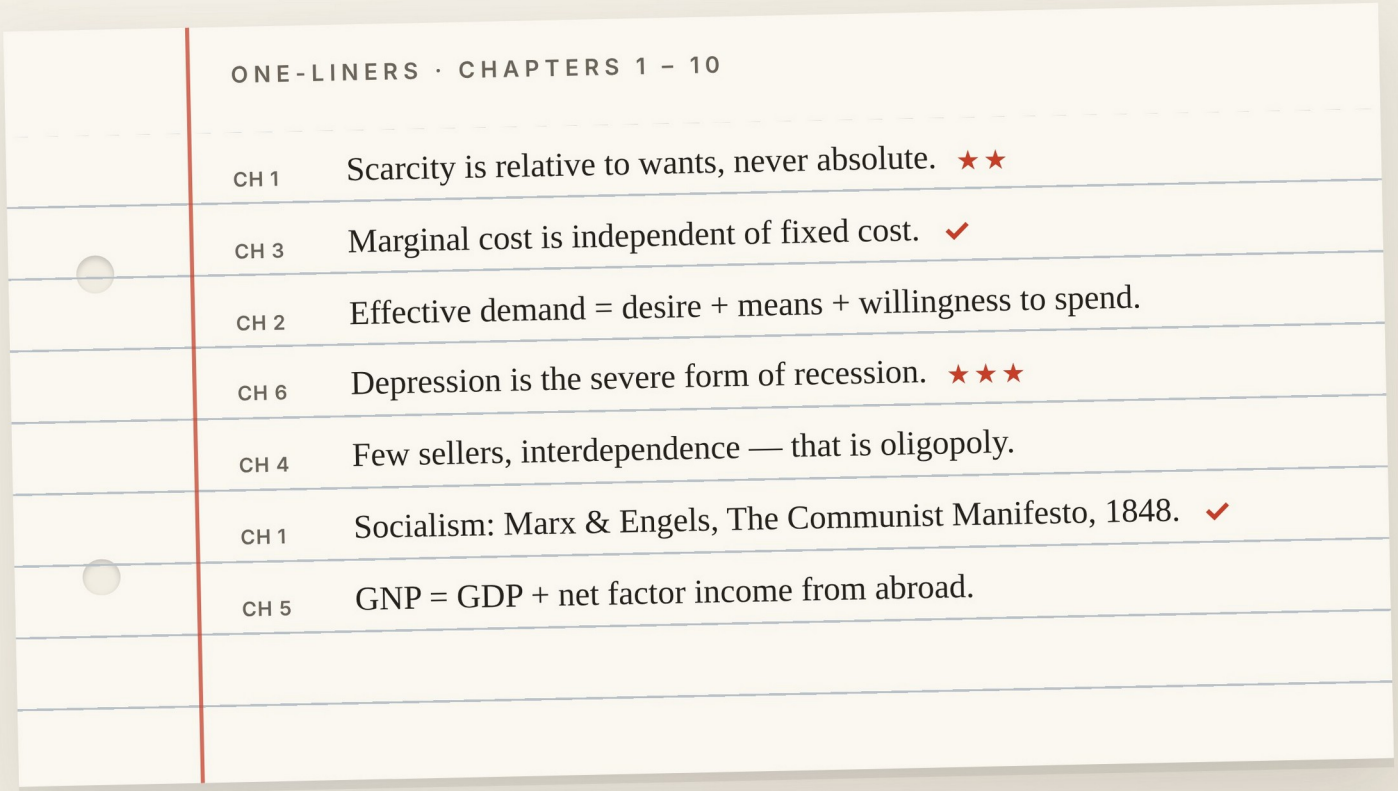
CA FOUNDATION · PAPER 4

Business Economics

Scanner Revision Pointers

Every Scanner question connected to the **ICAI Study Material (July 2026)** — and the one line that answers it.



10 CHAPTERS

2,495 SCANNER QUESTIONS

1,211 ONE-LINERS

Shuchita Prakashan PVT. LTD.

Introductory Note

Business Economics is examined entirely through objective questions, and ICAI returns to the same facts again and again — in a past paper, then an RTP, then an MTP, worded a little differently each time. This booklet is built on that observation. Every question in the Shuchita Scanner for CA Foundation Paper 4 has been traced to the paragraph of the ICAI Study Material that answers it, and the answer has been written down as a single line.

The result: **2,495 Scanner questions** — past examination papers, RTPs, MTPs and Shuchita Model Questions — reduced to **1,211 one-liners**, and those condensed further into **694 revision pointers**. Every one-liner follows the wording of the ICAI Study Material (July 2026). Where an examination key and the Study Material disagree, the one-liner teaches the Study Material position.

How each chapter is arranged

Part A — One-liners mapped to Scanner questions and Study Material. Topic by topic, in Scanner order. Each row gives:

- **Ref** — the row's address, Topic.Row (for example 1.2.9 is the ninth row of Topic 1.2);
- **One-liner** — the fact that answers the question, in Study Material language;
- **Scanner Q** — the Scanner questions it answers (MQ = Model Question; '+' marks a question filed under another topic);
- **Asked in** — every examination, RTP and MTP in which ICAI set those questions;
- **SM source** — the Study Material section and page.

Part B — Revision Sheet. The same chapter compressed to short pointers, in Study Material order, each weighted by how often ICAI has asked it and linked back to its Part A row.

How to use this booklet

1. Read the chapter in the Study Material first; this booklet is for revision, not first learning.
2. Revise from Part B. Where a pointer is not instantly clear, go to its Part A ref, read the full one-liner and attempt the Scanner questions listed against it.
3. In the final week, read only the ★★★ and ★★ lines of every chapter — they carry most of what ICAI has asked.
4. Rows in grey italics beginning 'See Topic' send you to a one-liner given under another topic; the question has been filed there in the Scanner but is answered elsewhere.

Conventions

PYQ	Previous-year question from an ICAI examination (month and year shown)
RTP / MTP	ICAI Revision Test Paper / Mock Test Paper (S1, S2 = series)
MQ / Model Q	Shuchita Model Question, written on a Study Material section
★★★ ★★ ★	Asked by ICAI 6 or more times · 3 – 5 times · once or twice
MQ (weight)	Covered only by Model Questions so far
Not in SM	The fact is examined but not stated in the Study Material; the one-liner follows the ICAI key

Chapter numbering. The booklet follows the Scanner's chapter order. In the July 2026 Study Material, Determination of National Income is Chapter 6 and Business Cycles is Chapter 5; here they are Chapters 5 and 6 respectively, and their Study Material page references carry the Study Material's own numbers (6.x and 5.x).

The chapters at a glance

Ch	Chapter	Questions	One-liners	Pointers	★★★ share
1	Nature and Scope of Business Economics	170	67	50	56%
2	Theory of Demand and Supply	345	165	93	57%
3	Theory of Production and Cost	248	107	66	56%
4	Price Determination in Different Markets	376	128	102	54%
5	Determination of National Income	270	133	74	28%
6	Business Cycles	191	58	40	74%
7	Public Finance	259	174	86	17%
8	Money Market	201	101	53	43%
9	International Trade	257	165	85	22%
10	Indian Economy	178	113	45	43%
	Total	**2,495**	**1,211**	**694**	

Prof. Arun Kumar
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October 2026

Index

Introductory Note 1

Chapter 1 Nature and Scope of Business Economics 7

Unit 1: Introduction 7

Topic 1.0 Introduction 7
Topic 1.1 Definitions of Business Economics 8
Topic 1.2 Nature of Business Economics 8
Topic 1.3 Scope of Business Economics 10
Topic 1.4 Difference between Economics and Business Economics 10

Unit 2: Basic Problems of an Economy and Role of Price Mechanism 11

Topic 2.0 Basic Problems of an Economy 11
Topic 2.1 Capitalist Economy 12
Topic 2.2 Socialist Economy 13
Topic 2.3 The Mixed Economy 14

Part B — Revision Sheet 16

Chapter 2 Theory of Demand and Supply 19

Unit 1: Law of Demand and Elasticity of Demand 19

Topic 1.0 Meaning of Demand 19
Topic 1.1 What Determines Demand 19
Topic 1.2 The Demand Function 22
Topic 1.3 Law of Demand 23
Topic 1.4 Expansion and Contraction of Demand 25
Topic 1.5 Elasticity of Demand 26
Topic 1.6 Income Elasticity of Demand 29
Topic 1.7 Cross-Price Elasticity of Demand 29
Topic 1.8 Advertisement Elasticity 30

Unit 2: Theory of Consumer Behaviour 31

Topic 2.0 Nature of Human Wants 31
Topic 2.1 Classification of Wants 31
Topic 2.2 Relationship between TU & MU 31
Topic 2.3 Law of Diminishing Marginal Utility 32
Topic 2.4 Consumer Surplus 33
Topic 2.5 Indifference Curve Analysis 34

Unit 3: Supply 36

Topic 3.0 Introduction 36
Topic 3.1 Determinants of Supply 36
Topic 3.2 Law of Supply 36
Topic 3.3 Movements on Supply Curve-increase or decrease in the quantity supplied 37
Topic 3.4 Shifts in Supply Curve-increase or decrease in supply 37
Topic 3.5 Elasticity of Supply 37
Topic 3.6 Equilibrium Price 38

Part B — Revision Sheet 40

Chapter 3 Theory of Production and Cost 45

Unit 1: Theory of Production 45

Topic 1.0 Meaning of Production 45
Topic 1.1 Factors of Production 45
Topic 1.2 Production Function 48
Topic 1.3 Production Optimisation 50

Unit 2: Theory of Cost 51

Topic 2.0 Cost Concepts 51
Topic 2.1 Cost Function 53
Topic 2.2 Short Run Total Cost 54
Topic 2.3 Long Run Average Cost Curve 56
Topic 2.4 Economies & Diseconomies of Scale 56

Part B — Revision Sheet 58

Chapter 4 Price Determination in Different Markets 62
Unit 1: Meaning and Types of Markets 62
Topic 1.0 Meaning of Market 62
Topic 1.1 Types of Market Structures 64
Topic 1.2 Concepts of Total Revenue, Average Revenue and Marginal Revenue 64
Unit 2: Determination of Prices 66
Topic 2.0 Introduction 66
Topic 2.1 Determination of Prices - A General View 67
Topic 2.2 Changes in Demand and Supply 67
Topic 2.3 Simultaneous Changes in Demand and Supply 68
Unit 3: Price-Output Determination under Different Market Forms 69
Topic 3.0 Perfect Competition 69
Topic 3.1 Monopoly 71
Topic 3.2 Imperfect Competition-Monopolistic Competition 74
Topic 3.3 Oligopoly 75
Part B — Revision Sheet 79

Chapter 5 Determination of National Income 84
Unit 1: National Income Accounting 84
Topic 1.1 National Income Accounting 84
Topic 1.2 Usefulness and Significance of National Income Estimates 84
Topic 1.3 Different Concepts of National Income 85
Topic 1.4 Measurement of National Income in India 89
Topic 1.5 The System of Regional Accounts in India 91
Topic 1.6 GDP and Welfare 92
Topic 1.7 Limitations and Challenges of National Income Computation 92
Unit 2: The Keynesian Theory of Determination of National Income 93
Topic 2.1 Introduction 93
Topic 2.2 Circular flow in a Simple Two-Sector Model 94
Topic 2.3 Basic Concepts and Functions 94
Topic 2.4 The Two-Sector Model of National Income Determination 96
Topic 2.5 The Investment Multiplier 97
Topic 2.6 Determination of Equilibrium Income: Three Sector Model 98
Topic 2.7 Determination of Equilibrium Income: Four Sector Model 98
Topic 2.8 Conclusion 99
Part B — Revision Sheet 100

Chapter 6 Business Cycles 104
Business Cycles 104
Topic 6.0 Introduction 104
Topic 6.1 Phase of Business Cycle 105
Topic 6.2 Features of Business Cycle 108
Topic 6.3 Causes of Business Cycles 109
Topic 6.4 Relevance of Business Cycles in Business Decision Making 111
Part B — Revision Sheet 112

Chapter 7 Public Finance 115
Unit 1: Fiscal Functions: An Overview, Centre and State Finance 115
Topic 1.2 The Role of Government in an Economic System 115
Topic 1.3 The Allocation Function 115
Topic 1.4 The Redistribution Function 116
Topic 1.5 Stabilization Function 117
Unit 2: Market Failure/Government Intervention to Correct Market Failure 119
Topic 2.1 Introduction 119
Topic 2.2 The Concept of Market Failure 120
Topic 2.3 Why Do Market Fail 120
Topic 2.4 Public Goods 121
Topic 2.5 Incomplete Information 122
Topic 2.6 Government Intervention to Minimize Market Power 123
Topic 2.7 Government Intervention to Correct Externalities 123
Topic 2.8 Government Intervention in The Case of Merit Goods 124

Topic 2.12 Government Intervention for Correcting Information Failure....124
Unit 3: The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public Debt....124
Topic 3.1 Introduction....124
Topic 3.2 The Process of Budget Making....126
Topic 3.3 Sources of Revenue....127
Topic 3.4 Public Expenditure Management....128
Topic 3.5 Public Debt Management....130
Unit 4: Fiscal Policy....132
Topic 4.1 Introduction....132
Topic 4.2 Objectives of Fiscal Policy....133
Topic 4.3 Types of Fiscal Policy....133
Topic 4.4 The Instruments of Fiscal Policy....134
Part B — Revision Sheet....136

Chapter 8 Money Market....141
Unit 1: The Concept of Money Demand: Important Theories....141
Topic 1.1 Introduction....141
Topic 1.2 The Demand for Money....141
Topic 1.3 Theories of Demand for Money....142
Topic 1.4 Post-Keynesian Developments in the Theory of Demand for Money....144
Topic 1.5 Conclusion....145
Unit 2: The Concept of Money Supply....146
Topic 2.1 Introduction....146
Topic 2.2 Rationale of Measuring Money Supply....146
Topic 2.3 The Sources of Money Supply....147
Topic 2.4 Measurement of Money Supply....147
Topic 2.5 Determinants of Money Supply....148
Topic 2.6 The Concept of Money Multiplier....149
Topic 2.7 The Money Multiplier Approach to Supply of Money....149
Topic 2.8 Monetary Policy and Money Supply....150
Topic 2.9 Effect of Government Expenditure on Money Supply....150
Unit 3: Monetary Policy....150
Topic 3.1 Introduction....150
Topic 3.2 Monetary Policy Defined....150
Topic 3.3 The Monetary Policy Framework....151
Topic 3.4 The Organisational Structure for Monetary Policy Decisions....153
Topic 3.5 Conclusion....153
Part B — Revision Sheet....155

Chapter 9 International Trade....158
Unit 1: Theories of International Trade....158
Topic 1.1 Introduction....158
Topic 1.2 Important Theories of International Trade....159
Unit 2: The Instruments of Trade Policy....160
Topic 2.1 Introduction....160
Topic 2.2 Tariffs....161
Topic 2.3 Non-Tariff Measures (NTMs)....162
Topic 2.4 Export-Related Measures....164
Unit 3: Trade Negotiations....164
Topic 3.1 Introduction....164
Topic 3.2 Taxonomy of Regional Trade Agreements (RTAs)....165
Topic 3.3 The General Agreement on Tariffs and Trade (GATT)....166
Topic 3.4 The Uruguay Round and the Establishment of WTO....166
Topic 3.5 The World Trade Organisation (WTO)....167
Topic 3.6 The Doha Round....169
Topic 3.7 G 20 Economies: Facilitating Trade....170
Unit 4: Exchange Rate and its Economic Effects....170
Topic 4.1 Introduction....170
Topic 4.2 The Exchange Rate....170
Topic 4.3 The Exchange Rate Regimes....171
Topic 4.4 Nominal versus Real Exchange Rates....172

Topic 4.5 The Foreign Exchange Market....173
Topic 4.6 Determination of Nominal Exchange Rate....174
Topic 4.7 Changes in Exchange Rates....174
Topic 4.8 Devaluation Vs Depreciation....175
Topic 4.9 Impacts of Exchange Rate Fluctuation on Domestic Economy....175
Unit 5: International Capital Movements....176
Topic 5.2 Type of Foreign Capital....176
Topic 5.3 Foreign Direct Investment (FDI)....177
Topic 5.4 Foreign Portfolio Investment (FPI)....178
Topic 5.5 Reason for Foreign Direct Investment....178
Topic 5.6 Modes of Foreign Direct Investment (FDI)....179
Topic 5.7 Benefits of Foreign Direct Investment....180
Topic 5.8 Potential Problems Associated with Foreign Direct Investment....180
Topic 5.9 Foreign Direct Investment in India (FDI)....181
Topic 5.10 Overseas Direct Investment by Indian Companies....181
Part B — Revision Sheet....182

Chapter 10 Indian Economy....187
Indian Economy....187
Topic 10.1 Status of Indian Economy: Pre Independence Period (1850-1947)....187
Topic 10.2 Indian Economy: Post Independence (1947-1991)....188
Topic 10.4 The Economic Reforms of 1991....189
Topic 10.5 GDP Growth Rates Post 1991 Reforms....193
Topic 10.6 NITI Aayog: A Bold Step for Transforming India....194
Topic 10.7 The current state of the Indian Economy: A brief overview....195
Topic 10.8 Conclusion....199
Part B — Revision Sheet....200

CHAPTER 1

Nature and Scope of Business Economics

170 Scanner questions · 67 one-liners · 50 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: Introduction

SM Chapter 1, Unit 1, pages 1.2 – 1.15

Topic 1.0 Introduction

17 Scanner questions · frequency PYQ 11 · RTP – · MTP 12

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.0.1	'An Inquiry into the Nature and Causes of the Wealth of Nations' (1776), abbreviated 'The Wealth of Nations', by Adam Smith is the first modern work of Economics.	Q1, Q4, Q7 (+ 1.2 Q12)	PYQ 2018-May, 2019-Nov, 2021-Jan, 2021-Jul, 2023-Dec; MTP 2025-Apr S1, 2025-Aug S2	1.0.1, p. 1.2
1.0.2	'Economics' comes from the Greek word 'Oikonomia' meaning 'household'; till the 19th century it was known as 'Political Economy'.	Q8	PYQ 2023-Dec	1.0.1, p. 1.2
1.0.3	Two fundamental facts form the subject matter of Economics: human wants are unlimited, and the means to satisfy them are relatively scarce — so all wants can never be completely satisfied.	Q2, Q12, Q16	PYQ 2018-Nov; MTP 2025-Aug S1, 2026-Apr S2	1.0.1, p. 1.3
1.0.4	Scarcity in Economics is always relative — measured against the wants of society — never absolute; economic goods are scarce because their quantity is inadequate to satisfy wants.	Q3, Q6 (+ 1.3 Q2)	PYQ 2019-May, 2019-Nov, 2021-Jan	1.0.1, p. 1.3
1.0.5	Scarcity of resources is the root of all economic problems.	Q5, Q9	PYQ 2020-Nov, 2022-Dec, 2023-Dec	1.0.1, p. 1.3 and diagram p. 1.5
1.0.6	Unlimited ends and limited means together create the problem of choice; every choice (even taking a nap or going to university) involves a trade-off.	Q13, Q17	MTP 2025-Aug S2, 2025-Aug S1, 2026-Apr S2	1.0.1, p. 1.3
1.0.7	Rational decision-making means evaluating alternatives and choosing the one that gives the greatest (highest possible) satisfaction.	Q11	MTP 2025-Apr S1, 2025-Aug S2	1.0.1, p. 1.3
1.0.8	A business is an economic activity — transforming inputs (land, labour, capital, entrepreneurship) into output to create net value added; even NPOs such as a charitable dispensary perform economic activity for 'social benefit'.	Q15	MTP 2026-Apr S2	1.0.0, p. 1.2
1.0.9	Business Economics applies economic theory and the tools of decision science to help an organisation achieve its objectives most efficiently, equipping management with analytical and quantitative tools (e.g. break-even analysis) for decisions under uncertainty.	Q10, Q14	MTP 2025-Jan S2, 2026-Apr S1	1.0.2, p. 1.7

