (SM p.9.83, p.9.86).

MEMORY TRICK **RBI + FEMA = rule-keepers; Make in India = the invitation;** ODI = the Indian company going Out.

Flash Cards with Memory Tricks

Chapter 10 · Indian Economy · 53 cards

How to use these cards

- Read the **front** and answer **aloud** before you look at the back.
- Then read the **memory trick**. If it does not click, make up your own and write it beside the card.
- Each card carries its **Scanner question numbers**, so you can attempt those MCQs straight after the card.
- Give every card a **second look after 1 day and again after 1 week.**

Reading the stars

★★★	Asked by ICAI 6 or more times. Learn word for word.
★★	Asked 3 to 5 times. Know the key terms and the lists.
★	Asked once or twice. Read once; recognise it in an MCQ.
–	Taken from the Study Material text. Not a One Liner line, but useful for understanding.

Topics in this chapter

Topic	Name	Card numbers	Count	Highest stars
10.1	Status of Indian Economy: Pre Independence Period (1850-1947)	10.01 – 10.04	4	★★
10.2	Indian Economy: Post Independence (1947-1991)	10.05 – 10.13	9	★★★
10.4	The Economic Reforms of 1991	10.14 – 10.29	16	★★
10.5	GDP Growth Rates Post 1991 Reforms	10.30 – 10.31	2	★★★
10.6	NITI Aayog: A Bold Step for Transforming India	10.32 – 10.37	6	★★★
10.7	The current state of the Indian Economy: A brief overview	10.38 – 10.52	15	★★★
10.8	Conclusion	10.53	1	★

Source: ICAI Study Material (July 2026), Scanner Business Economics 2026 October, One Liners P4. Stars follow the One Liners deck. "OL" is the One Liner reference; "Q" numbers are the question numbers under that topic in the Scanner; "SM p." is the Study Material page.

CARD 10.01 T 10.1 · MCQ TRAP

★★ OL 10.1.1, 10.1.2 · Scanner 10.2 PYQs Q1, Q2 · SM pp.10.1–10.2

FRONT · RECALL ALOUD

Which period of India's history is described as **'prosperous and self-reliant'**, and how is the 1850–1947 economy described instead?

BACK · ANSWER

Between the **first and seventeenth century AD**, India is believed to have had the **largest economy** of the ancient and medieval world, controlling between one third and one fourth of the world's wealth. It had **self-sufficient villages** and cities that were centres of commerce, pilgrimage and administration.

Scanner: pre-British India = **self-sufficient villages and cities that were centres of commerce** (Q1); ancient and medieval India = a **self-reliant and prosperous economy** (Q2).

MCQ trap: the 1850–1947 economy was **impoverished and under-developed**, NOT 'prosperous and self-reliant'.

MEMORY TRICK **Before the British: full granaries. After: empty pockets.** Link 'self-reliant' with the old village economy, never with the colonial era.

CARD 10.02 T 10.1 · CONCEPT

★ OL 10.1.2 · Scanner 10.1 MQ Q2 · SM pp.10.2–10.3

FRONT · RECALL ALOUD

How did British rule damage Indian manufacturing, and what were the effects on land and agriculture?

BACK · ANSWER

British rule ran 1757–1858 (East India Company) and 1858–1947 (British government). India changed from an exporter of manufactures to an **exporter of raw materials**.

Discriminatory tariffs: heavy tariffs on Indian finished goods, lower tariffs on imports. Indian goods lost competitiveness, so handicrafts and manufactures were destroyed.

Result: large-scale unemployment and over-crowding on land (agriculture was the dominant sector, MQ Q2), sub-division and fragmentation of holdings, **subsistence farming**, low productivity and poverty.

The **zamindari** system, absentee landlordism, indebtedness and exploitative money lenders led to a virtual **collapse of Indian agriculture**.

MEMORY TRICK **Raw out, ruin in:** raw materials went out, cheap machine-made goods came in, and the craftsman's work and the farmer's land paid the price.

CARD 10.03 T 10.1 · MEMORISE

★ OL 10.1.3 · Scanner 10.1 PYQs Q1 · SM p.10.4

FRONT · RECALL ALOUD

Which industries dominated colonial industrial growth, what lagged behind, and what was manufacturing's share of NDP in 1946?

BACK · ANSWER

Modern industry grew in a **lopsided** way, dominated by **cotton and jute** (Q1 key: cotton and jute, not wool, nylon or silk).

Producer goods industries lagged: English producers pressed policy to discourage industries likely to compete with theirs.

Manufacturing (excluding small-scale and cottage industries) had barely reached **7% of NDP in 1946**.

Factory employment was tiny: 0.4% of the total population in 1900 and 1.4% in 1941.

MEMORY TRICK **C-J, then 7 in '46:** Cotton and Jute carried the colonial factory; seven in forty-six is how little manufacturing added to NDP.

CARD 10.04 T 10.1 · MCQ TRAP

OL 10.1.5 · Scanner 10.1 PYQs Q2 · Not in SM text (Scanner only)

FRONT · RECALL ALOUD

Which of these does **NOT** contribute to economic growth: labour and capital, population size, new technology, education and experience?

BACK · ANSWER

Increases in the size of the population (Q2 key b).

The others do contribute: availability of resources such as labour and capital, new and better technology, and increased knowledge gained through education or work experience.

A mere increase in population size does not by itself add to growth.

MEMORY TRICK **Count skills, not heads:** resources, technology and knowledge grow output; headcount alone does not.

CARD 10.05 T 10.2 · CONCEPT

★★★ OL 10.2.3 · Scanner 10.2 MQ 1.2 Q1; PYQs Q10, Q11 · SM pp.10.4–10.5

FRONT · RECALL ALOUD

What was the **Nehruvian model**, which body ran it, and what was it meant to achieve?

BACK · ANSWER

State-directed **industrialisation** with social and economic **redistribution**; centralised economic planning was the core of the development strategy.

The **Planning Commission** was established; the **five-year plans** were developed, implemented and monitored by it.

Aim: rapid economic growth with **equity and distributive justice**.

Scanner keys: policy = **import substitution and planned economy** (MQ Q1); primary objective of planning = **growth with social justice** (Q10); shift from colonial exploitation to **planned development** (Q11).

MEMORY TRICK **P-F-E:** **P**lanning Commission → **F**ive-year plans → **E**quity and distributive justice.

CARD 10.06 T 10.2 · COMPARE

★ OL 10.2.5 · Scanner 10.2 PYQs Q3 · SM p.10.5

FRONT · RECALL ALOUD

The 1950s policies were guided by two philosophies. Compare the **Nehruvian** and the **Gandhian** views.

BACK · ANSWER

- **Nehruvian:** a socialistic society with emphasis on **heavy industry**.
- **Gandhian: small-scale and cottage industry** and **village republics**.

Q3 key: small scale, cottage industry and village republics = **Gandhian** philosophy (not Nehruvian, British or East India Company).

MEMORY TRICK **Nehru = big machines; Gandhi = small hands.** Dams and steel on one side, village workshops on the other.

CARD 10.07 T 10.2 · MEMORISE

★ OL 10.2.4, 10.2.5, 10.4.5 · Scanner 10.4 PYQs Q13 · SM p.10.5

FRONT · RECALL ALOUD

What did the **Industrial Policy Resolutions of 1948 and 1956** do, and what happened after the **1958** crisis?

BACK · ANSWER

IPR 1948: expanded role for the public sector and licensing for the private sector; **state monopoly** in atomic energy, arms and ammunition and railways; new investment in basic industries given to the state alone.

IPR 1956: a comprehensive framework but **lopsided**: it enormously expanded the public sector and dampened private initiative.

1958: a **balance of payments crisis** led to tighter trade and licensing; comprehensive **import controls** were maintained until **1966**.

Q13: import substitution industrialisation aimed to reduce dependence on foreign goods by promoting domestic industries.

MEMORY TRICK **'48 = A-A-R: A**tomic energy, **A**rms and ammunition, **R**ailways. '56 = public sector overgrown. '58 → '66 = doors shut for imports.

CARD 10.08 T 10.2 · MEMORISE

★ OL 10.2.6 · Scanner 10.2 PYQs Q9, Q12 · SM p.10.5

FRONT · RECALL ALOUD

What is the **'Hindu growth rate'**, and for which period was it **3.5%**?

BACK · ANSWER

India's average annual GDP growth in the first three decades after independence (**1950–80**) was a modest **3.5 per cent**, often called the 'Hindu growth rate'.

Q9: 3.5% (not 2%, 5% or 7%). Q12: the term means **low growth before the 1991 reforms**, not high growth in the 1950s or growth above 8%.

Compare the 1980s: 5.7% and 5.8% (Topic 10.4).

MEMORY TRICK **3.5 for three decades:** three and a half per cent over thirty years, 1950 to 1980.

CARD 10.09 T 10.2 · COMPARE

★★★ OL 10.2.7 · Scanner 10.2 PYQs Q4, Q8 · SM p.10.6

FRONT · RECALL ALOUD

Compare India's **farm strategy before and after the mid-1960s**. What forced the change?

BACK · ANSWER

- **Before:** the **institutional model**: land reforms, farm cooperatives. Little weight to R&D and irrigation; productivity gains were meagre (Q4 key b).
- **After:** the **green revolution**, relying on technology to raise productivity, especially of wheat (began 1965, Q8).

Trigger: monsoon failures and two severe, consecutive **droughts in 1966 and 1967**; India depended on US food aid under PL 480.

MEMORY TRICK **Land first, yield next:** before 1965 the answer was to reform the land; after it, to raise the yield.

CARD 10.10 T 10.2 · MEMORISE

★★★ OL 10.2.8 · Scanner 10.2 MQ 1.2 Q2; 10.7 Q2, Q10, Q22 · SM p.10.6

FRONT · RECALL ALOUD

What is the **Green Revolution**? Name its **four inputs** and the crop it focused on.

BACK · ANSWER

A thorough restructuring of agricultural policy from the mid-1960s, materialised by innovative farm technologies.

Inputs: **high yielding varieties (HYV) of seeds** and intensive use of **water, fertiliser and pesticides**.

Focus: increasing food grain output, especially **wheat** (SM); Scanner Q22 key: food grains, especially wheat and rice.

Q10 key: HYV seeds and scientific cultivation (not green manure or land redistribution). MQ Q2: aimed at **self-sufficiency in food production** through agricultural modernisation.

MEMORY TRICK **H-W-F-P: HYV seeds, Water, Fertiliser, Pesticides. 'Harvests Welcome Fresh Progress.'**

CARD 10.11 T 10.2 · MEMORISE

★★ OL 10.2.9, 10.4.4 · Scanner 10.4 PYQs Q5, Q12, Q15 · SM p.10.6

FRONT · RECALL ALOUD

How many banks were **nationalised** and when? What did the **MRTP Act, 1969** regulate?

BACK · ANSWER

14 banks in 1969, followed by another **6 in 1980**. Nationalisation = taking full control and management from the private sector by the government (Q12).

MRTP Act, 1969: regulation of **large firms** which had relatively **large market power** (Q5, Q15).

It restricted licensing, capacity addition, mergers and acquisitions of large firms.

MEMORY TRICK **Two 1969s:** 14 banks nationalised and the MRTP Act, both in 1969; six more banks followed in 1980.

CARD 10.12 T 10.2 · CONCEPT

★ OL 10.2.9, 10.2.10 · No direct Q · SM p.10.6

FRONT · RECALL ALOUD

Why was **1965–81** the worst growth period in independent India's history?

BACK · ANSWER

The decline in growth was attributed mainly to a decline in **productivity**.

Causes: the **licence-raj**; **autarchic** policies of the 1960s and 1970s; **three wars** (1962, 1965, 1971); major **droughts** (especially 1966 and 1967); **oil shocks** of 1973 and 1979.

India, being practically a closed economy, missed the opportunities of a rapidly growing world economy.

MEMORY TRICK **L-A-W-D-O: Licence-raj, Autarchic policies, Wars, Droughts, Oil shocks. Five blows, two slow decades.**

CARD 10.13 T 10.2 · RECALL CHAIN

★★★ OL 10.2.3, 10.2.5, 10.2.6, 10.2.7, 10.2.8, 10.2.9 · Scanner 10.2 MQ 1.2 Q1–Q2; PYQs Q3–Q12 · SM pp.10.4–10.7

FRONT · RECALL ALOUD

Recite Topic 10.2 in **one chain**, from the Nehruvian model to the worst growth period.

BACK · ANSWER

Nehruvian model (Planning Commission, five-year plans) → **IPR 1948 / 1956** (big public sector) → **1958** BoP crisis, import controls till **1966** → **Hindu growth rate 3.5%** (1950–80) → droughts **1966–67** → **green revolution** → **14 banks (1969), MRTP Act 1969, 6 banks (1980)** → **1965–81**, the worst period.

MEMORY TRICK **Story:** A new nation plans (Nehru), builds big, hits a payments wall in 1958, crawls at 3.5%, is struck by drought, turns green, nationalises its banks, and ends in its slowest years.

CARD 10.14 T 10.4 · CONCEPT

★ OL 10.4.1, 10.4.27 · Scanner 10.4 PYQs Q22; SM Test Q2 · SM pp.10.7–10.8, 10.35

FRONT · RECALL ALOUD

What was the **'early liberalisation'** of the 1980s, and what growth did it bring?

BACK · ANSWER

Seeds of liberalisation were sown in the 1980s, **especially after 1985**; the efforts of 1981–1989 are called **'reforms by stealth'** (ad hoc, not widely publicised).

They covered **industry, trade and taxation**, plus skilful exchange rate management. Q22 and SM Test Q2: the first wave of liberalisation began in the **1980s**.

GDP growth: **5.7%** (sixth plan, 1980–85) and **5.8%** (seventh plan, 1985–90).

Based on REER, the rupee was **depreciated by about 30.0%** from 1985–86 to 1989–90, which helped expand exports.

MEMORY TRICK **Quiet Eighties:** reforms by stealth, with growth stepping up from 3.5 to **5.7 then 5.8**.

CARD 10.15 T 10.4 · MEMORISE

★★ OL 10.4.2, 10.4.3 · Scanner 10.4 PYQs Q27, Q28 · SM pp.10.7–10.8

FRONT · RECALL ALOUD

List the main **industrial, tax and capital-market reforms of the 1980s**. Which option is NOT one of them?

BACK · ANSWER

- **1985:** delicensing of **25 broad categories** of industries.
- **Broad-banding:** change product mix within existing capacity without a fresh licence, e.g. trucks and cars (Q27).
- **MRTP asset limit** raised from ₹20 crore to ₹100 crore (1985–86); **MODVAT** replaced multipoint excise duties.
- **SEBI** set up as a **non-statutory** body on **12 April 1988**.

MCQ trap: **currency demonetisation** was NOT a 1980s reform (Q28 key c).

MEMORY TRICK **Shopping bag of the '80s:** 25 doors unlocked, trucks turn into cars, ₹20 → ₹100 crore, one smoother tax, a new watchdog in 1988. No demonetisation in the bag.

CARD 10.16 T 10.4 · MEMORISE

★ OL 10.4.7, 10.4.8 · Scanner 10.4 MQ 1.3 Q3; 1.4 Q1 · SM p.10.9

FRONT · RECALL ALOUD

Under which government did the **1991 reforms** begin, and who is named as their **architect**?