Topic 1.1 Definitions of Business Economics

6 Scanner questions · frequency PYQ 6 · RTP – · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.1	Joel Dean defined Business Economics as the use of economic analysis in the formulation of business policies.	Q1	PYQ 2018-May	1.1, p. 1.7
1.1.2	Business Economics is also known as Managerial Economics; it is Applied Economics that fills the gap between economic theory and business practice; and it is basically concerned with Micro Economics.	Q2, Q5	PYQ 2018-Nov, 2024-Sep	1.0.2 and 1.1, p. 1.7; 1.2, p. 1.9
1.1.3	As Applied Economics, Business Economics uses selected quantitative techniques: linear programming, regression analysis, capital budgeting, break-even analysis and cost analysis.	Q3 (+ 1.3 Q4)	PYQ 2019-May, 2021-Jul	1.1, p. 1.7
1.1.4	An economy exists because of two facts: human wants are unlimited and resources are (relatively) scarce.	Q4, Q6	PYQ 2021-Jan, 2025-May	1.0.1, p. 1.3; Summary, p. 1.14

Topic 1.2 Nature of Business Economics

51 Scanner questions · frequency PYQ 49 · RTP 4 · MTP 16

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	Economics is broadly divided into two parts — Micro Economics and Macro Economics; Managerial Economics is a branch of Economics, but 'family structure' is not.	Q1, Q24	PYQ 2018-Nov, 2023-Jun	1.2, p. 1.8
1.2.2	Micro Economics is the study of the behaviour of different individuals and organisations (consumers, firms, resource owners) within an economic system — how individual units allocate their scarce resources and how prices of goods, services and resources are determined. (Also called 'price theory'.)	Q7, Q9, Q13, Q20, Q47, Q49	PYQ 2019-Nov, 2020-Nov, 2021-Jan, 2021-Jul, 2022-Jun; RTP 2025-Sep, 2026-Jan	1.2, p. 1.8 (the term 'price theory' is not in the SM)
1.2.3	Micro Economics studies: product pricing; consumer behaviour; factor pricing; the economic conditions of a section of people; behaviour of firms; and location of industry. Firm-level matters — staff needs, product pricing, outlet location, wages in an industry, demand forecasting, cost and inventory analysis — are all Micro.	Q16, Q17, Q25, Q36, Q37, Q39, Q41, Q45	PYQ 2021-Dec (×4), 2023-Jun, 2024-Sep, 2025-May, 2025-Sep, 2026-Jan; MTP 2025-Jan S2, 2025-Aug S1	1.2, p. 1.8
1.2.4	Macro Economics studies the economy as a whole — the large economic aggregates (hence 'aggregate economics'): national income and output; the general price level and interest rates; balance of trade and balance of payments; external value of currency; overall savings and investment; level of employment and economic growth. Consumer behaviour and behaviour of firms are NOT Macro.	Q6, Q11, Q14, Q18, Q23, Q28, Q35, Q40, Q43	PYQ 2019-May, 2019-Nov, 2021-Jan (×2), 2021-Jul, 2021-Dec, 2022-Dec, 2024-Jun, 2025-Jan, 2025-Sep, 2026-May; RTP 2026-Jan; MTP 2025-May S2	1.2, pp. 1.8 – 1.9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.5	Business Economics is basically concerned with Micro Economics, but incorporates elements of Macro analysis because a firm does not operate in a vacuum — the general price level, income and employment levels, taxation, interest and exchange rates all shape its decisions.	Q2, Q46	PYQ 2018-Nov; MTP 2025-Aug S2	1.2, pp. 1.9 – 1.10
1.2.6	Nature of Business Economics (eight points): it is a Science; based on Micro Economics; incorporates elements of Macro analysis; it is an Art; uses the theory of markets and private enterprise; Pragmatic in approach; Interdisciplinary in nature; Normative in nature. 'Abstract and purely theoretical' does NOT describe it.	Q3, Q4, Q34, Q44, Q46	PYQ 2018-Nov, 2019-May, 2025-Jan; MTP 2025-Apr S1 (×2), 2025-May S2, 2025-Aug S1, 2025-Aug S2	1.2, pp. 1.9 – 1.10
1.2.7	Business Economics is interdisciplinary — it draws tools from Mathematics, Operations Research, Management Theory, Accounting, Marketing, Finance, Statistics and Econometrics.	Q3, Q4, Q44	PYQ 2018-Nov, 2019-May; MTP 2025-Apr S1 (×2), 2025-May S2, 2025-Aug S1	1.2, p. 1.10
1.2.8	Pragmatic in approach: Micro Economics is abstract and purely theoretical and analyses phenomena under unrealistic assumptions; Business Economics, in contrast, tackles the practical problems firms face in the real world.	Q10, Q15, Q22, Q26, Q27, Q34	PYQ 2020-Nov (×2), 2021-Jul, 2022-Jun, 2023-Dec, 2024-Jun, 2025-Jan	1.2, p. 1.10
1.2.9	Positive economics analyses cause-and-effect objectively, states 'what is' and involves no value judgement; Normative economics involves value judgements, is prescriptive, states 'what should be / ought to be' and embeds welfare considerations. In taxation, incidence and effect on incentives are positive; 'fairness' is normative.	Q5, Q8, Q19, Q21, Q29, Q31, Q32, Q42, Q51	PYQ 2019-May, 2020-Nov, 2021-Jan, 2021-Dec, 2022-Jun, 2024-Jun, 2025-Jan, 2026-Jan; RTP 2025-May; MTP 2024-Aug S2, 2024-Aug, 2025-Apr S1, 2025-Dec S1, 2026-Apr S2	1.2, p. 1.10
1.2.10	Business Economics is generally normative (prescriptive) — it suggests what ought to be done in policy formulation, decision-making and planning — but it combines the essentials of normative and positive theory, with the emphasis on the normative.	Q30, Q50	PYQ 2024-Jun; MTP 2026-Apr S1	1.2, pp. 1.10 – 1.11
1.2.11	Business Economics is the applied branch of Economics (not the reverse), has a comparatively narrow scope, concerns proper decision-making in a particular business entity, and analyses micro-level issues such as demand, supply and profit.	Q38	PYQ 2024-Jun, 2025-May	1.4 table, p. 1.13
1.2.12	Macro-economic stability exists when inflation is low and stable, total spending matches total output, and labour resources are fully employed.	Q33	MTP 2024-Aug	Not in SM Chapter 1 (MTP-only)
1.2.13	In Economics we are concerned with exchange value (value in exchange), not value in use.	Q48	MTP 2025-Dec S1	Not in SM Chapter 1 (MTP-only)
1.2.14	*See Topic 1.0: 'The Wealth of Nations' — Adam Smith.*	Q12	PYQ 2021-Jul	1.0.1, p. 1.2 (duplicate of 1.0 Q7)

Topic 1.3 Scope of Business Economics

9 Scanner questions · frequency PYQ 7 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.1	Economic theory is applied to two categories of business issues: internal or operational issues (solved with Micro Economics) and external or environmental issues (solved with Macro Economics).	Q9	PYQ 2026-Sep	1.3, p. 1.11
1.3.2	Micro theories applied to internal issues: Demand analysis and forecasting; Production and cost analysis; Inventory management; Market structure and pricing policies; Resource allocation; Theory of capital and investment decisions (capital budgeting); Profit analysis; Risk and uncertainty analysis. Accounting standards and 'cost standards' are NOT within the scope.	Q1, Q3, Q5, Q7	PYQ 2019-Nov, 2021-Jul, 2021-Dec; MTP 2025-May S2, 2026-Apr S1	1.3, pp. 1.11 – 1.12
1.3.3	Major macro-economic (external) factors: type of economic system; stage of business cycle; general trends in national income, employment, prices, saving and investment; government economic policies; working of central banks, financial sector and capital market; socio-economic organisations (trade unions, cooperatives); social and political environment. Management has NO control over these and must fine-tune its policies to minimise their adverse effects.	Q6, Q8	PYQ 2026-Sep; MTP 2025-Dec S1	1.3, pp. 1.12 – 1.13
1.3.4	*See Topic 1.1: quantitative techniques of Applied Economics — 'economic analysis' is not one of the listed techniques.*	Q4	PYQ 2021-Jul	1.1, p. 1.7
1.3.5	*See Topic 1.0: scarcity in Economics is relative, not absolute.*	Q2	PYQ 2019-Nov	1.0.1, p. 1.3

Topic 1.4 Difference between Economics and Business Economics

1 Scanner question · frequency PYQ – · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.1	The scarcity definition of Economics is associated with Lionel Robbins (the Scanner/MTP prints 'Robinson' — see Editorial Note 1). The SM Chapter 1 does not attribute the definition to anyone.	Q1	MTP 2025-Aug S1	Not in SM Chapter 1
1.4.2	Economics vs Business Economics — Economics frames principles, is micro and macro, positive and normative, wider in scope, covers all theories from production to consumption, and has Business Economics as its applied branch; Business Economics applies principles, is micro in character, only normative, narrower in scope, concerned with profit theory and micro issues (demand, supply, profit), considers economic and non-economic aspects of a business problem, and some of its assumptions become invalid when applied.	(+ 1.2 Q38)	PYQ 2024-Jun, 2025-May	1.4 table, pp. 1.13 – 1.14

Unit 2: Basic Problems of an Economy and Role of Price Mechanism

SM Chapter 1, Unit 2, pages 1.16 – 1.27

Topic 2.0 Basic Problems of an Economy

16 Scanner questions · frequency PYQ 16 · RTP 1 · MTP 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.1	The central economic problem is scarcity of resources relative to wants; it arises because resources are limited AND have alternative uses — if resources were unlimited, or had only a single use, no economic problem would arise.	Q3, Q5	PYQ 2021-Jul, 2022-Jun, 2023-Jun	2.0, p. 1.16
2.0.2	The central problem divides into four basic economic problems: What to produce? How to produce? For whom to produce? What provisions are to be made for economic growth? ('Where' and 'When' to produce, and whether to accept FDI, are NOT basic problems.)	Q2, Q4, Q10, Q12	PYQ 2021-Jul, 2022-Dec (×2), 2023-Dec, 2025-Jan, 2026-May	2.0, pp. 1.16 – 1.17
2.0.3	'What to produce' covers both which goods and services to produce and how many units of each (guns vs butter; capital goods vs consumer goods); in a market economy it is guided by market demand and profit signals.	Q8, Q15	PYQ 2023-Dec; MTP 2026-Apr S1	2.0 (i), p. 1.17; 2.1.0, p. 1.20
2.0.4	Larger production of capital goods (machines, equipment, dams) raises future productive capacity and leads to higher production in future.	Q6	PYQ 2019-Nov, 2023-Dec; MTP 2025-Aug S1	2.0 (i) and (iv), pp. 1.17 – 1.18
2.0.5	'How to produce' is the choice of technique — labour-intensive or capital-intensive — which depends on the availability of factors and their relative prices; capital-intensive technique is chosen where capital is relatively cheaper (capital-surplus economy), labour-intensive where labour is relatively cheaper.	Q7, Q11, Q14	PYQ 2023-Dec; RTP 2025-Jan; MTP 2026-Apr S1	2.0 (ii), p. 1.17; 2.1.0, p. 1.20
2.0.6	'For whom to produce' decides who gets how much of the total output — the shares of different people in the national cake (e.g. produce for the rich or for the poor).	Q4	PYQ 2022-Dec	2.0 (iii), pp. 1.17 – 1.18
2.0.7	'Provision for economic growth' means deciding how much saving and investment — how much sacrifice of current consumption — to make for future progress; using all resources for current consumption leaves living standards stagnant.	Q16	PYQ 2026-Sep	2.0 (iv), p. 1.18
2.0.8	An economic system is the sum total of arrangements (devices) for the production and distribution of goods and services in a society; economies are classified as capitalist, socialist and mixed by mode of production, exchange, distribution and the government's role.	Q9	PYQ 2024-Sep	2.0, p. 1.18

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.9	When relative profitability changes (e.g. EV profits exceed conventional vehicle profits), the price mechanism shifts producers towards the more profitable good.	Q13	MTP 2026-Apr S1	2.1.0, p. 1.20
2.0.10	*See Topic 1.0/1.1: Business Economics integrates economic theory with business practice.*	Q1	PYQ 2018-Nov	1.0.2, p. 1.7 (misfiled under Unit 2)

Topic 2.1 Capitalist Economy

28 Scanner questions · frequency PYQ 30 · RTP 1 · MTP 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	Capitalism — the predominant system in the modern global economy — is one in which all means of production are owned and controlled by private individuals for profit; it is also called a free market (free) economy or laissez-faire economy (laissez-faire = minimum government interference). Examples: USA, UK, Hong Kong, South Korea (none purely capitalist).	Q7, Q11, Q18, Q23	PYQ (CPT) 2016-Dec, 2019-Nov, 2020-Nov, 2021-Jan, 2023-Jun, 2026-Jan	2.1, pp. 1.18 – 1.19
2.1.2	Seven characteristics of a capitalist economy: right to private property; freedom of enterprise; freedom of economic choice; profit motive (the driving force); consumer sovereignty; competition; absence of government interference. 'Collective ownership' and 'absence of consumer choice' are NOT features.	Q2, Q10, Q22, Q26, Q28	PYQ 2018-Nov, 2021-Jan, 2025-Sep, 2026-Sep; MTP 2025-May S2	2.1, p. 1.19
2.1.3	Competition is the most important feature of the capitalist economy — it brings out the best among buyers and sellers and results in efficient use of resources.	Q12	PYQ 2021-Dec	2.1, p. 1.19
2.1.4	Consumer sovereignty (consumer is king) means buyers ultimately determine which goods and services will be produced and in what quantities — a feature of the capitalist / laissez-faire economy.	Q8, Q16, Q21, Q25	PYQ 2019-Nov, 2022-Dec, 2025-Jan, 2026-May; RTP 2026-May	2.1, p. 1.19
2.1.5	A capitalist economy has NO central planning authority; it solves what, how and for whom to produce through the impersonal price mechanism (market forces of demand and supply) — it is self-regulating, run by the 'invisible hand', and price is the principal means of allocating resources.	Q1, Q4, Q6, Q14, Q17, Q19, Q20	PYQ 2018-May, 2018-Nov, 2019-May, 2019-Nov, 2022-Dec, 2023-Jun, 2023-Dec, 2024-Sep	2.1 and 2.1.0, pp. 1.19 – 1.20
2.1.6	In capitalism, 'how to produce' is decided by cost minimisation and profit maximisation — the entrepreneur chooses the technique that makes cost of production minimum.	Q27	MTP 2026-Apr S1	2.1.0, p. 1.20

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.7	Merits of capitalism: self-regulating via price mechanism; private property and profit motive give efficiency and incentive to work; faster growth; optimum allocation of resources; high degree of operative efficiency; incentives for efficient economic decisions; variety and freedom of choice for consumers; incentives for innovation and technological progress; preserves fundamental rights; rewards initiative; democratic framework; encourages enterprise and risk-taking.	Q5, Q15 (+ 2.2 Q20)	PYQ 2019-May, 2021-Jan, 2022-Dec, 2025-May	2.1.1, p. 1.21
2.1.8	Demerits of capitalism: vast inequality and social injustice ('haves' and 'have-nots'); precedence of property rights over human rights; ignores human welfare; exploitation of labour; consumer sovereignty becomes a myth; misallocation towards luxury goods and fewer merit goods; instability (over-production, depression, unemployment); waste on advertising; monopolies; environmental degradation.	Q3, Q9, Q13, Q24	PYQ 2019-May, 2020-Nov, 2021-Dec, 2026-Jan; MTP 2025-Apr S1, 2025-Aug S1	2.1.2, pp. 1.21 – 1.22

Topic 2.2 Socialist Economy

28 Scanner questions · frequency PYQ 24 · RTP – · MTP 8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	The concept of the socialist economy was propounded by Karl Marx and Frederick Engels in 'The Communist Manifesto', published in 1848.	Q1, Q7, Q9, Q13, Q15, Q27	PYQ 2018-May, 2021-Jul, 2021-Dec, 2022-Dec, 2023-Dec; MTP 2026-Apr S2	2.2, p. 1.22
2.2.2	In a socialist economy the material means of production (factories, capital, mines) are owned by the whole community represented by the State; it is also called a Command Economy or Centrally Planned Economy; resources are allocated by the commands of a central planning authority, and production and distribution aim at maximising the welfare of the community as a whole — central problems are solved through planning.	Q3, Q4, Q5, Q6, Q8, Q10, Q17, Q19	PYQ 2019-May, 2020-Nov (×2), 2021-Jul, 2021-Dec, 2022-Jun, 2024-Sep, 2025-May	2.2, pp. 1.22 – 1.23
2.2.3	Characteristics of socialism: collective ownership (except small farms, workshops, trading firms); economic planning by a central planning authority; absence of consumer choice; relatively equal income distribution; minimum role of price mechanism; absence of competition (the State is the sole entrepreneur).	Q28	PYQ 2026-Sep	2.2, p. 1.23
2.2.4	Absence of consumer choice: freedom from hunger is guaranteed but consumers' sovereignty is restricted by selective, planned production; the right to work is guaranteed but the choice of occupation is restricted, being decided by the central planning authority.	Q21, Q23, Q25	PYQ 2019-May, 2025-Jan, 2025-Sep, 2026-May; MTP 2026-Apr S1	2.2, p. 1.23

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.5	Price mechanism has only a secondary (weakest) role under socialism; prices are 'administered prices' — set by an external authority, the central planning authority (government), on the basis of socio-economic objectives, not by demand and supply.	Q24, Q26	MTP 2026-Apr S1, 2026-Apr S2	2.2, pp. 1.23 – 1.24
2.2.6	The erstwhile USSR (1917–1990) was an example of a socialist economy; today no country is purely socialist — China, Vietnam, Cuba and North Korea are cited as examples.	Q16	MTP 2024-Aug, 2025-Apr S1, 2025-Aug S2	2.2, p. 1.24
2.2.7	Merits of socialism: equitable distribution of wealth and income; rapid and balanced economic development; better utilisation of resources, no waste on advertising; unemployment minimised and business fluctuations eliminated; cooperative mentality, no class war; right to work and minimum standard of living; protection from exploitation; comprehensive social security. (Profits NOT being shared equitably is contrary to socialism.)	Q2, Q14, Q18 (+ 2.3 Q9)	PYQ 2019-May, 2023-Jun, 2023-Dec; MTP 2025-Jan S2	2.2.0, p. 1.24
2.2.8	Demerits of socialism: predominance of bureaucracy causing inefficiency, delays, corruption, red-tapism and favouritism; restricts individual freedom; takes away right to private property; no profit incentive for hard work; administered prices lack a cost basis; uncontrollable State monopolies; limited consumer choice; no reward for personal efficiency; extreme socialism impracticable.	Q11, Q12, Q22	PYQ 2022-Jun, 2022-Dec, 2026-Jan	2.2.1, pp. 1.24 – 1.25
2.2.9	*See Topic 2.1: 'collective ownership' is NOT a merit (or feature) of the capitalist economy.*	Q20	PYQ 2025-May	2.1.1, p. 1.21

Topic 2.3 The Mixed Economy

14 Scanner questions · frequency PYQ 14 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	A mixed economy depends on both markets and governments for allocation of resources; every real-world economy uses both and is therefore mixed in nature — India is a mixed economy. Resources are used as a result of decisions of consumers, firms AND government.	Q2, Q8, Q10, Q13	PYQ 2018-Nov, 2022-Dec, 2026-May; MTP 2024-Dec S1	2.3, p. 1.25
2.3.2	The first feature of a mixed economy is the co-existence of the private and public sectors; it has three sectors of industry — private, public and combined (joint) sector.	Q1, Q4, Q5, Q6, Q11	PYQ 2018-May, 2021-Jan (×2), 2021-Dec, 2025-Sep; MTP 2025-Aug S1	2.3.0, pp. 1.25 – 1.26

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.3	Merits of the mixed economy — it takes the best of both systems: economic freedom and private property (incentive to work); price mechanism and competition; consumer sovereignty and freedom of choice; incentives for innovation; encourages enterprise and risk-taking; planning and rapid development; greater equality and freedom from exploitation; cut-throat competition averted by regulation.	Q12, Q14	PYQ 2024-Sep, 2026-Jan; MTP 2025-May S2	2.3.0, p. 1.26
2.3.4	A mixed economy is NOT always a 'golden path' between capitalism and socialism — its demerits are excessive State controls, poor planning implementation, higher taxation, inefficiency, corruption, delays, poor public-sector performance, difficulty in balancing the two sectors, and the private sector growing disproportionately.	Q7	PYQ 2021-Jul, 2022-Jun	2.3.0, pp. 1.26 – 1.27
2.3.5	In a mixed economy, cost–benefit analysis is used to answer the fundamental economic questions (ICAI's keyed answer; the phrase is not in the SM).	Q3	PYQ 2020-Nov	Not in SM Chapter 1 (PYQ-only)
2.3.6	*See Topic 2.2: exploitation and inequality are minimal under a centrally planned (socialist) economy.*	Q9	PYQ 2023-Dec	2.2.0, p. 1.24

Part B — Chapter 1 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 56% of ICAI appearances in this chapter.