BACK · ANSWER

India embarked on a bold set of economic reforms in **1991** under the **Narasimha Rao government**.

MQ 1.4 Q1: the Prime Minister who played the crucial role = **P. V. Narasimha Rao**.

MQ 1.3 Q3: the key architect = **Dr Manmohan Singh** (named in the Scanner, not in the SM).

MEMORY TRICK **Rao steered, Singh designed:** the Prime Minister and the architect of 1991.

CARD 10.17 T 10.4 · MEMORISE

★★ OL 10.4.9 · Scanner 10.4 PYQs Q3, Q32 · SM pp.10.9–10.10

FRONT · RECALL ALOUD

State the **causes of the immediate need** for the 1991 reforms.

BACK · ANSWER

- Revenue expenditure kept exceeding revenue receipts; the **fiscal deficit was financed by huge domestic and external debt** (Q3 key a).
- Swelling public debt; a large share of revenues went to **interest payments**.
- The **Gulf-war oil price surge** (1990) strained the balance of payments.
- **Forex reserves** fell to $1.2 billion; import curbs reduced industrial output.
- The **IMF** put forth stringent conditions; a fragile political situation created a **'crisis of confidence'**.

MEMORY TRICK **Domino line:** deficit → debt → interest → oil shock → empty forex → import curbs → IMF conditions → crisis of confidence. Tip one, they all fall.

CARD 10.18 T 10.4 · MCQ TRAP

★ OL 10.4.9, 10.4.10 · Scanner 10.4 PYQs Q3, Q32, Q39, Q41 · SM p.10.9

FRONT · RECALL ALOUD

What **triggered** the 1991 reforms, and which statement about forex reserves is the **trap**?

BACK · ANSWER

Trigger: **balance of payments crisis** (Q39, Q41). Forex reserves touched the lowest point: only **$1.2 billion**, barely sufficient for **two weeks of imports**.

Trap: **high forex reserves** was NOT a cause (Q32 key c). Also wrong: 'reserves touched the highest point' and 'declining public debt' (Q3), trade surplus and agricultural boom (Q39).

Right answer to Q3: the fiscal deficit financed by huge domestic and external debt.

MEMORY TRICK **Empty tank, not full tank:** reforms came because reserves ran dry (about a fortnight of imports), so any option with 'high' or 'highest' reserves is wrong.

CARD 10.19 T 10.4 · MCQ TRAP

★★ OL 10.4.11, 10.4.12 · Scanner 10.4 MQ 1.4.1 Q1; PYQs Q1, Q2, Q19, Q42, Q43 · SM p.10.10

FRONT · RECALL ALOUD

What do the 1991 reforms mean by **LPG**? Which options are traps?

BACK · ANSWER

Liberalisation, Privatisation, Globalisation: a shift from the 'socialist model' to **market orientation and external openness** (Q19: rethinking the role of markets versus the state).

Trap: **'Socialisation'** is NOT part of LPG (Q2).

Trap: **disinvestment of PSUs** is **privatisation**, not liberalisation (Q1); it reduces inefficiency in public sector enterprises (Q42). Liberalisation = decontrol, deregulation, freedom to do business.

Globalisation strategies: partial convertibility, tariff cuts and a higher foreign equity limit: all of these (Q43).

MEMORY TRICK **Sell = Privatise; Free = Liberalise; Open = Globalise.** Socialise has no seat at the table.

CARD 10.20 T 10.4 · CONCEPT

★ OL 10.4.13 · Scanner 10.4 PYQs Q44 · SM p.10.10

FRONT · RECALL ALOUD

What were the **twin objectives** of the 1991 reforms, and how are the measures classified?

BACK · ANSWER

Twin objectives: (1) reorient the economy from a centrally directed, highly controlled one to a **'market friendly'** economy; (2) **macroeconomic stabilisation** by substantial reduction in fiscal deficit.

- **Stabilisation measures: short-term**, to tackle inflation and adverse balance of payments.
- **Structural reform measures: long-term** and continuing, to raise productivity and competitiveness by removing structural rigidities.

Q44: the parameters of reform = stabilisation and structural adjustment (both).

MEMORY TRICK **Stabilisation = Short; Structural = Stays.** Fix the fever first, then rebuild the house.

CARD 10.21 T 10.4 · MEMORISE

★ OL 10.4.14 · Scanner 10.4 MQ 1.4.1 Q2, Q3; PYQs Q20 · SM pp.10.10–10.11

FRONT · RECALL ALOUD

List the **six fiscal reforms** of 1991. Which option is NOT a fiscal reform?

BACK · ANSWER

1. Stable and **transparent tax structure**; 2. better **tax compliance**; 3. thrust on **curbing government expenditure**; 4. reduction and abolition of unnecessary **subsidies**; 5. **disinvestment** of part of government equity in select PSUs; 6. encouraging **private sector participation**.

Q20 key (c) 'Only i, iii, iv': tax compliance, private sector participation and curbing expenditure. 'Reinvestment of funds in more profitable options' is not a fiscal reform.

Aim: fiscal discipline, to address high inflation and fiscal deficits (MQ Q2). VAT: simplifies the tax structure (MQ Q3).

In September 1994 the government agreed with the RBI to bring the fiscal deficit down to nil by 1997–98 in a phased manner.

MEMORY TRICK **T-T-C-S-D-P: T**ax structure, **T**ax compliance, **C**urb spending, **S**ubsidy cuts, **D**isinvestment, **P**rivate participation.

CARD 10.22 T 10.4 · COMPARE

★★ OL 10.4.15, 10.4.16 · Scanner 10.4 MQ 1.4.2 Q1, Q2; PYQs Q26, Q29, Q31, Q34 · SM p.10.11

FRONT · RECALL ALOUD

Compare **banking before and after the 1991 financial reforms**. What was the focus of the reforms?

BACK · ANSWER

- **Before: administered** interest rates, **quantitative restrictions** on credit flow, **high reserve requirements** (Q34).
- **After:** interest rate liberalisation; new private banks and competition among public, private and foreign banks; lower **SLR and CRR** per the **Narasimham Committee Report, 1991**; freer branch licensing; **prudential norms** (asset classification, income disclosure, bad-debt provisions).

Focus: reducing the burden of NPAs, introducing competition, deregulating interest rates. Trap: **restricting foreign investment in banks** was NOT a focus (Q26).

Q29: prudential norms = monetary and financial sector reforms. Q31: interest rate liberalisation = (II) and (IV), both. Lower SLR and CRR improve banks' liquidity and promote lending (MQ Q1).

MEMORY TRICK **A-Q-H locks on the vault: A**dministered rates, **Q**uantity limits on credit, **H**igh reserves. The reforms unlocked them.

CARD 10.23 T 10.4 · MEMORISE

★ OL 10.4.18 · Scanner 10.4 MQ 1.4.3 Q1; PYQs Q17, Q28 · SM pp.10.8, 10.12

FRONT · RECALL ALOUD

When was **SEBI** set up and when did it get **statutory recognition**? What is its role?

BACK · ANSWER

Set up in **1988** as a **non-statutory** body (12 April 1988, by a Government of India resolution); given **statutory recognition in 1992**.

Role: independent regulator of the capital market, creating a transparent environment to mobilise adequate resources and allocate them efficiently (Q17 key c; MQ Q1: regulate and develop the securities market).

So 'formation of SEBI' is a 1980s reform (Q28), while statutory status belongs to 1992.

MEMORY TRICK **Born '88, crowned '92:** first by resolution, then by statute.

CARD 10.24 T 10.4 · MEMORISE

★★ OL 10.4.20, 10.4.21 · Scanner 10.4 MQ 1.4 Q2; 1.4.4 Q1 (key differs, see notes); PYQs Q9, Q30, Q35, Q38; 10.7 Q47; SM Test Q9 · SM p.10.12; Test Q9 p.10.36

FRONT · RECALL ALOUD

What did the **New Industrial Policy of 24 July 1991** do to licensing and to the public sector?

BACK · ANSWER

Announced on **24 July 1991** (Q9) to substantially deregulate industry. It ended the **Licence Raj** (Q38): licensing removed for all industries except **18**; 80% of industry freed.

Later cut to **5 licensed industries**: arms and ammunition, atomic substances, narcotic drugs and hazardous chemicals, distillation and brewing of alcoholic drinks, cigarettes and cigars.

Public sector limited to **eight sectors**, later only **two: railway transport and atomic energy** (Q30 key b). Q47: telecom is NOT a public sector monopoly any more.

Aims: encourage entrepreneurship and private participation (MQ 1.4 Q2); main thrust = greater **private sector** participation (Q35). SM Test Q9: 'removing licensing requirements for **all** industries' is NOT a 1991 policy reform (18, later 5, stayed licensed).

MEMORY TRICK **18 → 5, 8 → 2:** the licence list and the public-sector list both shrank to a handful.

CARD 10.25 T 10.4 · MEMORISE

★★ OL 10.4.4, 10.4.22 · Scanner 10.4 PYQs Q40, Q42; SM Test Q12 · SM pp.10.12–10.13; Test Q12 p.10.37

FRONT · RECALL ALOUD

What happened in 1991 to the **MRTP Act**, small-scale reservation and **public sector equity**?

BACK · ANSWER

MRTP Act restructured: provisions on **merger, amalgamation and takeover repealed**; no pre-entry scrutiny or prior approval for large companies' expansion or diversification.

Many goods made by **small-scale industries de-reserved**, allowing entry of large-scale industries.

Disinvestment = sale of a portion of the government shareholding of a PSE (SM Test Q12): a very bold step with greater autonomy and professional management; budgetary support progressively reduced (Q42).

Q40: industrial reforms under the NEP = abolition of licensing, de-reservation, contraction of public sector: **all of these**.

MEMORY TRICK **M-S-D: M**RTP curbs lifted, **S**mall-scale reservations lifted, **D**isinvestment begun.

CARD 10.26 T 10.4 · MEMORISE

★ OL 10.4.23 · Scanner 10.4 MQ 1.4.4 Q2 (key differs, see notes); PYQs Q18 · SM pp.10.12–10.13

FRONT · RECALL ALOUD

What did the 1991 policy say on **FDI**: the automatic approval limit, and where is FDI **banned**?

BACK · ANSWER

The concept of **automatic approval** was introduced for FDI **up to 51 per cent**, later extended to nearly all industries except the reserved ones.

FDI is **prohibited only in four sectors:** retail trade, atomic energy, lottery business, and betting and gambling (Q18: atomic energy).

Scanner MQ 1.4.4 Q2 gives **100%** as its key, whereas the SM figure for the 1991 introduction is **51%**.

MEMORY TRICK **51 to begin, four to ban:** automatic approval began at 51%; the ban list is **R-A-L-B** (**R**etail, **A**tomic, **L**ottery, **B**etting and gambling).

CARD 10.27 T 10.4 · MEMORISE

★ OL 10.4.24 · Scanner 10.4 MQ 1.3 Q1; 1.4.5 Q2; PYQs Q21 · SM p.10.13

FRONT · RECALL ALOUD

How did the 1991 **trade reforms** change import licensing, quantitative restrictions and tariffs?

BACK · ANSWER

- **Quantitative restrictions** on imports and exports dismantled; **import licensing removed** (Q21 key b); the 'positive list' (OGL) replaced by a **negative list**.
- **Tariffs:** highest rate **355%** (1990-91) → **85%** (1993-94) → **50%** (1995-96) → **10%** by 2007-08, with exceptions such as automobiles at 100%.

Aim: an outward-oriented regime that opens up trade and cuts import tariffs (MQ 1.3 Q1); the EXIM Policy facilitates foreign trade (MQ 1.4.5 Q2).

MEMORY TRICK **Staircase down: 355 → 85 → 50 → 10.** One step each in 1990-91, 1993-94, 1995-96 and 2007-08.

CARD 10.28 T 10.4 · MEMORISE

★★ OL 10.4.25 · Scanner 10.4 PYQs Q16, Q33 · SM pp.10.13–10.14

FRONT · RECALL ALOUD

Trace the **rupee's exchange rate regime** from 1991 to 1994.

BACK · ANSWER

July 1991: rupee **devalued by 18–19%** (earlier a fixed rate, pegged to a basket of currencies). Devaluation year: 1991 (Q33).

March 1992: dual exchange rate regime.

March 1993: rate unified; the rupee allowed to **float** for the first time. From **1993**, a **managed floating** system (Q16 key d).

1994: all current account transactions at the market rate; rupee officially **convertible on current account**.

MEMORY TRICK **D-D-F-C = 91, 92, 93, 94: D**evalue, **D**ual rate, **F**loat, **C**onvertible.

CARD 10.29 T 10.4 · RECALL CHAIN

★★ OL 10.4.1–10.4.25 · Scanner 10.4 MQ 1.2–1.4.5; PYQs Q1–Q44 · SM pp.10.7–10.14

FRONT · RECALL ALOUD

Recite Topic 10.4 in **one chain**, from the 1980s to the exchange-rate changes.

BACK · ANSWER

1980s 'reforms by stealth' (5.7%, 5.8%) → **deficits, debt, oil shock, $1.2 bn reserves, IMF → BoP crisis → 1991, Rao government → LPG**: **fiscal, monetary and financial, SEBI statutory 1992**.

→ **NIP, 24 July 1991**: licences 18 → 5, public sector → 2, FDI automatic up to 51% → **tariffs 355% → 10%** → **rupee**: devalued 1991, floated 1993, current-account convertible 1994.

MEMORY TRICK **Story:** A quiet reformer in the 1980s; then the purse runs dry at $1.2 bn. A new government throws open the doors: fewer licences, lower tariffs, freer money, a watchdog for the market, and a rupee that learns to float.

CARD 10.30 T 10.5 · MEMORISE

★★★ OL 10.5.2, 10.7.30, 10.7.31, 10.8.6 · Scanner 10.5 MQ 1.4 Q1; 10.7 Q49; 10.8 Q3 · SM pp.10.14–10.15

FRONT · RECALL ALOUD

State the **post-reform gains** with their figures, and the **constraints** that remain.

BACK · ANSWER

Gains: forex cushion of close to **eight months of import cover**; services trade surplus high at around **3.7% of GDP** (robust IT and financial services demand); poverty reduced substantially.

Constraints: high fiscal deficit, inflation, and public debt of **86% of GDP in FY21/22**, above the EMDE average of 64.5% for 2022 (IMF); the SM summary adds **growing inequalities**.

Scanner: reforms accelerated growth and improved global competitiveness (MQ 1.4 Q1); high inequality is a structural challenge (10.7 Q49) and a reason for persistent poverty (10.8 Q3).

MEMORY TRICK **8 · 3.7 · 86:** eight months of cover and a 3.7% services surplus on the plus side; 86% debt on the minus side.

CARD 10.31 T 10.5 · MEMORISE

★ OL 10.5.1, 10.5.2, 10.5.3 · Scanner 10.5 MQ 1.4.6 Q2 (key differs, see notes) · SM p.10.15

FRONT · RECALL ALOUD

Which indicator is regarded as the **most reliable indicator of economic growth**? In Table 10.1, which year is the **peak** and which is **negative**?

BACK · ANSWER

GDP growth rate is regarded as the most reliable indicator of economic growth.

Table 10.1 (1991–2021): the **peak** is **1999 at 8.845756%** (about 8.85%); the only **negative** year is **2020 at –6.59608%** (about –6.6%), the pandemic year.