Unit 1 — Introduction

#	One-liner	Weight	Part A ref
1	Economics ← Greek 'Oikonomia' = household; earlier called Political Economy.	★	1.0.2
2	**'The Wealth of Nations' (1776), Adam Smith — first modern work of Economics.**	★★★	1.0.1
3	Unlimited wants + relatively scarce means = subject matter of Economics.	★★	1.0.3, 1.1.4
4	Scarcity is relative to wants, never absolute.	★★	1.0.4
5	**Scarcity → all economic problems; unlimited ends + limited means → problem of choice; every choice is a trade-off.**	★★★	1.0.5, 1.0.6
6	Rational choice = alternative giving greatest satisfaction.	★	1.0.7
7	Business = economic activity creating net value added; NPOs aim at social benefit.	★	1.0.8
8	Business Economics = Managerial Economics = Applied Economics; integrates economic theory with business practice; basically Micro.	★★	1.0.9, 1.1.2
9	Joel Dean: use of economic analysis in formulating business policies.	★	1.1.1
10	Quantitative techniques: linear programming, regression, capital budgeting, break-even, cost analysis.	★	1.1.3
11	Economics = Micro + Macro.	★	1.2.1
12	**Micro = behaviour of individual units (consumers, firms); 'price theory'.**	★★★	1.2.2
13	**Micro list: product pricing, consumer behaviour, factor pricing, conditions of a section of people, behaviour of firms, location of industry.**	★★★	1.2.3
14	**Macro list: national income/output, general price level & interest rates, BoT & BoP, external value of currency, overall savings & investment, employment & growth.**	★★★	1.2.4
15	**Nature (8 points): Science · based on Micro · incorporates Macro · Art · theory of markets & private enterprise · Pragmatic · Interdisciplinary · Normative.**	★★★	1.2.5, 1.2.6, 1.2.7
16	**Pragmatic: Micro is abstract, theoretical, unrealistic assumptions; BE tackles real-world problems.**	★★★	1.2.8
17	**Positive = 'what is', cause–effect, no value judgement; Normative = 'what ought to be', value judgement, prescriptive, welfare.**	★★★	1.2.9
18	**Tax: incidence & incentive effect = positive; fairness = normative.**	★★★	1.2.9
19	BE combines both, emphasis on normative (Nature text) — but 'only normative' in the Economics-vs-BE table.	★★	1.2.10, 1.4.2
20	Scope: internal/operational issues → Micro; external/environmental issues → Macro.	★	1.3.1

#	One-liner	Weight	Part A ref
21	Micro scope list: demand analysis & forecasting, production & cost, inventory, market structure & pricing, resource allocation, capital & investment, profit, risk & uncertainty. NOT accounting standards.	★★	1.3.2
22	Macro factors: economic system, business cycle, national trends, govt policies, central bank/financial sector, socio-economic organisations, social & political environment — management has no control over them.	★	1.3.3
23	BE is the applied branch of Economics; narrower scope; micro-level issues; decision-making in a business entity.	★	1.2.11, 1.4.2

Unit 2 — Basic Problems and Price Mechanism

#	One-liner	Weight	Part A ref
1	Central problem = scarcity relative to wants; arises because resources are limited AND have alternative uses.	★★	2.0.1
2	**Four basic problems: What · How · For whom · What provision for growth (not Where / When).**	★★★	2.0.2
3	What to produce = which goods + how much; guns vs butter; capital vs consumer goods.	★	2.0.3
4	More capital goods today → higher production in future.	★★	2.0.4
5	How to produce = labour- vs capital-intensive technique, decided by factor availability and relative prices.	★★	2.0.5
6	Growth provision = how much saving & investment (sacrifice of current consumption).	★	2.0.7
7	Economic system = sum total of arrangements for production and distribution; three types: capitalist, socialist, mixed.	★	2.0.8
8	**Capitalist = free market = laissez-faire: means of production privately owned for profit; USA, UK, Hong Kong, S. Korea.**	★★★	2.1.1
9	Capitalist features (7): private property · freedom of enterprise · freedom of economic choice · profit motive · consumer sovereignty · competition · no govt interference.	★★	2.1.2
10	Competition = most important feature of capitalism.	★	2.1.3
11	Consumer sovereignty: buyers decide what is produced and in what quantities.	★★	2.1.4
12	**Capitalism solves central problems through price mechanism (demand & supply); no central planning authority; invisible hand; self-regulating.**	★★★	2.1.5, 2.0.9
13	Capitalist 'how' = cost-minimising technique; 'for whom' = those with buying capacity (income).	★	2.1.6, 2.0.6
14	Capitalist merits: self-regulating, efficiency & incentive, faster growth, optimum allocation, high operative efficiency, efficient economic decisions, innovation, freedom, enterprise & risk-taking.	★★	2.1.7

#	One-liner	Weight	Part A ref
15	**Capitalist demerits: inequality, property rights over human rights, ignores welfare, labour exploitation, sovereignty a myth, luxury-goods bias, instability, advertising waste, monopolies, environment.**	★★★	2.1.8
16	**Socialism: Karl Marx & Frederick Engels, 'The Communist Manifesto', 1848.**	★★★	2.2.1
17	**Socialist = Command = Centrally Planned economy; State owns means of production; aim = welfare of community; solved through planning.**	★★★	2.2.2
18	Socialist features: collective ownership · economic planning · absence of consumer choice · relatively equal income · minimum role of price mechanism (administered prices) · absence of competition.	★	2.2.3
19	Freedom from hunger guaranteed but consumer sovereignty restricted; right to work guaranteed but occupation choice restricted.	★★	2.2.4
20	Administered prices = set by central planning authority / government, not by demand and supply.	★	2.2.5
21	USSR 1917–1990; no purely socialist country today (China, Vietnam, Cuba, North Korea cited).	★★	2.2.6
22	Socialist merits: equitable distribution, rapid & balanced development, no waste, no unemployment/fluctuations, cooperation, right to work, protection from exploitation, social security.	★★	2.2.7
23	Socialist demerits: bureaucracy → inefficiency, delays, corruption, red-tapism; no freedom, no private property, no profit incentive, no cost basis, State monopolies, limited choice, no reward for efficiency.	★★	2.2.8
24	Mixed economy: both markets and government; every real economy is mixed; India.	★★	2.3.1
25	**Mixed economy first feature: co-existence of private & public sectors; three sectors — private, public, combined (joint).**	★★★	2.3.2
26	Mixed merits: best of both — private property & incentive, price mechanism & competition, consumer sovereignty, innovation, enterprise & risk, planning, equality, regulation of cut-throat competition.	★★	2.3.3
27	Mixed economy is NOT always a 'golden path'; demerits: excessive controls, poor planning, high taxes, corruption, delays, hard to balance sectors.	★	2.3.4

CHAPTER 2

Theory of Demand and Supply

345 Scanner questions · 165 one-liners · 93 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: Law of Demand and Elasticity of Demand

SM Chapter 2, Unit 1, pages 2.1 – 2.49

Topic 1.0 Meaning of Demand

7 Scanner questions · frequency PYQ 3 · RTP – · MTP 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.0.1	Business firms must know how much of their products buyers will want — a thorough understanding of the theory of demand (and supply) is essential for any business firm, so successful firms analyse the demand for their products.	Q4	MTP 2024-Aug, 2025-Dec S1	Unit introduction, p. 2.3
1.0.2	'Demand' is the quantity of a good or service that buyers are willing and able to purchase at various prices during a given period of time; in Economics it is something more than the desire to purchase (desire is only one element of it), so it is not the same thing as desire, need, choice, preference or order.	Q5	MTP 2024-Aug, 2025-Dec S1	1.0, pp. 2.3 – 2.4
1.0.3	Effective demand depends on (i) desire, (ii) means to purchase and (iii) willingness to use those means for that purchase; unless desire is backed by purchasing power (ability to pay) and willingness to pay, it does not constitute demand — 'unlimited wants' is not an element. Only effective demand figures in economic analysis.	Q2, Q3, Q6, Q7	PYQ 2021-Jan, 2021-Dec; MTP 2026-Apr S1 (×2)	1.0, p. 2.4; Summary, p. 2.47
1.0.4	*See Topic 1.1: high-priced goods consumed by status-seeking rich people for conspicuous consumption = Veblen effect.*	Q1	PYQ 2018-May	1.1 (iv), p. 2.7

Topic 1.1 What Determines Demand

32 Scanner questions · frequency PYQ 21 · RTP 1 · MTP 14

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.1	Important determinants of demand: price of the commodity; prices of related commodities; disposable income of the consumer; tastes and preferences of buyers; consumers' expectations; and other factors — size and age distribution of population, level of national income and its distribution, consumer-credit facility and interest rates, government policies and regulations. Cost of production is a determinant of supply, not of demand.	Q2, Q18	PYQ 2019-May; MTP 2025-Jan S2	1.1, pp. 2.4 – 2.9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.2	Ceteris paribus means 'other things being equal': ceteris paribus, the demand for a commodity is inversely related to its own price (because of the income and substitution effects).	Q16	PYQ 2025-Jan	1.1 (i), p. 2.4
1.1.3	Related commodities are of two types: (i) complementary goods and (ii) competing goods or substitutes.	Q30	MTP 2025-Aug S2	1.1 (ii), p. 2.4
1.1.4	Complementary goods are bought or consumed together — tea and sugar, automobile and petrol, pen and ink, computers and computer software. A rise in the price of one reduces the demand for the other: there is an inverse relation between the demand for a good and the price of its complement. (The MTP's 'joint demand' for scooter and petrol is not SM wording.)	Q5, Q19, Q27, Q28, Q31	PYQ 2021-Jul, 2026-Jan; MTP 2025-Jan S2, 2025-May S2, 2025-Dec S1	1.1 (ii), pp. 2.4 – 2.5
1.1.5	Substitutes (competing goods) satisfy the same want and can be used with ease in place of one another — tea and coffee, ink pen and ball pen, brands of toothpaste. There is a direct (positive) relation between the demand for a product and the price of its substitute: if the price of tea falls, people demand more tea and less coffee; if a good's price rises, the demand for its substitute rises.	Q3, Q4, Q9, Q20	PYQ 2019-May, 2020-Nov; MTP 2024-Aug, 2025-Jan S2	1.1 (ii), p. 2.5
1.1.6	Normal goods are demanded in increasing quantities as consumers' disposable income increases (household furniture, clothing, automobiles, consumer durables); when income falls, their demand falls.	Q26	PYQ 2025-Sep	1.1 (iii), p. 2.5
1.1.7	Inferior goods: the quantity demanded rises only up to a certain level of income and decreases with an increase in money income beyond this level.	Q22	PYQ 2025-May	1.1 (iii), p. 2.6
1.1.8	Demonstration effect — a term coined by James Duesenberry — refers to the desire of people to emulate the consumption behaviour of others (buying a new cell phone because the neighbour has one).	Q8 (+ 1.2 Q5)	PYQ 2021-Dec, 2023-Jun	1.1 (iv), p. 2.6
1.1.9	Bandwagon effect is the extent to which the demand for a commodity is increased because others are also consuming it — the desire to be fashionable or to conform; e.g. many people follow others into the share market without considering its advantages and disadvantages.	Q14, Q15, Q24, Q32	PYQ 2025-Jan, 2025-May, 2026-Sep; MTP 2024-Dec S1	1.1 (iv), p. 2.7

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.10	Snob effect is the extent to which the demand for a consumers' good is decreased because others are also consuming it — the desire to be exclusive and to dissociate from the 'common herd'; when a product becomes common, some people decrease or stop its consumption (a rich rival rejects the dress the other is wearing and buys a costlier one). Snob effect is a function of the consumption of others; Veblen effect is a function of price.	Q6, Q10, Q21 (+ 1.2 Q4)	PYQ 2021-Jul (×2), 2022-Dec, 2024-Sep; RTP 2025-Jan; MTP 2025-Aug S1	1.1 (iv), p. 2.7
1.1.11	Veblen effect (after Thorstein Veblen): highly priced goods consumed by status-seeking rich people to satisfy their need for conspicuous consumption — e.g. expensive cars and jewels.	Q7, Q23 (+ 1.0 Q1)	PYQ 2018-May, 2021-Jul (×2), 2025-May	1.1 (iv), p. 2.7
1.1.12	Age distribution of population: if a larger proportion of people belong to older age groups, there is increased demand for geriatric care services, spectacles and walking sticks, and less demand for children's books.	Q25	PYQ 2025-Sep	1.1 (b), p. 2.8
1.1.13	Consumer equilibrium: the consumer maximises satisfaction where marginal utility per rupee is equal (MUx/Px = MUy/Py) and, in indifference-curve analysis, where the budget line is tangent to the IC — both conditions hold.	Q1	PYQ 2019-May; MTP 2025-May S2	1.3.4 (2), p. 2.15 (tangency condition: SM Unit 2)
1.1.14	*See Topic 1.3: when a fall in price makes a commodity relatively cheaper than other commodities and its demand rises, it is the substitution effect.*	Q11	MTP 2024-Dec S1	1.3.4 (1)(a), p. 2.14
1.1.15	*See Topic 1.3: the slope of a demand curve is −ΔP/ΔQ (change on the vertical axis ÷ change on the horizontal axis); the negative sign is consistent with the law of demand.*	Q17	PYQ 2025-Jan	1.3.1, p. 2.12
1.1.16	*See Topic 1.4: a shift in demand is caused by changes in non-price factors (income, tastes, prices of related goods, etc.).*	Q12	MTP 2024-Dec S1	1.4.1, pp. 2.19 – 2.20
1.1.17	*See Topic 1.4: a movement along the demand curve is caused only by a change in the good's own price, so the price elasticity of demand measures a movement along the curve; income and cross elasticities relate to shifts.*	Q13	MTP 2024-Dec S1	1.4.2, p. 2.21; 1.5.1, p. 2.23
1.1.18	Deficiency of effective demand is the Keynesian cause of unemployment; the MTP keys it as the cause of unemployment in a developing country — outside this SM unit and doubtful (see Editorial Note).	Q29	MTP 2025-May S2	Not in SM (MTP-only)

Topic 1.2 The Demand Function

14 Scanner questions · frequency PYQ 6 · RTP – · MTP 9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	The demand function states in equation form the relationship between the demand for a product (dependent variable) and its determinants (independent variables): Qx = f(Px, Y, Pr) — own price, money income and prices of related goods; factors not listed are assumed irrelevant or held constant. Prices of unrelated goods are not a determinant.	Q2	PYQ 2021-Jan	1.2, p. 2.9
1.2.2	A demand function of the form Q = k/P (e.g. Qx = 1,500/Px) keeps P × Q constant — a rectangular hyperbola — so elasticity equals one at every point (a fall from $8 to $2 still gives Ep = 1).	Q7	MTP 2024-Dec S1	1.5.5, p. 2.30
1.2.3	*See Topic 1.3: the demand curve slopes downwards because of the price effect (substitution + income effects), diminishing marginal utility, arrival of new consumers and different uses.*	Q1	PYQ 2021-Jan	1.3.4, pp. 2.14 – 2.16
1.2.4	*See Topic 1.3: market demand is the sum total of the quantities demanded by all individual households and consumers at each price.*	Q12	MTP 2025-May S2	1.3.2, pp. 2.12 – 2.13
1.2.5	*See Topic 1.3: conspicuous goods and conspicuous necessities (TV sets, refrigerators, air-conditioners) are exceptions to the law of demand; the law is violated when the negative income effect is greater than the substitution effect.*	Q3, Q13, Q14	PYQ 2021-Jan; MTP 2025-May S2 (×2)	1.3.4 – 1.3.5, pp. 2.15 – 2.17
1.2.6	*See Topic 1.1: snob effect = demand decreases because others also consume the good; 'demonstration effect' was coined by James Duesenberry.*	Q4, Q5	PYQ 2022-Dec, 2023-Jun	1.1 (iv), pp. 2.6 – 2.7
1.2.7	Demand for labour in response to its own wage rate is direct demand; demand for the same labour arising from the price of the goods it helps produce (e.g. electronic goods) is derived demand.	Q6	MTP 2024-Aug, 2025-Dec S1	Not in SM (MTP-only)
1.2.8	*See Topic 1.5: arc elasticity measures responsiveness between two points on the demand curve; if spending on air travel rises when fares are cut, demand is price elastic (total outlay method).*	Q8, Q9, Q11	MTP 2024-Dec S1 (×2), 2025-Jan S2	1.5.4, p. 2.28; 1.5.6, pp. 2.32 – 2.33
1.2.9	*See Topic 1.7: cross-price elasticity of B against A = % change in demand for B ÷ % change in price of A = 30% ÷ 20% = +1.5 (positive: substitutes).*	Q10	PYQ 2025-Jan	1.7, p. 2.43; Illustration 7, p. 2.45