Post-reform GDP growth has been **commendable except for 2020**.

Scanner MQ 1.4.6 Q2 (options 1992, 1996, 2004, 2010) has key **2010 (8.497585%)**: the highest of the options listed, because 1999 is not offered.

MEMORY TRICK **Peak 1999, pit 2020:** 8.85% at the summit, –6.6% at the bottom of the table.

CARD 10.32 T 10.6 · MEMORISE

★★ OL 10.6.1 · Scanner Q2, Q16, Q17 · SM p.10.16

FRONT · RECALL ALOUD

What replaced the **Planning Commission**, on what date, and what was NITI Aayog expected to be?

BACK · ANSWER

On **1st January 2015** the apex policy-making body, the **Planning Commission** (nearly sixty-four years old), was replaced by the **National Institution for Transforming India (NITI) Aayog** (Q2 key c).

Objective: spur innovative thinking by objective experts and promote **'co-operative federalism'** by enhancing the voice and influence of the states.

NITI is expected to serve as a government **'Think Tank'** and a 'directional and policy dynamo' (Q17: main role = policy think tank).

MEMORY TRICK **1-1-15:** New Year's Day 2015, the Planning Commission handed its chair to NITI.

CARD 10.33 T 10.6 · MCQ TRAP

★★ OL 10.6.2, 10.6.3 · Scanner Q1, Q4, Q11 · SM pp.10.16–10.18

FRONT · RECALL ALOUD

What does NITI Aayog **do** with plans at village level, and what does it **NOT** do?

BACK · ANSWER

Does: develops mechanisms to formulate **credible plans at village level** and aggregate them progressively at higher levels of government (Q1). Also promotes sustainable development, **co-operative federalism**, and policy and technical advice to Centre and states (Q4).

Trap: NITI does **NOT formulate five-year plans** (Q4 key a) and does **NOT allocate financial resources to states** (Q11 key b).

Experts note it does not produce national plans, control expenditure or review state plans, and is **excluded from the budgeting process**.

MEMORY TRICK **NITI advises; it does not budget.** A thinker at the table, not the one holding the chequebook.

CARD 10.34 T 10.6 · MEMORISE

★★★ OL 10.6.4, 10.6.5, 10.6.6, 10.6.7, 10.6.8 · Scanner Q3, Q7, Q12, Q14, Q15 · SM pp.10.17–10.18

FRONT · RECALL ALOUD

Name the **seven key initiatives of NITI Aayog** in the SM and say what each does.

BACK · ANSWER

- **LiFE** (Lifestyle for Environment, Q12): replaces the 'use-and-dispose' economy; sustainable lifestyle choices (Q14).
- **NDAP** (National Data and Analytics Platform): improves access to Indian government data (Q3, Q7).
- **Shoonya** (air quality through EVs) and **E-Amrit** (information on EVs).
- **IPI**: India Policy Insights, launched by NITI Aayog (Q15).
- **Methanol Economy** programme.
- **Transforming India's Gold Market**: measures to tap the sector's potential and stimulate exports and growth.

MEMORY TRICK **L-N-S-E-I-M-G:** Life Needs Smart Energy, Ideas, Methanol and Gold.

CARD 10.35 T 10.6 · COMPARE

★★★ OL 10.6.5, 10.6.6 · Scanner Q9, Q10; 10.7 Q1, Q15 · SM p.10.17

FRONT · RECALL ALOUD

Distinguish **Shoonya** from **E-Amrit**. Which is the 'one-stop destination for EV information'?

BACK · ANSWER

- **Shoonya campaign:** aims to **improve air quality** by accelerating deployment of **electric vehicles**.
- **E-Amrit:** a **one-stop destination for all information on electric vehicles** (Q10; 10.7 Q1).

Q9 (EV promotion): the suggested answer accepts both (a) E-Amrit and (b) Shoonya.

Do not confuse with NDAP (government data) or FAME India (manufacture of EV technology, 10.7 Q15).

MEMORY TRICK **Shoonya cleans the air; E-Amrit answers every EV question.** One clears the air, the other clears the doubts.

CARD 10.36 T 10.6 · MCQ TRAP

★★★ OL 10.6.7 · Scanner Q13; 10.7 Q11 · SM p.10.18

FRONT · RECALL ALOUD

What is the **Methanol Economy** programme aiming at, and which input is the **trap**?

BACK · ANSWER

Aims: reduce India's **oil import bill** (Q13), reduce **greenhouse gas emissions**, and convert **coal reserves and municipal solid waste** into methanol.

Trap: **industrial waste** is NOT what is converted (10.7 Q11 key d).

MEMORY TRICK **C and M, never I:** Coal and Municipal solid waste go in; Industrial waste stays out.

CARD 10.37 T 10.6 · RECALL CHAIN

★★★ OL 10.6.1–10.6.8 · Scanner Q1–Q17 · SM pp.10.16–10.18

FRONT · RECALL ALOUD

Recite Topic 10.6 in **one chain**.

BACK · ANSWER

Planning Commission (nearly 64 years) → replaced on **1 January 2015** → **NITI Aayog**: think tank, co-operative federalism, village-level plans aggregated upwards → **no five-year plans, no fund allocation, outside budgeting** → initiatives: **LiFE, NDAP, Shoonya, E-Amrit, IPI, Methanol Economy, Gold Market**.

MEMORY TRICK **Story:** The old planner retires on New Year's Day 2015; a thinker takes the seat, listens to villages and states, advises but never budgets, and launches seven initiatives, from lifestyle to gold.

CARD 10.38 T 10.7 · MEMORISE

★★ OL 10.7.1, 10.7.2 · Scanner Q18, Q24 · SM pp.10.18–10.19

FRONT · RECALL ALOUD

Give the key figures for the **primary sector**: population dependent, GVA share, food grains. In which sector is milk?

BACK · ANSWER

47 per cent of India's population is directly dependent on agriculture (Q24).

GVA of the agriculture and allied sector: **18.8% in 2021-22** (until 31 January 2022). Food grains production: **315.7 million tonnes** in 2021-22.

Milk production belongs to the **primary sector** (Q18). India is the world's largest producer of milk, pulses, jute and spices.

The share of agriculture in GVA is declining, but it keeps growing in absolute terms.

MEMORY TRICK **47 : 18.8** — almost half the people depend on farming, yet farming is under a fifth of GVA; food grains 315.7 million tonnes.

CARD 10.39 T 10.7 · MEMORISE

★ OL 10.7.3 · Scanner Q12, Q13, Q16, Q33 · SM p.10.19

FRONT · RECALL ALOUD

How many crops get **MSP**, at what level, and who declares it?

BACK · ANSWER

MSP of all **23 mandated crops** is fixed at **1.5 times** (one-and-a-half times) the all-India weighted average **cost of production** (Q33 key c; Q16 key c).

MSP is declared by the **Cabinet Committee on Economic Affairs** (Q13).

A buffer stock of foodgrains is maintained by the **FCI** (Q12).

MEMORY TRICK **23 × 1.5:** twenty-three crops, one and a half times the cost.

CARD 10.40 T 10.7 · MEMORISE

★★ OL 10.7.5, 10.7.6 · Scanner Q4, Q47; 10.4 PYQs Q4 · SM pp.10.19, 10.26

FRONT · RECALL ALOUD

What is **APEDA**, and where is **100% FDI under the automatic route** allowed (food and telecom)?

BACK · ANSWER

APEDA = **Agricultural and Processed Food Export Development Authority**; it is entrusted with export promotion of agri-products (Q4 key d).

100% FDI under the automatic route in **marketing of food products** and **food product e-commerce** (10.4 Q4).

100% foreign participation in **telecommunication services** through the automatic route (see also Q47: telecom is not a public sector monopoly).

MEMORY TRICK **A-P-(F)-E-D-A:** Agricultural, Processed, (Food), Export, Development, Authority. **Two hundreds, one route:** food and telecom, both 100% automatic.

CARD 10.41 T 10.7 · MEMORISE

★★★ OL 10.7.7, 10.7.8 · Scanner Q7, Q25, Q27, Q29, Q34 · SM p.10.20

FRONT · RECALL ALOUD

Match each **farm scheme** with its purpose: PM KISAN, PMFBY, PKVY, PDMC, Kisan Rail, E-NAM.

BACK · ANSWER

- **PM KISAN: income support** to farmers (₹6,000 per year to eligible farmer families, Q34).
- **PMFBY:** insurance for financial support to farmers suffering **crop loss or damage** (Q25).
- **PKVY** (Paramparagat Krishi Vikas Yojana): **organic farming** and soil health (Q7).
- **PDMC** (Per Drop More Crop): **water use efficiency** at farm level (Q27).
- **Kisan Rail:** improved **farm produce logistics** (Q29).
- **E-NAM:** a unified national market of APMC mandis.

MEMORY TRICK **I-C-O-W-L-M:** **I**ncome, **C**rop loss, **O**rganic, **W**ater, **L**ogistics, **M**arket: the six purposes in scheme order.

CARD 10.42 T 10.7 · CONCEPT

★★★ OL 10.7.8 · Scanner Q5, Q23, Q36, Q45 · SM p.10.20

FRONT · RECALL ALOUD

What is **E-NAM** and what does it aim to achieve?

BACK · ANSWER

E-NAM (National Agriculture Market): a **pan-India electronic trading portal** that networks the existing **APMC mandis**.

Aim: a **unified national market for agricultural commodities** (Q5 key b); it improves agricultural market infrastructure (Q45).

Q23 key (d): both 'National Agriculture Market with the objective of a unified national market' and 'a pan-India electronic trading portal networking existing APMC mandis' are correct.

MEMORY TRICK **One nation, one mandi-net:** every APMC mandi plugged into one electronic market.

CARD 10.43 T 10.7 · CONCEPT

★ OL 10.7.9 · Scanner Q6, Q20, Q42 · SM pp.10.20–10.21

FRONT · RECALL ALOUD

What are the **main issues of Indian agriculture**, and how do they reduce farmers' participation in markets?

BACK · ANSWER

Small and fragmented landholdings, low farm productivity and subsistence farming → very little **marketable surplus** → lower incomes; these reduce the ability to participate in domestic and export markets (Q6 key a).

Q20: a major challenge is the **low level of technological adoption and irrigation facilities**.

Trap (Q42): the **incorrect** statement is 'about 80 per cent of agricultural area has irrigation facilities'.

MEMORY TRICK **Small plots, low yield, subsistence, little surplus, low income:** five links, one chain.

CARD 10.44 T 10.7 · MEMORISE

★★ OL 10.7.11 · Scanner Q32, Q37 · SM p.10.22

FRONT · RECALL ALOUD

Name the **eight core industries** of the ICI. Which option is NOT one of them?

BACK · ANSWER

Coal, Crude Oil, Natural Gas, Refinery Products, Fertilisers, Steel, Cement and Electricity.

Together they form **40.27%** of the weight of items in the **IIP**.

Trap: **information and communication** is NOT a core industry (Q37 key d). Coal is one (Q32).

MEMORY TRICK **C-C-N-R-F-S-C-E:** 'Cool Cats Never Run For Sunny Cool Evenings.'

CARD 10.45 T 10.7 · MEMORISE

★★ OL 10.7.12 · Scanner 10.8 Q4, Q5 · SM p.10.22

FRONT · RECALL ALOUD

What are the **PMI** and **GII** figures in the SM, and what do the abbreviations stand for?

BACK · ANSWER

Manufacturing **PMI** (Purchasing Managers' Index) stood at **55.4** on 31 Jan 2023 (10.8 Q5 key c).

India's rank in the **Global Innovation Index (GII)** improved to **40th in 2022** from **81st in 2015** (10.8 Q4 key b).

Do not mix with Ease of Doing Business: rank **63** in 2020.

MEMORY TRICK **40 for Innovation, 63 for Business.** GII is the 40; Doing Business is 63.

CARD 10.46 T 10.7 · MEMORISE

★★★ OL 10.7.13, 10.7.14, 10.7.15 · Scanner Q14, Q31, Q43; 10.4 PYQs Q8, Q10 · SM p.10.22

FRONT · RECALL ALOUD

What is the role of **DPIIT**, what is **Make in India** (and 2.0), and what is India's **Ease of Doing Business** rank?

BACK · ANSWER

DPIIT = Department for Promotion of Industry and **Internal** Trade (10.4 Q10 key d); it helps formulate and implement industrial policy.

Make in India (2014, 'Vocal for Local'): promote local manufacturing and attract foreign investment (Q14); likely to **increase aggregate demand** (10.4 Q8).

Make in India 2.0: 27 sectors = **15 manufacturing + 12 service** (Q31 key a).

EoDB: India ranked **63rd** in the World Bank Doing Business Report 2020 against 77th in 2019, a jump of 14 ranks (Q43).

MEMORY TRICK **15 + 12 = 27, and 63 in 2020.** DPIIT ends in 'Internal' Trade, never 'International'.

CARD 10.47 T 10.7 · MEMORISE

★★★ OL 10.7.16, 10.7.17, 10.7.18, 10.7.19, 10.7.21 · Scanner Q3, Q8, Q15, Q17, Q26, Q35 · SM p.10.23

FRONT · RECALL ALOUD

Match each scheme with its purpose: **PM Gati Shakti, PLI, FAME India, Udyami Bharat, PM MITRA**.

BACK · ANSWER

- **PM Gati Shakti:** data-based decisions for integrated planning of **multimodal infrastructure**, reducing logistics cost (Q3).
- **PLI** (March 2020, 14 key sectors): boosts manufacturing capabilities and export competitiveness; extended to **white goods** (air conditioners and LED lights) (Q26).
- **FAME India:** manufacture of **electric and hybrid vehicle** technology (Q15).
- **Udyami Bharat:** empowerment of **MSMEs** (Q8, Q35).
- **PM MITRA:** world-class industrial infrastructure for **textiles** (Q17).

MEMORY TRICK **G-P-F-U-M** (Gati Shakti, PLI, FAME, Udyami Bharat, MITRA): '**G**reat **P**lans **F**or **U**plifting **M**anufacturing.'

CARD 10.48 T 10.7 · MEMORISE

★★★ OL 10.7.22, 10.7.23 · Scanner 10.4 PYQs Q23, Q24, Q25 · SM pp.10.23–10.24

FRONT · RECALL ALOUD

What replaced the **FIPB** and when? What replaced **MEIS**, and what does it give exporters?

BACK · ANSWER

FIPB was abolished in **May 2017**; the **Foreign Investment Facilitation Portal (FIF)** replaced it, simplifying FDI approvals (10.4 Q23, Q25).

RoDTEP (Remission of Duties and Taxes on Export Products), **2021**, replaced **MEIS** (Merchandise Exports from India Scheme) (10.4 Q24).

RoDTEP rebates hidden central, state and local duties, taxes and levies on exported goods that are not refunded under any other scheme.

MEMORY TRICK **Two swaps: Board → Portal (2017), MEIS → RoDTEP (2021).**

CARD 10.49 T 10.7 · MEMORISE

★★★ OL 10.7.24, 10.7.25 · Scanner Q28, Q39 · SM p.10.24

FRONT · RECALL ALOUD

What are **Start-up India**, **ECLGS** and the **National Manufacturing Policy** target?

BACK · ANSWER

Start-up India Programme: acts as the facilitator for ideas and innovation.