Topic 1.3 Law of Demand

34 Scanner questions · frequency PYQ 21 · RTP 4 · MTP 15

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.1	Prof. Alfred Marshall defined the law of demand (the traditional approach): 'the amount demanded increases with a fall in price and diminishes with a rise in price'. Marshall explains the downward slope by diminishing marginal utility; Hicks and Allen explain it by the income effect and the substitution effect.	Q30, Q31	RTP 2025-Sep; MTP 2025-Aug S2	1.3, p. 2.10; 1.3.4, pp. 2.14 – 2.15; Summary, p. 2.48
1.3.2	Law of demand: other things being equal, when the price of a good rises the quantity demanded falls, and vice versa — an inverse relationship between price and quantity demanded, ceteris paribus. It relates price and quantity demanded; for normal goods a rise in price leads to a fall in demand.	Q2, Q4, Q6, Q12	PYQ 2018-Nov (×2), 2019-Nov, 2022-Jun	1.3, p. 2.10
1.3.3	Market demand is the total quantity that all buyers are willing to buy per unit of time at each price — obtained by adding the quantities demanded by individual consumers; the market demand curve is the horizontal (lateral) summation of individual demand curves.	(+ 1.2 Q12)	MTP 2025-May S2	1.3.2 – 1.3.3, pp. 2.12 – 2.14
1.3.4	Price effect (the change in purchases of a good when its price changes) = substitution effect + income effect.	Q14	PYQ 2023-Jun	1.3.4 (1), p. 2.14
1.3.5	Substitution effect: the change in demand when the relative price changes — a fall in price makes the commodity relatively cheaper, consumers substitute it for the now relatively expensive commodities and 'the total demand for the commodity whose price has fallen increases'. On a price fall it is always positive, so with real income held constant the demand curve always slopes downwards.	Q23, Q32, Q33 (+ 1.1 Q11)	RTP 2025-Jan; MTP 2024-Dec S1, 2025-Dec S1 (×2)	1.3.4 (1)(a), pp. 2.14 – 2.15
1.3.6	The substitution effect is stronger when (a) the goods are closer substitutes, (b) the cost of switching to the substitute is lower and (c) the inconvenience of switching is lower.	Q22	RTP 2024-Sep, 2025-Sep; MTP 2025-Apr S1, 2025-May S2, 2025-Aug S2	1.3.4 (1)(a), p. 2.15
1.3.7	Income effect: the increase in demand on account of an increase in real income (purchasing power) when price falls — it raises demand for a normal good.	(+ 1.4 Q3)	PYQ 2022-Dec	1.3.4 (1)(b), p. 2.15
1.3.8	For inferior goods the income effect works in the opposite direction to the substitution effect: demand expands on a price fall only if the substitution effect outweighs the income effect; where the negative income effect is greater than the substitution effect, the law of demand is violated (Giffen paradox).	Q8, Q29, Q34 (+ 1.2 Q13)	PYQ 2021-Dec; MTP 2025-May S2, 2025-Aug S1, 2025-Dec S1	1.3.4 (1)(b), p. 2.15; 1.3.5 (ii), p. 2.16

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.9	Rationale of the law (why the demand curve slopes downwards): (1) price effect — substitution + income effects; (2) utility-maximising behaviour — diminishing marginal utility; (3) arrival of new consumers at lower prices; (4) different uses (e.g. electricity).	(+ 1.2 Q1)	PYQ 2021-Jan	1.3.4, pp. 2.14 – 2.16
1.3.10	Exceptions to the law of demand: conspicuous goods; Giffen goods; conspicuous necessities; future expectations about prices; incomplete information and irrational behaviour; demand for necessaries; speculative goods. Normal goods, 'white goods', substitute goods, income and price are NOT exceptions.	Q11, Q15, Q16, Q19, Q28 (+ 1.2 Q3)	PYQ 2021-Jan, 2022-Jun, 2023-Jun, 2023-Dec; MTP 2024-Aug, 2025-Aug S1	1.3.5, pp. 2.16 – 2.17; Summary, p. 2.48
1.3.11	Conspicuous goods — articles of prestige value or snob appeal used by the rich as status symbols to enhance social prestige or display wealth (e.g. diamonds) — become more attractive as their price rises: Veblen's doctrine of 'Conspicuous Consumption' (Veblen or prestige-goods effect), so the demand curve slopes upwards.	Q10, Q18, Q26	PYQ 2022-Jun, 2024-Jun, 2026-May	1.3.5 (i), p. 2.16
1.3.12	Giffen goods (Sir Robert Giffen — British workers bought more bread as its price rose) show a direct price–demand relationship, so the demand curve slopes upwards to the right; they are inferior goods with no close substitutes that occupy a substantial place in the consumer's budget (coarse grains like bajra, low-quality rice). All Giffen goods are inferior goods, but all inferior goods are not Giffen goods.	Q7, Q13, Q17, Q24	PYQ 2021-Jul, 2023-Jun, 2023-Dec, 2025-Sep; MTP 2025-May S2	1.3.5 (ii), p. 2.16
1.3.13	Being inferior, a Giffen good's demand falls as income rises — so its income–quantity (Engel) curve is negatively sloped (the Engel curve itself is not in the SM).	Q3, Q9	PYQ 2018-Nov, 2021-Dec; MTP 2025-Apr S1	1.1 (iii), p. 2.6; 1.3.5 (ii), p. 2.16 (Engel curve not in SM)
1.3.14	Conspicuous necessities: through the demonstration effect of one's social group, goods such as TV sets, refrigerators and air-conditioners become necessities of life — their demand shows no tendency to fall though their prices keep rising (upward-sloping demand curve).	Q25 (+ 1.2 Q14)	PYQ 2026-May; MTP 2025-May S2	1.3.5 (iii), p. 2.17
1.3.15	*See Topic 1.4: an increase in demand (rightward shift) results from a rise in income for normal goods — a decline in the market price causes only a movement along the curve.*	Q1	PYQ 2018-May	1.4.1, p. 2.20
1.3.16	By the law of demand, price and quantity demanded are inversely (not directly) related; supply is inversely related to cost of production (theory of supply, SM Unit 3).	Q5	PYQ 2019-May	1.3, p. 2.10; supply: SM Chapter 2, Unit 3
1.3.17	*See Topic 1.5: a horizontal (perfectly elastic) demand curve is found in a perfectly competitive market, where the firm is a price-taker.*	Q20	MTP 2024-Aug	1.5.5, pp. 2.30 – 2.31

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.18	Average revenue = total revenue ÷ quantity = price, so a firm's AR curve is its demand curve.	Q21	MTP 2024-Aug	Not in SM (MTP-only)
1.3.19	*See Topic 1.5: a heavy tax cuts consumption substantially only where demand is elastic (ed > 1); governments raise revenue by taxing goods with inelastic demand.*	Q27	MTP 2025-Apr S1	1.5.5, p. 2.30; 1.5.8, p. 2.37

Topic 1.4 Expansion and Contraction of Demand

12 Scanner questions · frequency PYQ 7 · RTP – · MTP 7

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.1	Expansion (extension) of demand: quantity demanded rises because price falls — a downward movement along the same demand curve (apples: price falls, the consumer buys more). Contraction of demand: quantity demanded falls because price rises — an upward movement along the same curve.	Q1, Q2, Q12 (+ 1.5 Q9)	PYQ 2018-Nov, 2020-Nov, 2022-Jun; MTP 2025-Apr S1, 2025-Aug S1, 2026-Apr S1	1.4, p. 2.18; Summary, p. 2.48
1.4.2	*See Topic 1.3: a change in demand due to an increase in the real income of the consumer is the income effect.*	Q3	PYQ 2022-Dec	1.3.4 (1)(b), p. 2.15
1.4.3	Increase and decrease in demand are caused by non-price factors: any change that raises the quantity demanded at every price shifts the curve to the right (increase in demand); any change that lowers it shifts the curve to the left (decrease in demand). A rise in income shifts the curve to the right, a fall in income to the left (normal goods).	Q4, Q6 (+ 1.1 Q12, 1.3 Q1)	PYQ 2018-May, 2023-Jun, 2025-Sep; MTP 2024-Dec S1	1.4.1, pp. 2.18 – 2.20
1.4.4	Leftward shift (decrease in demand): fall in income (normal goods) or rise in income (inferior goods); fall in the price of a substitute; rise in the price of a complement; decrease in the number of buyers; tastes turning against the good; expectation that price will fall in future; government regulations discouraging consumption. The opposite changes cause a rightward shift.	Q7 (+ 1.5 Q44)	PYQ 2025-May, 2026-Jan	1.4.1 table, pp. 2.20 – 2.21
1.4.5	Movement along the demand curve = change in quantity demanded, caused only by a change in the good's own price; shift of the demand curve = change in demand, caused by income, tastes, prices of other goods etc. A change in the good's own price does not shift its demand curve.	Q5, Q11 (+ 1.1 Q13)	PYQ 2023-Jun; MTP 2024-Dec S1, 2025-Aug S2	1.4.2, pp. 2.21 – 2.22
1.4.6	Comforts lie between necessities and luxuries.	Q8	MTP 2025-Apr S1	Not in SM (MTP-only)
1.4.7	*See Topic 1.5: demand for electricity is elastic because it has alternative (multiple) uses — the more the uses, the greater the price elasticity.*	Q9	MTP 2025-Apr S1	1.5.8 (4), p. 2.36; 1.3.4 (4), p. 2.16
1.4.8	*See Topic 1.6: negative income elasticity = inferior good — as income falls, the amount purchased rises.*	Q10	MTP 2025-Apr S1	1.6, pp. 2.39 – 2.40

Topic 1.5 Elasticity of Demand

67 Scanner questions · frequency PYQ 53 · RTP 2 · MTP 26

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.1	Price elasticity of demand (PED) = percentage change in quantity demanded ÷ percentage change in own price, other things equal; it gives the % change in quantity for each 1% change in price — so Ep = −3 means a 1% fall in price raises quantity by 3% or a 1% rise lowers it by 3%; with Ep = 1 a 15% change in quantity goes with a 15% change in price; 25% ÷ 22% = 1.14 is elastic.	Q26, Q28, Q36	PYQ 2022-Dec, 2023-Dec (×2); MTP 2024-Aug, 2025-Aug S2	1.5, p. 2.23; 1.5.1, pp. 2.23 – 2.24
1.5.2	Two-point formula: Ep = (ΔQ/ΔP) × (P/Q), with P and Q the ORIGINAL price and quantity; the negative sign illustrates the law of demand, but by convention only the magnitude is read (₹40→₹50, 25→20 units: −0.8; ₹10→₹6, 10→20 units: −2.5; ₹50→₹60, 25→15 units: −2.0).	Q24, Q56, Q67	PYQ 2023-Jun, 2026-May, 2026-Sep	1.5.1, p. 2.24; Illustration 1, p. 2.25
1.5.3	New quantity from a given Ep: ΔQ = Ep × Q × (ΔP/P) on the original base, moving opposite to price (₹200→₹120, Ep 2, Q 60: ΔQ 48 → 108; ₹5→₹3, Ep 2.5, Q 20 → 40; ₹200→₹150, Ep 2.5, 25 kg → 40.625 kg; ₹10→₹15, Ep 1.25, 120 units → 45; ₹300→₹180, Ep 1, Q 90 → 126). In % terms: a 25% price fall (₹80→₹60) with Ep 1.25 raises demand by 31.25%; a 20% fall with Ep −1 raises Q by 20% (= 120 units, so 600 → 720).	Q4, Q11, Q15, Q30, Q52, Q55, Q65	PYQ 2019-May, 2020-Nov, 2021-Jul, 2024-Jun, 2026-Jan, 2026-May, 2026-Sep	Illustrations 3 – 4, pp. 2.25 – 2.26
1.5.4	New price from a given Ep: %ΔP = %ΔQ ÷ Ep, applied to the original price in the opposite direction to quantity (100 → 80 units at ₹6, Ep −3: %ΔQ −20%, %ΔP +6.67%, new price ₹6.40).	Q45	PYQ 2025-May; MTP 2025-Aug S1	Illustration 5, p. 2.26
1.5.5	Point elasticity is price elasticity at a particular point on the demand curve, used where the change in price is infinitesimal (small): Ep = −(dq/dp) × (p/q) — the product of the price–quantity ratio at that point and the reciprocal of the slope of the demand line (e.g. a ₹100 cut in the price of a car).	Q22, Q49, Q63	PYQ 2022-Dec, 2026-Jan; MTP 2026-Apr S2	1.5.2, pp. 2.26 – 2.27
1.5.6	For a linear demand function Q = a − bP, dQ/dP = −b: Q = 1,000 − 50P at P = ₹10 gives Q = 500 and Ep = −50 × 10/500 = −1.	Q42	PYQ 2024-Sep	1.3.3, p. 2.14; 1.5.2, p. 2.26
1.5.7	Geometric method: on a straight-line demand curve tT, elasticity at R = lower segment ÷ upper segment (RT/Rt); the slope is constant but elasticity differs at every point — at the mid-point it is 1, above it > 1, below it < 1, at the price-axis end (t) infinity and at the quantity-axis end (T) zero; it increases as we move up from T towards t.	Q1, Q6, Q7	PYQ 2018-May, 2019-May (×2)	1.5.3, pp. 2.27 – 2.28

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.8	Arc elasticity measures elasticity over an arc between two points (two prices) when price and quantity changes are discrete and large; to avoid choosing a base, the mid-point method takes the averages of the two prices and quantities as base: Ep = (Q2 − Q1)/(Q2 + Q1) × (P2 + P1)/(P2 − P1), with the minus sign dropped.	Q2, Q10, Q25, Q51 (+ 1.2 Q8, 1.2 Q11)	PYQ 2018-May, 2020-Nov, 2023-Jun, 2026-Jan; RTP 2026-May; MTP 2024-Dec S1, 2025-Jan S2	1.5.4, pp. 2.28 – 2.29
1.5.9	Arc numericals: LED TV ₹60,000→₹50,000, 1,500→2,000 = 500/3,500 × 1,10,000/10,000 = 1.57; movie ₹120→₹200, 300→200 = 0.8; cable TV ₹300→₹400, 30,000→20,000 = 1.4; P ₹15→₹20, Q 50→75 = 1.4; ₹20→₹22, 300→200 = 4.2 in absolute value (keyed −4.2).	Q23, Q27, Q29, Q53, Q62	PYQ 2023-Jun, 2023-Dec, 2024-Jun, 2026-May; MTP 2026-Apr S1	1.5.4, p. 2.29
1.5.10	The numerical value of price elasticity can be anything between zero and infinity (Table 4): 0 perfectly inelastic; between 0 and 1 inelastic; 1 unit elasticity (demand curve a rectangular hyperbola); between 1 and infinity elastic; infinity perfectly elastic. (Strictly, with its sign, it runs from minus infinity to zero.)	Q17	PYQ 2021-Dec	1.5.5, pp. 2.30 – 2.32; 1.5.1, p. 2.24
1.5.11	Ep = 0 — perfectly (completely) inelastic: quantity demanded does not change at all when price changes (52 aeroplanes at every price); the demand curve is vertical.	Q18, Q37, Q60	PYQ 2021-Dec; MTP 2024-Aug, 2025-Aug S2	1.5.5, p. 2.30; Table 4, p. 2.31
1.5.12	Ep > 1 — elastic: the % change in quantity demanded is greater than the % change in price (fairly flat curve), so a price rise brings a proportionately large fall in quantity; Ep < 1 — inelastic: the % change in quantity is smaller than the % change in price (fairly steep curve).	Q20, Q31, Q32, Q48	PYQ 2022-Jun, 2025-Sep; MTP 2024-Aug (×2), 2025-Aug S2	1.5.5, p. 2.30; Table 4, pp. 2.31 – 2.32
1.5.13	Ep = ∞ — perfectly (infinitely) elastic: the demand curve is horizontal at the price level, touching the vertical axis; buyers take any quantity at that price and none at a slightly higher price — found in a perfectly competitive market.	Q13, Q54 (+ 1.3 Q20)	PYQ 2021-Jan, 2026-May; MTP 2024-Aug	1.5.5, pp. 2.30 – 2.31
1.5.14	Read elasticity from the shape of the curve: vertical = 0; horizontal = ∞; rectangular hyperbola = 1; fairly flat = > 1; fairly steep = < 1.	Q64	PYQ 2026-Sep	1.5.5, p. 2.30 (Fig. 8)
1.5.15	Total revenue = price × quantity sold — the rectangle under a point on the demand curve (area OP1RQ1).	Q40	MTP 2024-Aug	1.5.7, p. 2.34
1.5.16	Total outlay method (Table 5): elastic — price rise lowers TR, price fall raises TR; unitary — TR unchanged; inelastic — price rise raises TR (consumers' spending), price fall lowers it. So TR rising with price → inelastic (0 < e < 1); TR unchanged → unitary; spending rising after fare cuts → elastic. Drawback: it shows only whether demand is elastic or inelastic, not the exact coefficient.	Q38, Q39, Q46, Q50, Q59, Q66 (+ 1.2 Q9)	PYQ 2023-Dec, 2024-Sep, 2025-May, 2026-Jan, 2026-Sep; MTP 2024-Aug (×2), 2024-Dec S1, 2025-Aug S1, 2025-Dec S1	1.5.6 – 1.5.7, pp. 2.32 – 2.35

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.17	Determinants of price elasticity: availability of substitutes (close substitutes → highly elastic); position in the consumer's budget (the greater the proportion of income spent, the greater the elasticity); nature of need (luxuries elastic, necessities inelastic); number of uses (more uses → more elastic); time period (longer → more elastic); consumer habits; tied demand; price range (very high or very low → inelastic, middle → elastic); minor complementary items.	Q12, Q47, Q58, Q61 (+ 1.4 Q9)	PYQ 2021-Jan, 2025-May; MTP 2024-Aug, 2025-Apr S1, 2025-May S2, 2025-Aug S1, 2025-Aug S2	1.5.8, pp. 2.35 – 2.37
1.5.18	If a person is a habitual consumer of a commodity, its demand is inelastic no matter how much its price changes.	Q8, Q21	PYQ 2019-Nov, 2022-Jun	1.5.8 (6), p. 2.37
1.5.19	Necessities (salt, school uniform, medicines, vegetables) have inelastic demand — consumers buy the same quantity even when prices rise (lockdown vegetables); luxuries such as jewellery are highly elastic.	Q16, Q19, Q33, Q34	PYQ 2021-Jul, 2021-Dec; MTP 2024-Aug (×2), 2025-Dec S1 (×2)	1.5.8 (2) – (3), p. 2.36; 1.5.5, p. 2.32
1.5.20	Tax incidence: the more elastic the demand, the larger the share of a tax borne by the seller; price elasticity tells governments how a tax burden will be shared and why indirect taxes are raised on goods with inelastic demand (alcohol, tobacco).	Q57 (+ 1.6 Q15)	RTP 2025-May; MTP 2026-Apr S1	Not in SM (RTP-only); cf. 1.5.8, p. 2.37
1.5.21	*See Topic 1.4: ₹120 → ₹90 with purchases rising from 1 kg to 2 kg is an expansion of demand; an expected future fall in price shifts the demand curve to the left.*	Q9, Q44	PYQ 2020-Nov, 2025-May	1.4, p. 2.18; 1.4.1 table, p. 2.21
1.5.22	*See Topic 1.6: income elasticity greater than one indicates a luxury good.*	Q41	PYQ 2024-Sep; MTP 2025-Aug S2	1.6, p. 2.40
1.5.23	*See Topic 1.7: cross elasticity of tea for coffee = (ΔQx/ΔPy) × (Py/Qx) = 3/10 × 25/5 = +1.5 (and 5/10 × 30/10 = +1.5) — positive, so substitutes.*	Q14, Q43	PYQ 2021-Jan, 2024-Sep; MTP 2025-Aug S2	1.7, p. 2.44; Illustration 9, p. 2.46
1.5.24	Cardinal (utility) approach relates to the law of equi-marginal utility; indifference curves slope downwards to the right, are convex to the origin, never intersect and do not touch either axis.	Q3, Q5	PYQ 2018-May, 2019-May	Not in SM Unit 1 (PYQ-only) — SM Chapter 2, Unit 2
1.5.25	Investment multiplier = 1/(1 − MPC); with C = 10 + 0.6Y, k = 2.5, so a ₹100 crore rise in investment raises income by ₹250 crore.	Q35	MTP 2024-Aug	Not in SM Unit 1 (MTP-only) — National Income chapter

Topic 1.6 Income Elasticity of Demand

15 Scanner questions · frequency PYQ 11 · RTP – · MTP 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.6.1	Income elasticity of demand = % change in quantity demanded ÷ % change in income = (ΔQ/ΔY) × (Y/Q) — the responsiveness of quantity demanded to changes in consumers' income (30% ÷ 20% = 1.5; 30% ÷ 15% = 2; ₹3,000→₹3,600 with 25→30 CDs = 20% ÷ 20% = 1.00).	Q6, Q8, Q10, Q12	PYQ 2022-Dec, 2023-Jun, 2023-Dec; MTP 2024-Aug	1.6, p. 2.38
1.6.2	Positive income elasticity → normal good. Ei > 1 → luxury good (it bulks larger in spending as income rises; the Scanner also says 'superior'); 0 < Ei < 1 → normal good that fulfils a necessity (wheat 0.5, food, medicines); Ei = 1 → the proportion of income spent on it stays the same.	Q3, Q7, Q11, Q13 (+ 1.5 Q41)	PYQ 2019-Nov, 2022-Dec, 2024-Sep, 2026-May; MTP 2024-Aug, 2025-Aug S2	1.6, pp. 2.38 – 2.40
1.6.3	Negative income elasticity → inferior good: demand falls as income rises (consumers choose superior substitutes) and rises as income falls — e.g. bajra (−0.4), used cars; Giffen goods, being inferior, also show an inverse income–demand relationship.	Q1, Q2, Q4, Q5, Q9 (+ 1.4 Q10)	PYQ 2018-May, 2019-May, 2021-Jan, 2021-Jul, 2023-Jun; MTP 2025-Apr S1	1.6, pp. 2.39 – 2.40; 1.3.5 (ii), p. 2.16
1.6.4	Income elasticity differs in the short run and the long run — for nearly all goods it is larger in the long run.	Q14	MTP 2025-Aug S2	1.6, p. 2.41
1.6.5	*See Topic 1.5: price elasticity (not income elasticity) tells governments how the tax burden will be shared.*	Q15	MTP 2026-Apr S1	1.5.8, p. 2.37

Topic 1.7 Cross-Price Elasticity of Demand

19 Scanner questions · frequency PYQ 13 · RTP – · MTP 9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.7.1	Cross demand: the quantities of a commodity bought at different prices of a related article, other things (income and its own price) constant; for substitutes the cross-demand curve slopes upwards (positively) — a rise in the price of coffee raises the demand for tea.	Q16	MTP 2025-Aug S2	1.7.1 (a), p. 2.42
1.7.2	Complementary goods (bread and butter, car and petrol, electricity and electrical gadgets, solar panels and batteries, tea and sugar) show an inverse relationship between the price of one and the demand for the other; blazer and jacket are substitutes, not complements.	Q14	PYQ 2026-May	1.7.1 (b), p. 2.43
1.7.3	Cross-price elasticity Ec = % change in quantity demanded of X ÷ % change in price of Y = (ΔQx/ΔPy) × (Py/Qx); keep the sign (2% ÷ 8% = +0.25; 5% ÷ 25% = 0.2; 5% ÷ 20% = 0.25; 8% ÷ 25% = 0.32; 15% ÷ 10% = +1.5; coffee ₹500→₹450 with sugar 10→15 kg: 50% ÷ −10% = −5).	Q2, Q3, Q4, Q9, Q10, Q13 (+ 1.5 Q14, 1.5 Q43)	PYQ 2021-Jan, 2021-Jul, 2022-Jun, 2022-Dec, 2024-Jun, 2024-Sep, 2026-May; MTP 2025-Jan S2, 2025-Aug S2 (×2), 2025-Dec S1	1.7, pp. 2.43 – 2.44; Illustrations 7 – 10, pp. 2.45 – 2.46

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.7.4	Substitutes: cross elasticity is positive — a rise in the price of Y raises the demand for X (pulses dearer → more green vegetables); the greater the value, the closer the substitute: perfect substitutes → infinite; close substitutes → positive and large; not close → positive and small.	Q1, Q5, Q6, Q8, Q18, Q19	PYQ 2018-May, 2022-Dec, 2023-Jun (×2); MTP 2026-Apr S1, 2026-Apr S2	1.7, p. 2.44
1.7.5	Totally unrelated goods: cross elasticity is zero.	Q7, Q12	PYQ 2023-Jun, 2026-Jan	1.7, p. 2.44
1.7.6	Complements: cross elasticity is negative — a rise in the price of one lowers the quantity of the other, so their purchases rise or fall together; only slightly below zero → weak complements; negative and very high → strong complements. (Negative cross elasticity can also arise from a strong income effect.)	Q11, Q15, Q17	PYQ 2025-May; MTP 2025-Aug S1 (×2), 2025-Dec S1	1.7, pp. 2.44 – 2.45
1.7.7	To predict demand from cross elasticity: % change in Qx = Ec × % change in Py (−0.8 × 20% = −16%; −1.20 × 25% = −30%).	(+ 1.8 Q7)	PYQ 2026-Sep	Illustration 8, p. 2.45

Topic 1.8 Advertisement Elasticity

7 Scanner questions · frequency PYQ 6 · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.8.1	Advertisement (promotional) elasticity of demand measures the responsiveness of a good's demand to changes in the firm's spending on advertising — the effectiveness of an advertisement campaign in bringing new sales: Ea = % change in quantity demanded ÷ % change in advertising expenditure = (ΔQd/Qd) ÷ (ΔA/A).	Q6	MTP 2026-Apr S1	1.8, pp. 2.46 – 2.47
1.8.2	Advertising elasticity of demand is typically positive and varies between zero and infinity; the higher its value, the greater the responsiveness of demand to advertisement.	Q1	PYQ 2022-Jun	1.8, pp. 2.46 – 2.47
1.8.3	Ea numericals: 5% ÷ 25% = 0.2 (less than proportionate); ₹2 lakh → ₹3 lakh (50%) with sales 10 → 20 lakh units (100%) = 2; 60% ÷ 20% = 3; 40% ÷ 20% = 2 — Ea > 1 means demand rises at a higher rate than advertisement expenditure.	Q2, Q3, Q4, Q5	PYQ 2022-Jun, 2022-Dec, 2024-Sep, 2025-Sep	1.8 table, p. 2.47
1.8.4	*See Topic 1.7: % change in demand for A = cross elasticity × % change in price of B = −1.20 × 25% = −30% (negative: complements).*	Q7	PYQ 2026-Sep	Illustration 8, p. 2.45

Unit 2: Theory of Consumer Behaviour

SM Chapter 2, Unit 2, pages 2.50 – 2.73

Topic 2.0 Nature of Human Wants

1 Scanner question · frequency PYQ – · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.1	Utility is the want-satisfying power of a commodity (in general, satisfaction). It is not absolute but relative, and a subjective concept depending on the mental attitude of people: wants are subjective and relative and vary with time, place and person, and hence so does utility. Utility is a psychological concept, different from usefulness, with no concern for moral or ethical values.	Q1 (+ 2.1 Q3)	PYQ 2025-Jan; MTP 2024-Aug	2.0, pp. 2.50 – 2.51; Summary, p. 2.72

Topic 2.1 Classification of Wants

4 Scanner questions · frequency PYQ 3 · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	Wants are classified into necessaries, comforts and luxuries. Comforts lie between necessaries and luxuries: less urgent than necessaries (which make life possible), they make life comfortable and satisfying, whereas luxuries are superfluous and expensive. The categorisation is not rigid — a comfort or luxury for one person or at one time may be a necessity for another.	Q4	MTP 2025-Aug S1	2.1, pp. 2.51 – 2.52
2.1.2	*See Topic 2.0: utility is the want-satisfying power of goods and services — relative, not absolute, and subjective.*	Q3	PYQ 2025-Jan	2.0, p. 2.50; Summary, p. 2.72
2.1.3	*See Topic 2.2: MU = TUn − TUn−1 (830 − 750 = 80; 960 − 930 = 30).*	Q1, Q2	PYQ 2021-Jul (×2)	2.0, p. 2.51; 2.2, p. 2.53

Topic 2.2 Relationship between TU & MU

12 Scanner questions · frequency PYQ 9 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	TU is the sum total of utilities from all units consumed (TU = ∑MU); MU is the additional utility derived from consuming an additional unit — the addition made to total utility: MU = TUn − TUn−1 (or ΔTU/ΔN). At the first unit TU = MU, so TU2 = TU1 + MU2 (200 + 180 = 380) and MU3 = TU3 − TU2 (480 − 380 = 100).	Q1, Q2, Q3, Q7 (+ 2.1 Q1, 2.1 Q2)	PYQ 2018-Nov (×3), 2021-Jul (×2), 2023-Dec	2.0, p. 2.51; 2.2, p. 2.53
2.2.2	While TU increases at a decreasing rate, MU is decreasing but remains positive; when TU is maximum (and constant) — the point of satiation — MU is zero; when TU starts decreasing, MU becomes negative.	Q4, Q6, Q10, Q11	PYQ 2019-May, 2021-Dec, 2025-May; MTP 2025-May S2	2.2, p. 2.53

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.3	'Total satiety' as another name for total utility is ICAI's keyed answer; the SM uses no such term (TU is simply the sum of marginal utilities, maximum when MU = 0).	Q5	PYQ 2019-Nov	Not in SM (PYQ-only)
2.2.4	With one commodity, the consumer is in equilibrium when the MU of the good equals its price; if MU is given in utils and the MU of money (MUm) is known, Price = MUx ÷ MUm (50 ÷ 10 = ₹5).	Q12	MTP 2025-Apr S1	2.4, p. 2.55 (the MUx ÷ MUm form is not in SM)
2.2.5	*See Topic 2.4: consumer surplus = what a consumer is ready to pay − what he actually pays (Marshall's 'excess of the price …'); a rise in price reduces it and a fall increases it.*	Q8, Q9	PYQ 2025-Jan; MTP 2024-Dec S1	2.4, pp. 2.55, 2.57

Topic 2.3 Law of Diminishing Marginal Utility

17 Scanner questions · frequency PYQ 11 · RTP 2 · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	Law of diminishing marginal utility: as a consumer takes more units of a good, the extra satisfaction from each extra unit goes on falling — it is MU, not TU, that declines. So the second glass of lemonade gives less satisfaction than the first, and the first unit contributes most. The law rests on the fact that each single want is satiable.	Q2, Q15	PYQ 2021-Jan; RTP 2026-Jan	2.3, p. 2.53; Summary, p. 2.72
2.3.2	Utility is measured in utils (unit of utility); marginal utility analysis is cardinal (Marshall's approach).	Q4	PYQ 2021-Dec	2.3, p. 2.54; 2.5, p. 2.59
2.3.3	Assumptions of the law: the units are identical in all respects and the consumer's habit, taste, treatment and income remain unchanged; units are standard (not successive spoonfuls); there is no time gap — consumption is continuous; it may not apply to gold or cash; substitutes and complements affect the shape of the utility curve. Being cardinal, MU analysis does NOT assume ordinal measurability, and 'income changing frequently' is not an assumption.	Q6, Q16	PYQ 2022-Dec; MTP 2026-Apr S1	2.3, p. 2.54; 2.5, p. 2.59
2.3.4	*See Topic 2.2: MUn = TUn − TUn−1 (108 − 100 = 8); when MU = 0, TU is maximum; TU = MU only at the first unit (TU1 = 25 = 25 − 0).*	Q5, Q7, Q8, Q17	PYQ 2022-Dec, 2023-Jun, 2023-Dec, 2026-Sep	2.0, p. 2.51; 2.2, p. 2.53
2.3.5	*See Topic 2.4: the concept of consumer surplus is derived from (based on) the law of diminishing marginal utility — not the other way round; consumer surplus increases when the price of the good falls.*	Q3, Q9, Q10	PYQ 2021-Dec, 2024-Sep; RTP 2024-Sep	2.4, pp. 2.55, 2.57

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.6	*See Topic 2.5: at consumer equilibrium MUx/Px = MUy/Py and MRSxy = Px/Py, so an IC steeper than the budget line at the chosen bundle is not equilibrium; budget-line slope = price of the X-axis good ÷ price of the Y-axis good (Pepsi on X, Nachos on Y: PP/PN); a higher IC (IC3) gives higher satisfaction.*	Q1, Q11, Q12, Q13	PYQ 2018-Nov, 2025-Jan; MTP 2024-Dec S1 (×2), 2025-Apr S1	2.5.2, p. 2.62; 2.5.5, p. 2.69; 2.5.6, p. 2.71
2.3.7	A Giffen good is an inferior good — its quantity demanded falls as income rises — so its Engel curve (income–quantity) is negatively sloped.	Q14	MTP 2025-Jan S2	Not in SM (MTP-only)

Topic 2.4 Consumer Surplus

16 Scanner questions · frequency PYQ 13 · RTP 2 · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.1	The concept of consumer surplus was propounded by Alfred Marshall, who defined it as the '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'. Thus consumer surplus = what a consumer is ready to pay − what he actually pays: the buyer's net gain from purchasing a good.	Q5, Q7, Q13 (+ 2.2 Q8, 2.2 Q9, 3.4 Q5)	PYQ 2021-Jul, 2022-Jun, 2025-Jan, 2026-Jan; MTP 2024-Dec S1, 2026-Apr S1	2.4, pp. 2.54 – 2.55; Summary, p. 2.72
2.4.2	Numericals: CS = maximum amount the consumer is willing to pay − the price actually paid, where the actual price is net of every discount (₹11,000 − 20% = ₹8,800 − ₹300 cash discount = ₹8,500; CS = ₹12,000 − ₹8,500 = ₹3,500; ₹60,000 − ₹55,000 = ₹5,000).	Q4, Q8	PYQ 2020-Nov, 2024-Jun	2.4, p. 2.55
2.4.3	Consumer surplus is derived from the law of diminishing marginal utility: the consumer buys until MU equals price, and since the price is the same for all units, he gets extra utility (surplus) on every unit except the one at the margin, where consumer surplus is zero.	Q1, Q3, Q6 (+ 2.3 Q3, 2.3 Q10)	PYQ 2018-May, 2019-May, 2021-Dec (×2); RTP 2024-Sep	2.4, pp. 2.55 – 2.56
2.4.4	Consumer surplus is closely related to the demand curve, which reflects buyers' willingness to pay; graphically it is the triangular area below the demand curve and above the price line.	Q12, Q16	PYQ 2025-Sep, 2026-Sep	2.4, pp. 2.56 – 2.57
2.4.5	A rise in the price of a good reduces consumer surplus; a fall in price increases it (higher price → smaller surplus).	Q15 (+ 2.2 Q8, 2.3 Q9)	PYQ 2024-Sep; MTP 2024-Dec S1, 2025-Aug S2	2.4, p. 2.57; Summary, p. 2.72
2.4.6	Limitations: consumer surplus cannot be measured precisely (the MUs of different units are hard to measure); in the case of necessaries it is always infinite; it is affected by the availability of substitutes; there is no rule for prestige goods (diamonds); the MU of money does not stay constant; and utility may not be measurable in money.	Q2, Q14	PYQ 2018-Nov; RTP 2025-May	2.4.2, p. 2.59

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.7	*See Topic 2.5: intersecting ICs are logically absurd (no 'highest-satisfaction' point); IC analysis is the ordinal approach based on consumer preferences; perfect substitutes give a straight-line IC.*	Q9, Q10, Q11	PYQ 2024-Sep (×2); RTP 2024-Sep	2.5, p. 2.59; 2.5.4, pp. 2.65 – 2.66

Topic 2.5 Indifference Curve Analysis

43 Scanner questions · frequency PYQ 30 · RTP – · MTP 19

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.1	The ordinal utility approach uses the indifference curve to analyse consumer behaviour and is based on consumer preferences: satisfaction cannot be measured, only ranked (utility is only ordinally expressible), unlike Marshall's cardinal approach. The ordinal analysis in the SM is that of J.R. Hicks and R.G.D. Allen.	Q10, Q12, Q36 (+ 2.4 Q10)	PYQ 2021-Jul, 2021-Dec, 2024-Sep; MTP 2025-Apr S1, 2025-Aug S1	2.5, p. 2.59; 2.5.0, p. 2.60; 2.5.1, p. 2.60
2.5.2	'More is better' (non-satiation) assumption: if bundle A has more commodities than bundle B, A is preferred — i.e. preferences are monotonic: more of at least one good and no less of the other.	Q25	MTP 2024-Aug, 2025-Dec S1	2.5.0 (iv), p. 2.60 (the term 'monotonic' is not in SM)
2.5.3	An indifference curve represents all combinations of two goods which give the consumer the same (equal) satisfaction — an iso-utility curve. It slopes downward from left to right because, when more of one good is taken, less of the other must be taken for satisfaction to stay the same.	Q7, Q17, Q19	PYQ 2019-Nov, 2022-Dec, 2023-Dec; MTP 2025-May S2	2.5.1, p. 2.60; 2.5.4 (i), pp. 2.64 – 2.65
2.5.4	MRS is the rate at which a consumer is prepared to exchange goods X and Y, holding satisfaction constant: MRSxy = ΔY/ΔX, the amount of Y whose loss is just compensated by a unit gain of X, = MUx/MUy = slope of the IC. MRS diminishes as more X is taken (each want is satiable; goods are imperfect substitutes), which makes the IC convex.	Q4, Q11, Q28, Q37	PYQ 2018-Nov, 2021-Dec, 2025-May; MTP 2025-Apr S1, 2025-Aug S1	2.5.3, pp. 2.62 – 2.64
2.5.5	Properties of ICs: (i) slope downward to the right; (ii) always convex to the origin; (iii) never intersect (or touch) each other — intersection is logically absurd, showing higher and lower satisfaction as equal; (iv) a higher IC (farther from the origin) represents higher satisfaction; (v) never touch either axis. Concave, upward-sloping, intersecting or axis-touching ICs are NOT properties.	Q3, Q14, Q32, Q33, Q43 (+ 2.3 Q13, 2.4 Q9)	PYQ 2018-Nov, 2021-Dec, 2024-Sep, 2025-Jan, 2026-Jan, 2026-May, 2026-Sep	2.5.2, p. 2.61; 2.5.4, pp. 2.64 – 2.67
2.5.6	Two extremes: perfect substitutes give straight, parallel ICs with a constant MRS; perfect complements (left and right shoe, consumed only in fixed proportions) give an IC of two straight lines with a right-angle bend — L-shaped (MRS undefined).	Q1, Q8, Q15, Q16, Q18, Q27 (+ 2.4 Q11)	PYQ 2018-May, 2020-Nov, 2022-Jun (×2), 2023-Jun; RTP 2024-Sep; MTP 2025-Jan S2	2.5.4 (ii), p. 2.65