ECLGS = **Emergency Credit Line Guarantee Scheme**: a fully guaranteed emergency credit line (Q39 key b).

National Manufacturing Policy: raise the share of manufacturing in **GDP to 25 per cent by 2025** (Q28 key d; not GVA, NDP or NNP, and not 27% by 2027).

MEMORY TRICK **25 by 25:** 25 per cent of GDP by 2025.

CARD 10.50 T 10.7 · MEMORISE

★★★ OL 10.7.26, 10.7.28, 10.7.29 · Scanner Q21, Q30, Q38, Q44, Q46; 10.8 Q1, Q6; SM Test Q3 · SM pp.10.25–10.26

FRONT · RECALL ALOUD

How did India's **services sector** grow, and what are its **key figures**?

BACK · ANSWER

India **bypassed the secondary sector**: unlike the usual shift from agriculture to industry, the sequence was **agriculture, services, industry** (SM Test Q3; 10.8 Q6 key d).

Services = **53.89% of GVA**, the largest sector (10.8 Q1, Q46), the **fastest growing**, with the **highest labour productivity** (Q38 key b).

Services received **more than 60%** of total FDI equity inflows, the largest recipient (Q30).

Highest growth after the 1991 reforms (Q21); services exports, especially IT and software, are the most important source of forex earnings (Q44).

MEMORY TRICK **Skip the middle:** farm → (factory) → services; India jumped over the factory floor. Remember **53.89** and **60+**.

CARD 10.51 T 10.7 · MEMORISE

★ OL 10.7.27 · Scanner Q9, Q40 (key differs, see notes) · SM pp.10.25–10.26

FRONT · RECALL ALOUD

Which 15 activities does **Box 2 (NIC 2008)** treat as services? Is **construction** among them?

BACK · ANSWER

1–5: wholesale and retail trade and repair of vehicles; transportation and storage; accommodation and food service; **information and communication**; financial and insurance activities.

6–10: real estate; professional, scientific and technical; administrative and support; public administration, defence and compulsory social security; education.

11–15: human health and social work; arts, entertainment and recreation; other service activities; households as employers; extra-territorial organisations and bodies.

Construction is not in the Box 2 list. Transportation and storage, real estate, public administration and education are (Q9).

MEMORY TRICK **Scan for the building site:** read down the 15 lines; the word construction never appears.

CARD 10.52 T 10.7 · RECALL CHAIN

★★★ OL 10.7.1–10.7.29 · Scanner Q1–Q52 · SM pp.10.18–10.26

FRONT · RECALL ALOUD

Recite Topic 10.7 in **one chain**: primary, secondary, tertiary.

BACK · ANSWER

Primary: 47% depend on farming, 18.8% of GVA, MSP on 23 crops at 1.5× cost → schemes (PM KISAN to E-NAM) → issues: small holdings, low productivity.

Secondary: eight core industries (40.27% of IIP) → DPIIT, Make in India (2014; 2.0 = 15 + 12), EoDB 63 → Gati Shakti, PLI, FAME, Udyami Bharat, PM MITRA → FIPB → FIF, RoDTEP replaces MEIS, NMP 25% by 2025.

Tertiary: bypassed the secondary sector → 53.89% of GVA, fastest growth, highest labour productivity, over 60% of FDI equity.

MEMORY TRICK **Story:** From the farm (47% of people) to the factory (eight core industries) to the office (53.89% of GVA): India's economy walked from field to services, skipping most of the factory floor.

CARD 10.53 T 10.8 · MEMORISE

★ OL 10.8.1 · Scanner Q2 · SM p.10.27

FRONT · RECALL ALOUD

Who publishes the **India Development Update (IDU)** (November 2022), and what did it say about India?

BACK · ANSWER

Published by the **World Bank** (Q2 key c).

India faced an unusually challenging external environment: the **Russia-Ukraine war, higher crude oil and commodity prices, persistent global supply disruptions, tighter financial conditions** and high domestic inflation.

Despite this, real GDP grew **6.3%** in July–September of 2022-23 on strong private consumption and investment; India is **resilient** and more insulated than other emerging markets.

MEMORY TRICK **O-S-T-I:** **O**il, **S**upply disruption, **T**ight finance, **I**nflation: four headwinds, one resilient India.

Paper 4 Flash Cards: Editor Decisions List

CA Foundation (CA L1) · Business Economics · 629 cards across 10 chapters. Where the Scanner answer key, the ICAI Study Material (SM) or the One Liners deck disagree, the cards follow the SM and deck, and the disputed question is left uncited. Please decide each item below. Scanner keys that look wrong may also need correcting in the Scanner itself.

Card counts: Ch1 65 · Ch2 70 · Ch3 65 · Ch4 69 · Ch5 69 · Ch6 38 · Ch7 70 · Ch8 60 · Ch9 70 · Ch10 53. Ch2, Ch7 and Ch9 are at the 70-card cap.

General points

- Numbering: the deck and Question Registers call National Income Ch5 and Business Cycles Ch6. The SM and Scanner print them as Ch6 and Ch5. Card files follow the deck (Ch5 National Income, Ch6 Business Cycles); each card quotes Scanner question numbers under the Scanner's own topic.
- Scanner Q numbers restart at Q1 under sub-headings and Model Questions; cards cite the PYQ series or label the model question.
- Cards marked "Not in SM text" rest only on the Scanner or deck. Memory tricks are original and written for these cards.
- The old Topic 1.0 sample file had wrong SM page refs (p.1.5 instead of p.1.7). The Chapter 1 file supersedes it.

Chapter 1

Item	Conflict or doubt	How the cards handle it / decision needed
1.2 Q31 / SM p.1.10–1.13	SM text says BE is both positive and normative; SM table in 1.4 says only normative; Scanner key says both.	Card shows both side by side. Decide which students are told.
2.3 Q12	Scanner key (c) but its own note says ICAI mapping gives (d).	Not cited. Confirm the correct key.
1.2 Q50	Key (a) Business economics describes microeconomics (Q48 treats it as Micro).	Not cited. Check key.
1.4 Q1 / SM MCQ 37	Scarcity definition attributed to "Robinson"; economist is Lionel Robbins.	Not carded. Confirm the name.
1.3 Q1/Q5 vs SM p.1.15	SM places capital budgeting and risk analysis outside the book; Scanner treats them as in scope.	Cards follow the Scanner and deck.
1.4 table "only profit theory"	Reproduced as printed and flagged.	Soften or drop?

Chapter 2

Item	Conflict or doubt	How the cards handle it / decision needed
1.0 Q2	Key (a) Price vs SM p.2.4 (desire, means, willingness).	Not cited.
2.3 Q3	Key says DMU derived from consumer surplus; SM says the reverse.	Not cited. Key looks wrong.
2.5 Q35	Key (d) but the option text shown is that of (c).	Not cited.
1.5 Q29	Key keeps the sign (−4.2); SM says drop the sign.	Card gives SM rule.
SM p.2.85 arc supply	Prints +3.85; correct value 30/70 × 27/3 = 3.857.	Card uses Q20 instead.
1.3 Q9, 2.3 Q14	Scanner prints "angle curve"; deck says Engel curve.	Card says angle (Engel) curve. Correct the Scanner?
2.2 Q12	Needs P = MU ÷ MU of money, not stated in sources.	Left off.
Deck refs 1.3.18, 1.5.24	The ★★★"outside this unit" line was split by topic; ref mapping not certain.	Please verify.