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.7	The budget line (price line) shows all combinations of two goods the consumer can buy by spending his given money income at given prices (PxQx + PyQy = B). A point inside/below it (K) shows underspending — not all income is spent; a point outside/above it (H) is beyond the consumer's reach (unattainable).	Q6, Q20, Q22, Q26	PYQ 2019-Nov, 2023-Dec, 2024-Jun; MTP 2024-Aug	2.5.5, pp. 2.67 – 2.69
2.5.8	Budget-line intercept on an axis = income ÷ price of that good, so price = income ÷ intercept (₹750 ÷ 25 = ₹30; ₹750 ÷ 50 = ₹15).	Q21	PYQ 2024-Jun	2.5.5, pp. 2.67 – 2.68 (Table 9)
2.5.9	The slope of the budget line is determined by the relative prices of the two goods — the price ratio Px/Py — and measures the rate at which the consumer can trade one good for the other; a relative price is the ratio of one money price to another.	Q31, Q38 (+ 2.3 Q11)	PYQ 2025-Sep; MTP 2024-Dec S1, 2025-Apr S1, 2025-Aug S2	2.5.5, p. 2.69
2.5.10	The budget line shifts with a change in the price of one or both goods (income constant), a change in nominal income (relative prices constant), or both. A change in income gives a parallel shift; a rise in the price of one good alone rotates the line inward on that good's axis (the other intercept stays), leaving the consumer on a lower IC; if both prices change in the same proportion the slope stays the same.	Q9, Q13, Q35, Q40, Q41	PYQ 2020-Nov, 2021-Dec; MTP 2025-Aug S1, 2026-Apr S2 (×2)	2.5.5, p. 2.69 (rotation/parallel detail derived)
2.5.11	Consumer equilibrium (optimal choice) is a point on the budget line lying on the highest possible IC — where the price line is tangent to the IC, so slope of IC = slope of price line: MRSxy = MUx/MUy = Px/Py. The consumer maximises satisfaction subject to constraints: given prices and limited money income.	Q2, Q29, Q39, Q42 (+ 2.3 Q12)	PYQ 2018-Nov, 2025-Sep; MTP 2024-Dec S1, 2025-May S2, 2025-Dec S1	2.5.5, p. 2.67; 2.5.6, pp. 2.70 – 2.71
2.5.12	Equivalently, at equilibrium MUx/Px = MUy/Py (= MUz/Pz): marginal utility per rupee is equal for all goods.	Q30 (+ 2.3 Q1)	PYQ 2018-Nov, 2025-Sep	2.5.6, p. 2.71; Summary, p. 2.73
2.5.13	IC analysis is superior to utility analysis: it dispenses with the measurability of utility; studies more than one commodity at a time; does not assume constant MU of money; and segregates the income effect from the substitution effect.	Q34	MTP 2025-Aug S1	2.5.6, p. 2.71
2.5.14	The substitution effect of a price fall (ceteris paribus) is a movement down along the same IC (utility constant) towards the now-cheaper good.	Q23	MTP 2024-Aug, 2025-May S2	Not in SM (MTP-only)
2.5.15	Inferior goods have a negative income effect and negative income elasticity (maize at −0.30): demand falls as income rises.	Q5, Q24	PYQ 2019-May (×2); MTP 2024-Aug	Not in SM Unit 2 (PYQ-only here; income elasticity is SM Ch. 2 Unit 1)

Unit 3: Supply

SM Chapter 2, Unit 3, pages 2.74 – 2.90

Topic 3.0 Introduction

2 Scanner questions · frequency PYQ 4 · RTP – · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.0.1	Supply (quantity supplied) is the amount of a good or service producers are willing and able to offer to the market (plan to sell) at various prices during a given period — what is offered for sale, not necessarily what is sold.	Q1	PYQ 2019-Nov	3.0, pp. 2.74 – 2.75
3.0.2	Supply is a flow: it is identified for a specified time period — 'so much' per day, week or year.	Q2	PYQ 2018-May, 2019-Nov, 2021-Jan	3.0 (iii), p. 2.75

Topic 3.1 Determinants of Supply

1 Scanner question · frequency PYQ – · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.1	Determinants of supply: price of the good; prices of related goods; prices of factors of production (input costs); state of technology; government policy (taxes, subsidies); nature of competition and size of industry; expectations; number of sellers; other factors (weather, strikes etc.). Consumer preferences determine demand, not supply.	Q1	MTP 2024-Aug	3.1, pp. 2.75 – 2.76
3.1.2	Prices of related goods: if the price of Y rises, producers shift resources to Y and the quantity supplied of X falls (wheat price up → land shifted away from corn). So for goods that are substitutes in production, higher demand for one reduces the supply of the other.	(+ 3.5 Q18)	MTP 2025-Jan S2	3.1 (ii), p. 2.75

Topic 3.2 Law of Supply

4 Scanner questions · frequency PYQ 3 · RTP 1 · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.2.1	Law of supply: other things remaining constant, the quantity supplied increases as the price of the good rises and decreases as it falls — a change in quantity supplied relates to the good's own price.	Q2	PYQ 2018-Nov	3.2, p. 2.77; Summary, p. 2.89
3.2.2	Ceteris paribus, a higher price means greater profits and so a greater incentive to supply; a rise in the supply price in the short run raises the producer's profit.	Q1	PYQ 2018-May	3.1 (i), p. 2.75; 3.2, p. 2.77
3.2.3	The supply curve shows the quantity supplied at each price while holding constant every other factor (input prices, technology, weather); only the commodity's own price varies along it.	Q4	RTP 2024-Sep	3.2, p. 2.78
3.2.4	*See Topic 3.4: a rightward shift of the supply curve is an increase in supply.*	Q3	PYQ 2021-Jan	3.4, p. 2.79

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

1 Scanner question · frequency PYQ 1 · RTP – · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.1	A rise in the good's own price causes an expansion of supply (upward movement on the supply curve); a fall in its price causes a contraction of supply (downward movement).	Q1	PYQ 2019-May	3.3, p. 2.79

Topic 3.4 Shifts in Supply Curve-increase or decrease in supply

8 Scanner questions · frequency PYQ 4 · RTP – · MTP 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.4.1	A change in any factor other than the good's own price shifts the supply curve: a rightward shift is an increase in supply (more offered at each price); a leftward shift is a decrease in supply. Expansion and contraction are movements along the curve, not shifts.	Q1, Q2, Q8 (+ 3.2 Q3)	PYQ 2018-May, 2021-Jan, 2023-Jun, 2026-Sep	3.4, pp. 2.79 – 2.80
3.4.2	Entry of new firms (a new supplier) shifts the industry supply curve to the right; a tax on the good or higher wage costs raise costs and shift it left; a rise in the good's own price is a movement along it.	Q7	MTP 2026-Apr S2	3.1 (iii), (v), (viii), pp. 2.75 – 2.76
3.4.3	*See Topic 3.5: Es = (Δq/Δp) × (p/q) — SM example 500/100 × 2,000/2,500 = 4; %ΔP = %ΔQ ÷ Es = 20% ÷ 1.25 = 16%, so the new price is ₹11.60.*	Q3, Q4	PYQ 2024-Sep; MTP 2024-Aug	3.5, pp. 2.80 – 2.81
3.4.4	*See Topic 3.6: when supply increases and demand decreases, equilibrium price definitely falls; the change in quantity is uncertain.*	Q6	MTP 2026-Apr S1	Not in SM (MTP-only)
3.4.5	See Unit 2, Topic 2.4: the concept of consumer surplus was propounded by Alfred Marshall.	Q5	MTP 2026-Apr S1	2.4, p. 2.54

Topic 3.5 Elasticity of Supply

24 Scanner questions · frequency PYQ 22 · RTP – · MTP 8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.1	Elasticity of supply is the responsiveness of quantity supplied to a change in price: Es = % change in quantity supplied ÷ % change in price = (Δq/Δp) × (p/q), with p and q the original values. It is positive because price and quantity supplied move together. Rearranged: %ΔQs = Es × %ΔP (5 × 15% = 75%) and %ΔP = %ΔQs ÷ Es.	Q1, Q5, Q9, Q13, Q14, Q15 (+ 3.4 Q3, 3.4 Q4)	PYQ 2018-Nov, 2019-Nov, 2022-Jun, 2023-Jun, 2023-Dec, 2024-Sep, 2025-Jan; MTP 2024-Aug, 2025-Apr S1	3.5, pp. 2.80 – 2.81
3.5.2	Supply elasticity is measured in two ways: point elasticity (at a given point on the supply curve) and arc elasticity (between two points). 'Inelasticity' and 'perfect elasticity' are degrees, not methods of measurement.	Q8, Q22	PYQ 2022-Jun, 2026-Jan	3.5.1, p. 2.84; Summary, p. 2.89

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.3	Point elasticity: Es = (dq/dp) × (p/q), where dq/dp is the coefficient of p in the supply function — find q at the given p first (Q = 20p − 200 at p = 30: 20 × 30/400 = 1.5; q = 120 + 6p at p = 10: 6 × 10/180 = 1/3).	Q7, Q17	PYQ 2021-Dec, 2025-Jan; MTP 2025-Aug S2	3.5.1, pp. 2.84 – 2.85
3.5.4	Arc elasticity (between two prices): Es = (Q2 − Q1)/(Q2 + Q1) × (P2 + P1)/(P2 − P1) (50/350 × 210/10 = 3).	Q20	PYQ 2025-May	3.5.1, p. 2.85
3.5.5	Perfectly inelastic supply: Es = 0 — quantity supplied is unchanged whatever the price; the supply curve is vertical (parallel to the Y-axis). Total supply of land to the economy is the standard example: unaffected by changes in demand.	Q2, Q3, Q10, Q21	PYQ 2018-Nov, 2019-May, 2019-Nov, 2022-Jun, 2026-Jan; MTP 2025-Apr S1, 2025-Aug S1	3.5.0 (i), p. 2.81 (land example not in SM)
3.5.6	Relatively less-elastic supply: 0 < Es < 1 (%ΔQ < %ΔP); relatively greater-elastic supply: 1 < Es < ∞ — quantity changes substantially for a small price change; unit-elastic: Es = 1 (%ΔQ = %ΔP), the dividing line. A straight-line supply curve through the origin has Es = 1 whatever its angle.	Q6, Q23	PYQ 2020-Nov; MTP 2025-Aug S2, 2025-Dec S1	3.5.0 (ii) – (iv), pp. 2.82 – 2.83 (origin-line rule not in SM)
3.5.7	Perfectly elastic supply: Es = ∞ — the supply curve is horizontal (parallel to the X-axis); nothing is supplied at a lower price and any quantity at that price.	Q11, Q16, Q24	PYQ 2022-Dec, 2025-Jan, 2026-Sep	3.5.0 (v), p. 2.83
3.5.8	Supply is less elastic when costs rise substantially with output, production is complex or slow (aircraft), the time period is short, capacity is fully used, inputs or skilled labour are scarce, or the good cannot be stored without losing value — so perishables such as eggs, and hotel rooms in a tourist rush, have inelastic supply (Es < 1). It is more elastic with a longer period, many producers, few entry barriers, spare capacity, easy storage, and easy factor substitution and mobility.	Q4, Q12, Q19	PYQ 2019-May, 2023-Jun; MTP 2025-Jan S2	3.5.2, pp. 2.85 – 2.86
3.5.9	*See Topic 3.1: for goods that are substitutes in production, a rise in demand for corn draws inputs away from wheat, so the supply of wheat decreases.*	Q18	MTP 2025-Jan S2	3.1 (ii), p. 2.75

Topic 3.6 Equilibrium Price

5 Scanner questions · frequency PYQ 4 · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.6.1	Equilibrium price is determined by the intersection of demand and supply: quantity demanded equals quantity supplied, with no unsold stock and no excess demand. It is also called market equilibrium or the market clearing price. Above it, excess supply pushes the price down; below it, excess demand pushes it up.	Q3	PYQ 2023-Dec	3.6, p. 2.87
3.6.2	Algebraic equilibrium: set Qd = Qs and solve for P, then Q (12 − 2P = 3 + P → P = 3, Q = 6).	Q5	MTP 2025-Apr S1, 2025-Dec S1	3.6, p. 2.87

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.6.3	Producer surplus is the benefit producers get from selling a unit above its cost of production; it arises when the market price is more than the minimum price at which the producer would supply — the area above the supply curve and below the price line.	Q2	PYQ 2022-Dec	3.6.1, p. 2.88
3.6.4	When demand decreases and supply increases, equilibrium price definitely falls (both shifts push it down) but the effect on quantity is uncertain (the shifts pull quantity in opposite directions).	Q4 (+ 3.4 Q6)	PYQ 2026-Jan; MTP 2026-Apr S1	Not in SM (PYQ-only)
3.6.5	Short-run price is also called market price (ICAI's keyed answer). The SM calls the equilibrium price 'market equilibrium' or 'market clearing price', not short-run price.	Q1	PYQ 2018-May	Not in SM (PYQ-only)

Part B — Chapter 2 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 57% of ICAI appearances in this chapter.

Unit 1 — Law of Demand and Elasticity of Demand

#	One-liner	Weight	Part A ref
1	Business firms must analyse the demand for their products.	★	1.0.1
2	Demand = quantity buyers are willing AND able to buy at various prices in a given period — more than desire.	★	1.0.2
3	Effective demand = desire + means to purchase + willingness to use them (unlimited wants is not an element).	★★	1.0.3, 1.1.18
4	Determinants: own price, related goods' prices, disposable income, tastes, expectations, population size and age, national income and its distribution, credit and interest, government policy — NOT cost of production.	★★	1.1.1, 1.1.12
5	Ceteris paribus = other things being equal.	★	1.1.2
6	Related goods: two types — complements and substitutes.	★	1.1.3
7	Complements (consumed together — car & petrol, computer & software): demand vs complement's price = inverse.	★★	1.1.4
8	Substitutes (used in place — tea & coffee): demand vs substitute's price = direct.	★★	1.1.5
9	Normal goods: demand rises with income; inferior goods: demand rises only up to a level of income, then falls.	★	1.1.6, 1.1.7
10	Demonstration effect — James Duesenberry — emulating others' consumption.	★★	1.1.8, 1.2.6
11	Bandwagon: demand rises because others buy (share-market followers).	★★	1.1.9
12	**Snob: demand falls because others buy (exclusivity; function of others' consumption).**	★★★	1.1.10
13	Veblen: status-seeking rich, conspicuous consumption; function of price.	★★	1.1.11, 1.0.4
14	Demand function Qx = f(Px, Y, Pr); prices of unrelated goods excluded.	★	1.2.1
15	Q = k/P is a rectangular hyperbola → Ep = 1 at every point.	★	1.2.2
16	**Law of demand (Marshall): inverse price–quantity relation, ceteris paribus.**	★★★	1.3.1, 1.3.2, 1.3.16
17	Slope of demand curve = −ΔP/ΔQ.	★	1.1.15
18	Market demand = horizontal summation of individual demands.	★	1.3.3, 1.2.4
19	Price effect = substitution effect + income effect (Hicks & Allen); Marshall → diminishing marginal utility.	★★	1.3.4, 1.3.1
20	**Substitution effect: response to relative price change; always positive on a price fall; stronger with closer substitutes, lower switching cost and inconvenience.**	★★★	1.3.5, 1.3.6, 1.1.14
21	Income effect = change in demand from a change in real income.	★	1.3.7, 1.4.2

#	One-liner	Weight	Part A ref
22	Inferior goods: income effect opposes substitution effect; negative IE > SE → law violated (Giffen paradox).	★★	1.3.8
23	Why demand slopes down: price effect, diminishing MU, new consumers, different uses.	★	1.3.9, 1.2.3
24	**Exceptions: conspicuous goods, Giffen goods, conspicuous necessities, price expectations, incomplete information / irrationality, necessaries, speculative goods.**	★★★	1.3.10, 1.2.5
25	Conspicuous (prestige) goods: Veblen effect → upward-sloping demand curve.	★★	1.3.11
26	**Giffen: inferior, no close substitutes, large budget share, upward-sloping curve (bajra); all Giffen goods are inferior, not vice versa.**	★★★	1.3.12, 1.3.13
27	Conspicuous necessities: TV, refrigerator, AC — demand does not fall as prices rise.	★	1.3.14
28	**Expansion = price fall → more demanded (downward movement); contraction = price rise → less demanded (upward movement).**	★★★	1.4.1
29	Non-price factors shift the curve: right = increase in demand, left = decrease in demand.	★★	1.4.3, 1.3.15, 1.1.16
30	Leftward shift: rise in a complement's price, fall in a substitute's price, expected price fall, fewer buyers, fall in income (normal goods).	★	1.4.4
31	Movement along = change in quantity demanded (own price); shift = change in demand (other factors).	★★	1.4.5, 1.1.17
32	Elasticity = % change in Q ÷ % change in a determinant; 'elasticity' alone = price elasticity.	★★	1.5.1
33	PED = (ΔQ/ΔP) × (P/Q) on the original base; sign negative, read the magnitude.	★★	1.5.2
34	**New Q: ΔQ = Ep × Q × ΔP/P; new P: %ΔP = %ΔQ ÷ Ep.**	★★★	1.5.3, 1.5.4
35	Point elasticity: infinitesimal change; −(dq/dp) × (p/q) = price–quantity ratio × reciprocal of slope; Q = a − bP → dQ/dP = −b.	★★	1.5.5, 1.5.6
36	Linear curve: lower ÷ upper segment; mid-point 1, price-axis end ∞, quantity-axis end 0.	★★	1.5.7
37	**Arc: two points, large changes, average base — (Q2−Q1)/(Q2+Q1) × (P2+P1)/(P2−P1), sign dropped.**	★★★	1.5.8, 1.5.9, 1.2.8
38	**Values from 0 to ∞: 0 vertical; < 1 steep; 1 rectangular hyperbola; > 1 flat.**	★★★	1.5.10, 1.5.11, 1.5.12, 1.5.14
39	Ep = ∞: horizontal at the price level, touching the vertical axis — perfect competition.	★★	1.5.13, 1.3.17
40	**TR = P × Q; elastic: price up → TR down; unitary: TR same; inelastic: price up → TR up.**	★★★	1.5.15, 1.5.16
41	**PED determinants: substitutes, budget share (bigger share → more elastic), luxury vs necessity, number of uses, time, habits, tied demand, price range, minor complements.**	★★★	1.5.17, 1.4.7

#	One-liner	Weight	Part A ref
42	**Habitual consumption and necessities (salt, medicine, vegetables) → inelastic; jewellery → elastic.**	★★★	1.5.18, 1.5.19
43	More elastic demand → seller bears more of a tax; governments tax inelastic goods for revenue; heavy taxes curb consumption only if ed > 1.	★★	1.5.20, 1.3.19, 1.6.5
44	Income elasticity = % change in Q ÷ % change in income.	★★	1.6.1
45	**Ei > 1 luxury; 0 < Ei < 1 necessity (normal); Ei < 0 inferior.**	★★★	1.6.2, 1.6.3, 1.4.8, 1.5.22
46	Income elasticity differs between short and long run (larger in the long run).	★	1.6.4
47	Cross demand: for substitutes the cross-demand curve slopes upwards.	★	1.7.1
48	**Ec = % change in Qx ÷ % change in Py — the sign matters.**	★★★	1.7.3, 1.5.23, 1.2.9
49	**Substitutes: Ec positive (perfect substitutes ∞); unrelated goods: 0.**	★★★	1.7.4, 1.7.5
50	Complements: Ec negative (slightly below 0 = weak; very negative = strong); blazer & jacket are not complements.	★★	1.7.6, 1.7.2
51	Predict: % change in Qx = Ec × % change in Py.	★	1.7.7, 1.8.4
52	**Advertisement elasticity = % change in Qd ÷ % change in ad spend; typically positive, 0 to ∞; > 1 = demand rises faster than ad spend.**	★★★	1.8.1, 1.8.2, 1.8.3
53	**Outside this unit: consumer equilibrium, IC properties, cardinal approach (Unit 2); supply and cost (Unit 3); AR = demand curve (Ch. 4); multiplier (National Income); direct vs derived demand; comforts.**	★★★	1.1.13, 1.5.24, 1.3.18, 1.5.25, 1.2.7, 1.4.6