Chapter 3

Item	Conflict or doubt	How the cards handle it / decision needed
1.1 Q23	Key says innovate is the most important function; SM p.3.12 and deck say risk bearing.	Card follows SM. Q23 not cited.
2.0 Q3, Q6	Key adds normal profit to explicit + implicit; SM p.3.36 treats it as part of implicit cost.	Card follows SM.
2.0 Q16	Sunk cost key counts rent as sunk (Rs 164 cr); SM does not.	Rent left off.
2.4 Q7	Key "Internal economies" for industry-wide benefit; SM says external.	Not used.
1.2 Q34, Q35	DRS and Stage 1 explanations differ from SM wording.	Card follows SM.
2.4 Q1 vs Q5, 2.0 Q19	Shut-down rule printed inconsistently (P ≥ AVC / P < AVC / P	Card states P < AVC. Not in SM text.

	= AVC).	

Chapter 4

Item	Conflict or doubt	How the cards handle it / decision needed
1.1 Q3 vs Q4	Same stem, different keys.	Card follows Q3 and deck. Q4 looks wrong.
3.0 Q45	Key says perfect competition has no negatively sloped market demand.	Not cited.
1.2 Q52, Q54, Q38	Keys do not match MR formula (zero vs positive; 13.9/17.9 vs 14/18).	Not cited. Check keys.
3.1 Q3, Q32, Q45	Supernormal-profit and "secure equity" keys contradict SM p.4.48.	Not cited.
3.2 Q28	Key credits Schumpeter; deck says Chamberlin.	Left out. Correct key?
3.3 Q76	Key says cold drink industry is monopolistic; SM p.4.57 lists oligopoly.	Card follows SM.
2.2 Q12	Key point 6 vs SM Illustration point 5.	Only Q11 cited.
Price floor/ceiling	SM p.4.17 mentions only in passing; detail rests on deck and Scanner.	Flagged on cards.

Chapter 5 (National Income)

Item	Conflict or doubt	How the cards handle it / decision needed
1.3 Q52	Key contradicts the SM and 1.3 Q1, Q46 (GDP at market price relation).	No card built.
1.3 Q12, Q24	Explanation conflicts with SM p.6.8 / no correct option.	Card follows key and SM.
2.5 Q12	Key conflicts with deck 2.5.6.	Not cited.
1.4 Q29 and model Q2	Keys differ from SM p.6.20 split.	Card gives SM split.
1.5 Q2	Says CSO compiles regional accounts; SM says State DESs.	Q2 not cited.
Quality improvements	SM p.6.27 lists under GDP and welfare; Scanner 1.7 Q1 keys it as not a limitation.	Both cards state the list.
2.7 Q3 working	Typo (1 − 0.06 + 0.04).	Card uses 1 ÷ (1 − 0.6 + 0.04) = 2.27.
Private income formula	Deck only; SM gives a different formula. Profit split uses deck and Q15.	Please confirm.

Chapter 6 (Business Cycles)

Item	Conflict or doubt	How the cards handle it / decision needed
Q78	Key lists peak, recession, trough, recovery; SM and Q28, Q89 give expansion, peak, contraction, trough. SM MCQ 12 backs the SM.	Card follows SM and flags Q78. Correct Scanner?
Q100	Key (b) is probably wrong; SM MCQ 10 keys (a).	Not cited.
Q18, Q99, Q23	Keys conflict with SM (regularity of cycles; trough/depression; depression as severe trough).	Not cited; SM wording used.
Stock prices and interest rates	SM lists them under leading, coincident and lagging in different places.	Cards follow Scanner and deck.
IT bubble dates	Deck and Q6 say 2000; SM says 1997–2000, collapse 1999–2001.	Both shown.
Counter-cyclical, stagflation, six-month recession rule	Scanner only.	Marked Not in SM text.

Chapter 7 (Public Finance)

Item	Conflict or doubt	How the cards handle it / decision needed
4.1 Q5	Key (b) RBI; deck and standard view say Finance Ministry.	Card follows deck and flags. Correct key?
2.3 Q7	Key (b) Internal costs; SM p.7.25 says third-party costs.	Card follows SM. Key looks wrong.
3.4 model Q (fiscal deficit)	Key says revenue minus expenditure; contradicts SM p.7.63.	Not used.
3.5 Q8	Key 7,500 but working gives 8,000.	Not used.
3.4 Q23, 3.5 Q5	Plan/non-Plan and FRBM wording differ from SM and deck.	Card follows SM.
4.4 Q7, Q9; 3.2 Q1	Keys unclear.	Avoided.
Not in SM text	Canons of taxation, Economic Survey, stabilisers, cascading; Finance Ministry frames fiscal policy; pump priming.	Three cards labelled.

Chapter 8 (Money Market)

Item	Conflict or doubt	How the cards handle it / decision needed
Unit 2 Q2	Key (a) Call money while (d) All of the above is offered.	No card.

2.5 Q9	Key 2.50 vs SM method ≈ 2.33.	No card.
2.5 Q10	Key 30,00,000 not derivable.	No card.
3.5 Q3	Stem describes call money; key is Commercial papers.	No card.
3.3 Q35, Q5	Key says reverse repo is RBI lending to banks; SM p.8.49 says the reverse.	Card follows SM.
2.5 Q21	Key includes "narrow money"; SM gives only central bank money, base money, high powered money.	Card follows SM and flags.
3.3 Q26	Treasury bills issued by RBI not supported.	Not carded.
Extra CRR = NDTL × ΔCRR	Not in SM.	Marked on card.

Chapter 9 (International Trade)

Item	Conflict or doubt	How the cards handle it / decision needed
GATT year	Model Q1 keys 1947; PYQ, SM p.9.46 and deck say 1948.	Card uses 1948 with caution line. Keep caution?
GATT "treaty"	Model Q1 keys treaty; SM p.9.37 and deck say not a treaty.	Card follows SM.
2.2 Q16, Q20	Dumping and tariff-effect keys contradict SM p.9.19, 9.20.	Not cited.
2.1 Model Q2	Keys liberalisation/protection; SM says price-related and non-price.	Card follows SM.
4.9 Model Q1	Keys appreciation for a rising trade deficit; SM says depreciation.	Not cited.
5.2 PYQ Q2	World Bank keyed as medium-term loans; deck says long-term (IBRD).	Not cited.
5.4 Model Q1	Capital flight and portfolio-investment definitions differ from deck.	Not used.
FDI threshold	SM prints both "more than 10%" and "at least 10%".	Card uses at least 10%.
FDI into India: top country	Scanner 5.3 Q5 keys Singapore; SM MCQ 5 keys Mauritius.	No card. Decide.
5.9 sectoral caps	Private banking 49%, telecom 100%, food 100% from dated Scanner keys.	Keep or drop percentages?
Deck/Scanner only	UNCTAD, balance of trade as flow, IBRD, GDR, FEMA, Make in India, crawling peg, Appellate Body.	Marked Not in SM.

Chapter 10 (Indian Economy)

Item	Conflict or doubt	How the cards handle it / decision needed
FDI automatic approval	SM p.10.12 and deck: 51%; Scanner MQ 1.4.4 Q2 key: 100%.	Card follows SM and shows Scanner key.
Highest post-reform GDP growth	SM Table 10.1 peaks in 1999; Scanner key 2010.	Card explains both.
Average growth after 1991	Scanner key 6.8%; SM has no such figure (table mean ≈ 5.98%).	Left off.
Construction as service	SM Box 2 omits it; Q40 keys it tertiary.	Card follows SM.
Public sector reservation	SM: only railways and atomic energy; MQ 1.4.4 Q1 keys defence production.	Card follows SM.
Reason for 1991 reforms	MQ 1.3 Q2 keys stagnation; SM gives BoP crisis.	Card follows SM.
Q34 "revenue" vs "reserve" requirements	Probable Scanner typo.	Card uses reserve.
Q8 plan objective, PM KISAN Rs 6,000	Scanner only.	Q8 not carded; KISAN flagged.
Population-size trap, Manmohan Singh as architect	Scanner/deck only.	Marked Not in SM.