Unit 2 — Theory of Consumer Behaviour

#	One-liner	Weight	Part A ref
1	Utility = want-satisfying power; relative, subjective — varies with person, time, place.	★	2.0.1
2	Wants: necessaries · comforts · luxuries; comforts lie between necessaries and luxuries.	★	2.1.1
3	**TU = ∑MU; MU = TUn − TUn−1 = addition to TU; TU = MU at the first unit.**	★★★	2.2.1, 2.3.4
4	MU falling but +ve → TU rises at diminishing rate; MU = 0 → TU maximum (satiation); MU −ve → TU falls.	★★	2.2.2
5	Law of DMU: each extra unit adds less; MU (not TU) declines; first unit gives most; each want is satiable.	★	2.3.1
6	Utility measured in utils; MU analysis is cardinal.	★	2.3.2
7	DMU assumptions: identical standard units · habit, taste, income unchanged · continuous consumption · not gold/cash.	★	2.3.3
8	**Consumer surplus (Marshall) = what consumer is ready to pay − what he actually pays (net of all discounts).**	★★★	2.4.1, 2.4.2

#	One-liner	Weight	Part A ref
9	**CS derived from law of DMU; buys till MU = price; zero surplus on the marginal unit.**	★★★	2.4.3, 2.3.5, 2.2.4
10	CS ↔ demand curve; triangular area below demand curve and above price line.	★	2.4.4
11	Price ↑ → CS ↓; price ↓ → CS ↑.	★★	2.4.5
12	CS limitations: not measurable precisely · infinite for necessaries · affected by substitutes.	★	2.4.6
13	IC analysis = ordinal approach based on preferences; Hicks & Allen.	★★	2.5.1
14	'More is better' (non-satiation) = monotonic preferences.	★	2.5.2
15	IC = combinations giving equal satisfaction (iso-utility); slopes downward to the right.	★★	2.5.3
16	MRS = rate of exchanging X for Y with satisfaction constant = ΔY/ΔX = MUx/MUy; diminishing → convex IC.	★★	2.5.4
17	**IC properties: slopes down · convex · never intersect · higher = better · never touches axes.**	★★★	2.5.5
18	**Perfect substitutes → straight line; perfect complements → L-shaped (right-angle bend).**	★★★	2.5.6
19	Budget line = price line; inside (K) = underspending; outside (H) = unattainable.	★★	2.5.7
20	Intercept = income ÷ price; slope = Px/Py (relative prices).	★★	2.5.8, 2.5.9
21	Budget line shifts: income change → parallel; one price change → rotation on that axis (lower IC if price rises).	★★	2.5.10
22	**Equilibrium: price line tangent to highest IC; MRSxy = MUx/MUy = Px/Py; MUx/Px = MUy/Py.**	★★★	2.5.11, 2.5.12
23	IC superior: no measurability · several goods · no constant MU of money · separates income and substitution effects.	★	2.5.13
24	**Outside the SM: substitution effect = movement along same IC; inferior goods → negative income effect; Giffen Engel curve slopes down.**	★★★	2.5.14, 2.5.15, 2.3.7

Unit 3 — Supply

#	One-liner	Weight	Part A ref
1	Supply = amount producers are willing and able to offer at various prices in a period; offered, not necessarily sold; a flow.	★★	3.0.1, 3.0.2
2	Determinants: own price · related goods · factor prices · technology · govt policy · competition · expectations · number of sellers (not consumer preferences).	★	3.1.1
3	Price of Y ↑ → quantity supplied of X ↓ (substitutes in production).	★	3.1.2, 3.5.9
4	Law of supply: direct price–quantity relation, ceteris paribus; higher price = higher profit.	★	3.2.1, 3.2.2
5	Supply curve holds every factor other than own price constant.	★	3.2.3

#	One-liner	Weight	Part A ref
6	Own-price change = movement: expansion (price ↑) / contraction (price ↓).	★	3.3.1
7	Other factor = shift: right = increase, left = decrease; new firms → right; tax, wage costs → left.	★★	3.4.1, 3.4.2, 3.2.4
8	**Es = %ΔQs ÷ %ΔP = (Δq/Δp) × (p/q), original p and q; positive.**	★★★	3.5.1, 3.4.3
9	**Measurement: point Es = (dq/dp) × (p/q); arc Es = (Q2 − Q1)/(Q2 + Q1) × (P2 + P1)/(P2 − P1).**	★★★	3.5.2, 3.5.3, 3.5.4
10	**Es = 0 → vertical (parallel to Y-axis), e.g. land; Es = ∞ → horizontal (parallel to X-axis).**	★★★	3.5.5, 3.5.7
11	0 < Es < 1 less elastic · Es > 1 greater elastic · Es = 1 unit (line through origin).	★★	3.5.6
12	Es lower: rising costs, complex production, short period, no spare capacity, scarce inputs, non-storable goods.	★★	3.5.8
13	Equilibrium: Qd = Qs; market clearing price; solve Qd = Qs algebraically.	★★	3.6.1, 3.6.2
14	Producer surplus: price above minimum supply price; area above supply curve, below price line.	★	3.6.3
15	Demand ↓ + supply ↑ → price falls, quantity uncertain (not in SM).	★	3.6.4, 3.4.4
16	Short-run price = market price (PYQ-only).	★	3.6.5

CHAPTER 3

Theory of Production and Cost

248 Scanner questions · 107 one-liners · 66 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: Theory of Production

SM Chapter 3, Unit 1, pages 3.2 – 3.34

Topic 1.0 Meaning of Production

5 Scanner questions · frequency PYQ 5 · RTP – · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.0.1	In Economics, production means creation or addition of utility — not creation of matter, because man cannot create matter; he only transforms what already exists (a carpenter turns wood into a table). Production is any economic activity which converts inputs into outputs capable of satisfying human wants.	Q1, Q4	PYQ 2018-May, 2021-Jan	1.0, p. 3.3
1.0.2	Production covers services as well as goods (the work of doctors, lawyers, teachers, actors, dancers is production), but it does NOT include work done within a household out of love and affection, voluntary services, or goods produced for self-consumption — intention to exchange in the market is an essential component of production.	Q3, Q5	PYQ 2019-May, 2024-Sep	1.0, pp. 3.3 – 3.4
1.0.3	See Chapter 1: issues requiring business decisions include the optimum output and the price at which to sell, how the product will be placed in the market, and how to combat the risks and uncertainties involved — all of these.	Q2	PYQ 2018-Nov	Not in SM Chapter 3 Unit 1 (PYQ-only)

Topic 1.1 Factors of Production

41 Scanner questions · frequency PYQ 38 · RTP 1 · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.1	Land, labour, capital and entrepreneurial ability are the four factors or resources which make it possible to produce goods and services; land is a free gift of nature, while human endeavour divides into labour, capital and entrepreneurial skills.	Q27	PYQ 2025-Sep	1.1, p. 3.5
1.1.2	Seven characteristics of land: free gift of nature; supply is fixed; permanent, with original and indestructible powers (Ricardo) — so NOT perishable; passive factor (NOT active); immobile in the geographical sense; multiple uses; heterogeneous — no two pieces of land are alike (they differ in fertility and situation), so NOT homogeneous.	Q2, Q11, Q14, Q16, Q21, Q24, Q37	PYQ (CPT) 2016-Dec, 2018-Nov, 2022-Jun, 2022-Dec, 2023-Jun, 2024-Jun, 2025-Jan, 2026-Sep	1.1.0, p. 3.6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.3	Supply of land is fixed: no change in demand can alter the amount of land in existence, so its supply is perfectly inelastic from the point of view of the economy (but relatively elastic from the point of view of a firm).	Q4, Q21	PYQ 2019-Nov, 2024-Jun	1.1.0 (ii), p. 3.6
1.1.4	Land is a passive factor — it produces nothing unless human effort is exercised on it; labour is an active factor — without its active participation land and capital may not produce anything.	Q8	PYQ 2021-Jul	1.1.0 (iv), p. 3.6; 1.1.1, p. 3.7
1.1.5	Labour is mental or physical exertion done for an economic reward (not out of love and affection). Characteristics: human effort; perishable (cannot be stored); active factor; inseparable from the labourer; heterogeneous; all labour may not be productive; weak (poor) bargaining power — no reserve price; mobile (though with obstacles); NO rapid adjustment of the supply of labour to the demand for it.	Q18, Q33, Q36	PYQ 2023-Dec, 2026-Sep; MTP 2025-Aug S1	1.1.1, pp. 3.6 – 3.8
1.1.6	The labourer's choice between hours of labour and hours of leisure gives the supply curve of labour its backward-bending shape: as wages rise he first works more, but beyond a desired level of income he prefers more rest and leisure to more money.	Q35	MTP 2026-Apr S2	1.1.1, p. 3.8
1.1.7	Capital is that part of wealth of an individual or community which is used for further production of wealth — 'produced means of production' or 'man-made instruments of production'; a stock concept yielding a flow of income, and (unlike land and labour) not a primary factor.	Q32	PYQ 2026-May	1.1.2, p. 3.8
1.1.8	Types of capital: Fixed — durable, renders a series of services over time (tools, machines); Circulating — performs its function in production in a single use and is not available for further use (seeds, fuel, raw materials); Real — physical goods; Human — skill and ability; Tangible vs Intangible (rights and benefits not perceived by the senses: copyrights, goodwill, patent rights); Individual — personal property; Social — belongs to society as a whole (roads, bridges).	Q20, Q25, Q29, Q34, Q38	PYQ 2024-Jun, 2025-May, 2026-Jan, 2026-Sep; RTP 2026-May; MTP 2025-May S2	1.1.2, pp. 3.8 – 3.9
1.1.9	The entrepreneur mobilises land, labour and capital, combines them in the right proportion, initiates production and bears the risks. Functions: (i) initiating business enterprise and resource co-ordination (the first and foremost); (ii) risk or uncertainty bearing; (iii) innovations. Routine organisation and management — e.g. supervising day-to-day production — is a manager's task, NOT a necessary entrepreneurial function.	Q9, Q30, Q39	PYQ 2021-Jul, 2026-Jan, 2026-Sep	1.1.3, pp. 3.10 – 3.11

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.10	Profit is the entrepreneur's reward for his efforts and risk-taking — the uncertain surplus left after paying fixed contractual rewards to the hired factors (wages to labour, rent for land, interest on capital); he may earn profits or incur losses.	Q12	PYQ 2022-Jun	1.1.3 (i), p. 3.11
1.1.11	Risk bearing is the most important function of an entrepreneur: nearly all other functions can be delegated to paid managers, but risk bearing cannot. Frank Knight: profit is the reward for bearing uncertainties (risks that cannot be insured against).	Q23	MTP 2024-Dec S1	1.1.3 (ii), pp. 3.11 – 3.12
1.1.12	Innovative entrepreneurship (the innovation theory) is Schumpeter's: the true function of an entrepreneur is to continuously introduce innovations — the commercial application of a new idea or invention (new products, processes, raw-material sources, technology, business models, markets).	Q5, Q15, Q17, Q23	PYQ 2020-Nov (×2), 2023-Jun, 2023-Dec; MTP 2024-Dec S1	1.1.3 (iii), p. 3.12
1.1.13	Five objectives of an enterprise: Organic, Economic, Social, Human, National. Organic = the basic minimum objective to survive — an enterprise survives only if it can produce and distribute at a price which recovers its costs — and, once survival is assured, growth and expansion.	Q26, Q41	PYQ 2025-May, 2026-Sep	1.1.3, pp. 3.12 – 3.13
1.1.14	Accounting profit deducts only explicit costs; economic profit deducts explicit AND implicit costs (the opportunity cost of self-owned factors), so economic profit is generally lower than accounting profit.	Q19	PYQ 2023-Dec	1.1.3, p. 3.14
1.1.15	Human objectives include making job contents interesting and challenging (also fair deal, new skills, participation in decision-making); National objectives include training young men as apprentices to contribute to skill formation (also equal opportunity, national priorities, self-reliance).	Q31, Q40	PYQ 2026-May, 2026-Sep	1.1.3, pp. 3.15 – 3.16
1.1.16	After identifying the market, the enterprise decides on the 4 P's — Product, Promotion, Price and Place.	Q28	PYQ 2025-Sep	1.1.3 (Problems relating to marketing), p. 3.19
1.1.17	*See Topic 1.2: AP = MP only where AP is at its maximum; at MP's maximum (point of inflexion) AP is still below MP — so 'when MP is maximum, AP equals MP' is the false statement.*	Q10	PYQ 2021-Dec	1.2.1, pp. 3.23 – 3.25
1.1.18	Profit-maximising output is where MR = MC (the question's 'output maximised' means profit-maximising output).	Q13	PYQ 2022-Jun	Not in SM Chapter 3 Unit 1 (PYQ-only); see SM Chapter 4, p. 4.31

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.19	Economies of large-scale production are of two kinds — internal and external.	Q7	PYQ 2021-Jan	Not in SM Chapter 3 Unit 1 (PYQ-only); see SM Unit 2, 2.4, p. 3.48
1.1.20	Disguised unemployment: surplus workers whose marginal productivity is zero or almost zero, so that removing them leaves total output unchanged.	Q3	PYQ 2019-May	Not in SM (PYQ-only)
1.1.21	Consumption is the base of all production activities — goods and services are produced to satisfy human wants (ICAI's keyed answer).	Q6	PYQ 2020-Nov	Not in SM (PYQ-only)
1.1.22	In the long run, a fall in labour supply reduces productive capacity: output falls and the aggregate price level rises.	Q1	PYQ 2018-May	Not in SM (PYQ-only)
1.1.23	Investment multiplier k = ΔY/ΔI = 1/(1 – MPC), so MPC = 1 – 1/k; with ΔI = ₹600 cr and ΔY = ₹1,800 cr, k = 3 and MPC = 2/3 — 'None of these'.	Q22	MTP 2024-Aug	Not in SM Chapter 3 Unit 1 (MTP-only)

Topic 1.2 Production Function

65 Scanner questions · frequency PYQ 62 · RTP 1 · MTP 18

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	Production function = the technical (technological) relationship between inputs and output, Q = f(a, b, c, d … n). Samuelson: the relationship between the maximum amount of output that can be produced and the input required to make it — the maximum output from given quantities of inputs under a given state of technical knowledge; it can also be defined as the minimum quantities of various inputs required to yield a given quantity of output.	Q13, Q25, Q44, Q47, Q59, Q62	PYQ 2020-Nov (×2), 2023-Jun, 2025-Jan, 2025-May, 2026-May; MTP 2025-Dec S1	1.2, p. 3.20; Summary, p. 3.33
1.2.2	Short run: the amount of at least one input remains unchanged (capital is fixed); long run: all factors of production are variable. The distinction is not a measure of calendar time.	Q54	PYQ 2025-Sep; MTP 2025-Jan S2	1.2, p. 3.21
1.2.3	Cobb-Douglas (Paul H. Douglas and C.W. Cobb, USA) is a statistical production function for the whole of American manufacturing: output is manufacturing production and the inputs are labour and capital. Q = K·L^a·C^(1–a), where L = labour, C = capital, K and a = positive constants. Labour contributed about 3/4 and capital about 1/4 of the increase in manufacturing production.	Q16, Q41, Q55	PYQ 2018-May, 2021-Jan, 2025-Jan, 2025-Sep	1.2.0, pp. 3.21 – 3.22
1.2.4	With one variable input (labour) and all other inputs fixed, the law is called the law of variable proportions, the law of returns to a variable input, or the law of diminishing returns; it operates in the short run only (when all factors cannot be changed together) — not in the long run.	Q4, Q18, Q20, Q33	PYQ 2018-May, 2021-Jan, 2022-Jun, 2024-Sep	1.2.1, pp. 3.22, 3.24; Summary, p. 3.33

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.5	Marginal product = the change in total product per unit change in the variable factor — the extra output from one more unit of the variable input, other inputs unchanged: MPn = TPn – TPn–1 (graphically, the slope of the TP curve).	Q15, Q22, Q37	PYQ 2018-May, 2019-Nov, 2021-Jan, 2022-Dec; RTP 2024-Sep; MTP 2025-Aug S2	1.2.1, p. 3.23
1.2.6	Product-schedule numericals: MPn = TPn – TPn–1; TPn = TPn–1 + MPn (TP = sum of the MPs); AP = TP ÷ units of the variable factor, so TP = AP × units. Complete the whole schedule first, then read off the answer. Diminishing marginal returns show as TP rising by ever-smaller increments (50, 90, 120, 140 → MP 50, 40, 30, 20).	Q9, Q10, Q11, Q12, Q28, Q29, Q30, Q39, Q40, Q42, Q43, Q51, Q52, Q53	PYQ 2019-Nov (×4), 2024-Jun (×3), 2024-Sep (×2), 2025-Jan (×3), 2025-Sep (×3)	1.2.1, p. 3.23 (Table 1)
1.2.7	AP–MP relationship: when AP rises, MP is more than AP; when AP is maximum, MP equals AP (the MP curve cuts the AP curve at its maximum); when AP falls, MP is less than AP.	Q17, Q50 (+ 1.1 Q10)	PYQ 2019-May, 2021-Jan, 2021-Dec, 2025-May, 2025-Sep	1.2.1, pp. 3.23 – 3.24
1.2.8	Assumptions of the law of variable proportions: technology given and unchanged; some inputs kept fixed; it does not apply where factors must be used in fixed proportions; only physical inputs and outputs are considered (not profitability). 'All units of the variable factor are different' is NOT an assumption.	Q45	MTP 2025-Jan S2	1.2.1, p. 3.24
1.2.9	At the point of inflexion on the TP curve, MP is maximum: before it TP rises at an increasing rate, after it TP rises at a diminishing rate — the TP curve flattens and diminishing marginal returns set in (MP falls but stays positive; MP starts declining earlier than AP).	Q2, Q14, Q38, Q46, Q56	PYQ 2018-May, 2020-Nov, 2025-Sep; MTP 2024-Aug, 2024-Dec S1, 2025-Jan S2, 2025-Apr S1, 2025-Aug S2	1.2.1 (Stage 1), pp. 3.24 – 3.25
1.2.10	Three stages — increasing, diminishing and negative returns. Stage 1: AP rises throughout, MP > AP, ends where AP is maximum. Stage 2: TP continues to increase at a diminishing rate to its maximum; AP and MP both diminishing but positive; MP = 0 where TP is maximum. Stage 3: TP declines, MP is negative, AP diminishing (MP lies wholly below AP).	Q19, Q24, Q48, Q58, Q60, Q61, Q65	PYQ 2022-Jun (×2), 2023-Jun, 2025-May, 2026-Jan, 2026-May, 2026-Sep; MTP 2025-Aug S1	1.2.1, pp. 3.25 – 3.27
1.2.11	Increasing returns operate because of fuller (better) utilisation of the fixed factor, indivisibility of the fixed factor, and greater efficiency of the variable factor (division of labour, specialisation); diminishing returns set in because the fixed factor becomes inadequate relative to the variable factor (and imperfect substitutability) — 'limitation of the fixed factor' explains diminishing, not increasing, returns.	Q31	MTP 2024-Aug, 2025-Aug S2	1.2.1, pp. 3.25 – 3.26
1.2.12	A rational producer always produces in Stage 2; Stages 1 and 3 are stages of 'economic absurdity' — in Stage 3 the MP of the variable factor is negative, and in Stage 1 the fixed factor is not being best utilised.	Q35, Q58	PYQ 2026-Jan; MTP 2024-Aug, 2025-Dec S1	1.2.1, p. 3.27

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.13	The theory of production covers the laws of production (law of variable proportions / diminishing returns to a factor; returns to scale), the production function and methods of production optimisation — the least-cost combination of factors is production optimisation, not a law of production.	Q8	PYQ 2018-Nov	1.0, p. 3.4; 1.3, p. 3.31
1.2.14	Returns to scale = the behaviour of output when all inputs are changed in the same proportion (a change in scale); it operates only in the long run, when all factors can be changed — so the scale of production can be changed only in the long period.	Q21, Q23, Q57, Q64	PYQ 2021-Jan, 2022-Dec, 2023-Jun, 2026-Jan; MTP 2026-Apr S2	1.2.2, pp. 3.27 – 3.28; Summary, p. 3.34
1.2.15	Constant returns to scale: output rises in the same proportion as all inputs — also called the Linear Homogeneous Production Function. Increasing: output rises more than proportionately. Decreasing: output rises less than proportionately (difficulties of management, co-ordination and control). A firm gets increasing returns first, then a long phase of constant returns, then decreasing returns.	Q3, Q26, Q34, Q36, Q49, Q64	PYQ 2018-May, 2023-Jun, 2024-Sep, 2025-May; MTP 2024-Aug, 2026-Apr S2	1.2.2, pp. 3.28 – 3.29
1.2.16	Cobb-Douglas and returns to scale: originally constant returns (exponents a + (1–a) = 1); relaxed form Q = K·L^a·C^b — a + b > 1 increasing, a + b = 1 constant, a + b < 1 decreasing returns to scale, so it can show any of the three. E.g. Q = 4L^½K^⅔: ½ + ⅔ = 7/6 > 1 → increasing returns to scale.	Q1, Q7, Q27, Q63	PYQ 2018-May, 2018-Nov, 2023-Dec; MTP 2026-Apr S1	1.2.2, p. 3.29
1.2.17	External economies are benefits accruing to every firm in an industry as the industry expands; with internal economies they produce increasing economies of scale (falling LAC). ICAI keys 'increasing returns to scale'.	Q5	PYQ 2018-May	Not in SM Chapter 3 Unit 1 (PYQ-only); see SM Unit 2, 2.4, pp. 3.47 – 3.48
1.2.18	Under perfect competition the MR curve is a horizontal line, parallel to the X-axis.	Q6	PYQ 2018-Nov	Not in SM Chapter 3 Unit 1 (PYQ-only); see SM Chapter 4
1.2.19	The very long period is also called the secular period.	Q32	MTP 2024-Aug	Not in SM Chapter 3 Unit 1 (MTP-only); see SM Chapter 4, Unit 1, p. 4.5

Topic 1.3 Production Optimisation

12 Scanner questions · frequency PYQ 7 · RTP 2 · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.1	An isoquant represents all those combinations of inputs which are capable of producing the same level of output; isoquants are also called equal-product curves, production indifference curves or iso-product curves (product lines).	Q1, Q3, Q4, Q5, Q11	PYQ 2018-May, 2021-Jan, 2023-Dec, 2024-Jun, 2026-Jan	1.3, pp. 3.29 – 3.30

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.2	Isoquants are negatively sloped, convex to the origin (due to diminishing MRTS) and non-intersecting — NOT concave. Unlike indifference curves, the output on an isoquant can be quantified; a curve further right shows higher output.	Q2, Q9	PYQ 2020-Nov; RTP 2025-Jan, 2025-Sep; MTP 2025-Apr S1	1.3, p. 3.30
1.3.3	The iso-cost (equal-cost) line — also called the budget line or budget constraint line — shows the alternative combinations of two factors the firm can buy with a given outlay; every point on it costs the same, and with factor prices given (a constant rate of exchange between the inputs) it is a straight line.	Q6, Q8, Q10	PYQ 2025-May; MTP 2024-Aug, 2025-Jan S2	1.3, pp. 3.30 – 3.31
1.3.4	Producer's equilibrium (least-cost combination): the point where the iso-cost line is tangent to the given isoquant. At tangency the slopes are equal — MRTS_LK (= MP_L/MP_K) = P_L/P_K, i.e. MP_L/P_L = MP_K/P_K.	Q12	MTP 2025-Aug S1	1.3, pp. 3.31 – 3.32 (tangency only; the price-ratio conditions are not in the SM)
1.3.5	MRTS_LK = MP_L/MP_K; so if MRTS_LK = 2, MP_K/MP_L = 1/2.	Q7	MTP 2024-Aug	Not in SM (MTP-only); SM mentions only diminishing MRTS, 1.3, p. 3.30

Unit 2: Theory of Cost

SM Chapter 3, Unit 2, pages 3.35 – 3.54

Topic 2.0 Cost Concepts

31 Scanner questions · frequency PYQ 25 · RTP 3 · MTP 12

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.1	Accounting costs are explicit costs — cash payments by the entrepreneur to the suppliers of productive factors: wages to workers employed, prices of raw materials, fuel and power, rent for the building hired and interest on money borrowed. They are expenses already incurred and recorded in the financial statements; they do not include implicit costs.	Q9, Q15, Q29	PYQ 2023-Dec, 2024-Sep; MTP 2025-Aug S2	2.0, pp. 3.35 – 3.36
2.0.2	Economic costs include both accounting (explicit) costs and implicit costs — so economic cost differs from, and is greater than, accounting cost (accounting cost is less than economic cost).	Q2, Q4, Q7, Q8	PYQ 2018-Nov, 2019-Nov, 2022-Dec, 2023-Jun	2.0, p. 3.36
2.0.3	Implicit costs are the costs of factors owned by the entrepreneur himself and employed in his own business: (1) the normal return on money capital he has invested (interest on own capital); (2) the wages or salary he could have earned by selling his services elsewhere. For a self-owned input the explicit cost is zero; its cost is implicit.	Q10, Q13, Q22	PYQ (CPT) 2017-Jun, 2018-May, 2019-May, 2024-Jun; MTP 2024-Aug, 2025-Jan S2	2.0, p. 3.36

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.4	Implicit cost of own capital = capital invested × normal market rate of return (₹50,000 × 10% = ₹5,000); the explicit cost of production given in the question is irrelevant to this figure.	Q24 (+ 2.1 Q4)	PYQ 2025-Sep (×2)	2.0, p. 3.36
2.0.5	Normal profit is part of implicit costs; an entrepreneur must cover his economic cost (explicit + implicit, i.e. including normal profit) to earn normal profits — hence the exam blank 'Total economic cost = explicit + implicit + normal profit'.	Q3, Q6, Q23	PYQ 2019-Nov, 2022-Jun; RTP 2025-Jan	2.0, p. 3.36
2.0.6	If total revenue just covers explicit + implicit costs, economic profit is zero (only normal profit) — in exam terms, price = (minimum) ATC; supernormal (abnormal) profit arises only when revenue exceeds that. Per-unit economic cost = (explicit cost + normal return on own capital) ÷ output, e.g. (₹25,000 + 10% of ₹1,50,000) ÷ 500 = ₹80, so supernormal profit only at a price above ₹80 (₹82).	Q27 (+ 2.4 Q12)	PYQ 2026-May (×2)	2.0, p. 3.36 ('P = minimum ATC' is Chapter 4)
2.0.7	Accounting (business) profit = TR − explicit costs; economic profit = TR − explicit − implicit costs. Hence implicit cost = business profit − economic profit, and economic profit is less than accounting profit whenever owned resources have an opportunity cost.	Q5, Q21	PYQ 2021-Jan; RTP 2025-Jan; MTP 2025-Jan S2	2.0, p. 3.36 (profit formulae derived; not stated in SM)
2.0.8	Outlay costs involve actual expenditure of funds on wages, materials, rent, interest, etc.; because they involve financial expenditure they are recorded in the books of account.	Q11, Q31	PYQ 2024-Jun, 2026-Sep	2.0, p. 3.36
2.0.9	Opportunity cost is the cost of the next best alternative opportunity foregone (what we give up when we make a choice); it relates to sacrificed alternatives, is in general NOT recorded in the books of account, and is useful in long-term cost calculations (e.g. earnings foregone in higher education). It is not marginal, variable or fixed cost.	Q14, Q17, Q25 (+ 2.1 Q1)	PYQ 2018-May, 2026-Jan; RTP 2024-Sep; MTP 2024-Aug	2.0, pp. 3.36 – 3.37
2.0.10	Incremental cost is the additional cost incurred as a result of a business decision — changing the product line, replacing worn-out machinery, buying a new production facility or acquiring a new set of clients.	Q26	PYQ 2026-May	2.0, p. 3.37
2.0.11	Sunk costs are already incurred once and for all and cannot be recovered (past commitments that cannot be reversed) — e.g. advertising already incurred, R&D, specialised equipment, fixed facilities such as railway lines; they are an important barrier to entry.	Q20, Q30	PYQ 2023-Dec, 2025-Jan; MTP 2024-Aug, 2025-Apr S1, 2025-Aug S2	2.0, pp. 3.37 – 3.38
2.0.12	Sunk-cost numerical: add only the SM's sunk items — R&D ₹150 cr + advertisement ₹5 cr = ₹155 cr; fuel and power and wages are running (variable) costs and rent is a fixed cost, not a listed sunk cost (ICAI's key ₹164 cr treats rent as sunk).	Q16	PYQ 2024-Sep	2.0, pp. 3.37 – 3.38

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.13	Because sunk costs cannot be recovered (their opportunity cost is zero), they are not relevant in economic decisions — A and R both true, R explains A.	Q18	MTP 2024-Dec S1	Not in SM (MTP-only); definition at 2.0, p. 3.37
2.0.14	Fixed costs cannot be avoided while operations go on — avoided only on complete close-down; some (shut down costs, e.g. storing old machines) continue even after operations are suspended. The cost 'never zero even when production stops' is keyed 'supplementary cost' (= fixed/overhead cost; not an SM term).	Q12	MTP 2024-Aug, 2025-Apr S1	2.0, p. 3.38; 2.2, pp. 3.39 – 3.40
2.0.15	Variable costs are a function of output — wages of casual labourers, raw materials and all inputs that vary with output; factory rent, insurance and salaried staff are fixed costs.	Q28	PYQ 2026-May	2.0, p. 3.38; 2.2, p. 3.40
2.0.16	*See Topic 2.2: costs fixed over a range of output that suddenly jump to a new higher level beyond a given limit are stair-step variable costs.*	Q1	PYQ (CPT) 2017-Jun, 2018-May	2.2, p. 3.41
2.0.17	*See Topic 2.4 (Chapter 4 material): at the shut-down point P = minimum AVC, TR = TVC and the firm's loss equals TFC.*	Q19	MTP 2024-Dec	Not in SM (MTP-only)

Topic 2.1 Cost Function

8 Scanner questions · frequency PYQ 4 · RTP 1 · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	Cost function is the mathematical (functional) relation between cost of a product and the various determinants of cost; it expresses the relationship between cost and output, is obtained from the production function and the market supply of inputs, and is presented through cost curves — the shape of the cost curves depends upon the cost function.	Q2, Q3	RTP 2025-Jan; MTP 2024-Aug, 2025-Aug S2	2.1, p. 3.39
2.1.2	Determinants (independent variables) of cost: price of factors, size of output, technology, level of capacity utilisation, efficiency and time period — the price of the firm's own output is not a determinant of its cost function.	Q7	MTP 2025-Apr S1	2.1, p. 3.39
2.1.3	In a cost function, TFC is the constant term (the part without Q) and is the same at every output: TC = $2,000 + 15Q - 6Q^2 + Q^3$ gives TFC = 2,000 at any Q.	Q8	MTP 2025-Dec S1, 2026-Apr S1	2.2, pp. 3.39, 3.42
2.1.4	*See Topic 2.0: opportunity cost is the next best alternative foregone — it is not marginal, variable or total fixed cost (none of these).*	Q1	PYQ 2018-May	2.0, p. 3.36
2.1.5	*See Topic 2.0: implicit cost = ₹50,000 × 10% = ₹5,000 (duplicate of Topic 2.0 Q24).*	Q4	PYQ 2025-Sep	2.0, p. 3.36

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.6	*See Topic 2.2: TFC = TC at zero output (₹270); AVC = (TC − TFC) ÷ Q = (610 − 270) ÷ 4 = ₹85; AFC = TFC ÷ Q = 270 ÷ 3 = ₹90.*	Q5, Q6	PYQ 2026-Jan (×2)	2.2, pp. 3.42 – 3.43

Topic 2.2 Short Run Total Cost

60 Scanner questions · frequency PYQ 50 · RTP 2 · MTP 16

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	Short run: only variable factors can be varied, fixed factors remain unaltered; long run: the quantities of all factors may be varied — all factors (and so all costs) become variable in the long run.	Q38	MTP 2024-Dec	2.2, p. 3.39
2.2.2	By variability, costs are fixed, variable and semi-variable; semi-variable costs are neither perfectly variable nor absolutely fixed (e.g. electricity: a fixed charge plus a consumption charge). A wage bill of which only part can be dismissed is therefore partly fixed and partly variable.	Q37, Q50	PYQ 2026-May; MTP 2024-Dec	2.2, p. 3.40
2.2.3	Stair-step variable costs remain fixed over a certain range of output but suddenly jump to a new higher level when output goes beyond a given limit (e.g. salary of an additional foreman).	Q36 (+ 2.0 Q1)	PYQ (CPT) 2017-Jun, 2018-May, 2024-Sep	2.2, p. 3.41
2.2.4	Variable costs change with changes in output — they increase continuously as production increases, whereas fixed costs stay a fixed amount whether output is small or large.	Q27	PYQ 2022-Jun	2.2, pp. 3.39 – 3.40, 3.42
2.2.5	TC = TFC + TVC; so TVC = TC − TFC and TFC = TC − TVC — the vertical distance between the TC and TVC curves equals TFC at every output (their slopes are the same).	Q6, Q12, Q17, Q24	PYQ 2018-May, 2019-Nov, 2020-Nov, 2021-Jul; MTP 2025-Apr S1	2.2, p. 3.42
2.2.6	TFC curve: horizontal straight line starting from the Y-axis; TVC curve: starts from the origin and increases first at a decreasing rate, then at an increasing rate (inverse-S) owing to increasing and then diminishing returns — once diminishing returns operate, TVC rises at an increasing rate.	Q33, Q41	MTP 2024-Aug, 2024-Dec S1	2.2, p. 3.42
2.2.7	AFC = TFC ÷ Q; since TFC is constant, AFC falls steadily as output increases — it slopes downwards (left to right) throughout its length and never touches the X-axis, as AFC cannot be zero. It is the short-run curve that declines continuously and is never U-shaped.	Q1, Q2, Q4, Q7, Q13, Q20, Q39, Q40, Q57	PYQ (CPT) 2017-Dec, 2018-May (×2), 2018-Nov, 2019-Nov, 2021-Jan; RTP 2026-Jan; MTP 2024-Dec (×2), 2025-Apr S1, 2026-Apr S1	2.2, p. 3.42
2.2.8	AFC numericals: TFC = TC at zero output (or AFC × Q); AFC = TFC ÷ Q at the new output — e.g. AFC ₹20 at 6 units → TFC ₹120 → ₹40 at 3 units, ₹30 at 4 units.	Q3, Q5, Q14, Q21, Q29, Q45, Q59	PYQ (CPT) 2016-Decc, 2018-May (×2), 2020-Nov, 2021-Jul, 2023-Dec, 2025-May, 2026-Sep	2.2, p. 3.42

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.9	AVC = TVC ÷ Q (also = ATC − AFC); it falls up to normal capacity output due to increasing returns to variable factors, then rises because of diminishing returns — even while AFC continues to fall.	Q43, Q55	MTP 2025-Jan S2, 2025-Aug S1	2.2, pp. 3.42 – 3.43
2.2.10	AVC numericals: TVC = TC − TFC (TFC = TC at zero output) and AVC = TVC ÷ Q; or AVC = ATC − AFC, with AFC = TFC ÷ Q.	Q9, Q15, Q28, Q35, Q47, Q48, Q51	PYQ 2019-May, 2020-Nov, 2021-Jan, 2022-Dec, 2024-Sep, 2025-May, 2025-Sep, 2026-May	2.2, pp. 3.42 – 3.43
2.2.11	ATC = AFC + AVC = TC ÷ Q; it falls while the fall in AFC exceeds the rise in AVC, reaches a minimum and then rises — a 'U'-shaped curve. At higher output ATC and AVC come closer because AFC becomes a relatively small part of ATC.	Q19, Q34	PYQ (CPT) 2017-Dec, 2021-Jan, 2024-Sep; MTP 2025-May S2	2.2, p. 3.43
2.2.12	ATC numericals: ATC = (TFC + TVC) ÷ Q, e.g. (₹800 + ₹2,000) ÷ 5 = ₹560; TC itself = TFC + TVC (₹500 + ₹2,100 = ₹2,600).	Q18, Q30, Q52	PYQ (CPT) 2016-Dec, 2021-Jan, 2024-Jun, 2026-May	2.2, pp. 3.42 – 3.43
2.2.13	Marginal cost is the addition to total cost from producing one more unit: MCn = TCn − TCn−1 (= TVCn − TVCn−1); over a multi-unit step MC = ΔTC ÷ ΔQ, e.g. (₹320 − ₹220) ÷ 10 = ₹10.	Q16, Q22, Q30, Q49, Q53, Q60	PYQ 2020-Nov, 2021-Jul, 2024-Jun, 2025-May, 2026-May, 2026-Sep	2.2, pp. 3.43 – 3.44
2.2.14	Marginal cost is independent of fixed cost — it is due only to changes in variable cost, so it can be derived directly from TVC; MC = ΔTC ÷ ΔQ (not TC itself), while TC = AC × Q. A change in fixed cost cannot make short-run MC rise.	Q25, Q26, Q54, Q56	PYQ 2021-Dec, 2022-Jun; RTP 2025-Sep; MTP 2025-May S2	2.2, pp. 3.43 – 3.44
2.2.15	MC curve is 'U'-shaped because of the law of variable proportions: it falls, reaches its minimum at the point of inflexion of the TC curve, then rises — diminishing marginal returns mean increasing marginal cost.	Q11	PYQ 2019-May	2.2, p. 3.44
2.2.16	In a cost table, diminishing marginal returns set in where MC stops falling and starts rising: MC 135, 120, 105, 90, 105 → between 4 and 5 units; MC 110, 100, 90, 104 → between 3 and 4 units.	Q23, Q46	PYQ 2021-Jul, 2025-May	2.2, p. 3.44
2.2.17	AC–MC: (1) when AC falls, MC is less than AC; (2) when AC rises, MC is more than AC; (3) when AC is minimum, MC = AC — MC cuts AC (and AVC) at its minimum (optimum) point, so MC reaches its own minimum before AVC and AC, always. 'AC falling ⇒ MC must fall' is wrong.	Q8, Q10, Q32, Q42, Q58	PYQ 2018-Nov, 2019-May, 2025-Jan; MTP 2024-Aug, 2026-Apr S2	2.2, p. 3.45; Fig. 10, p. 3.43
2.2.18	Reading Fig. 10: MC is the steep U cutting AVC and ATC at their minima; ATC lies above AVC (gap = AFC, narrowing with output); AFC is the continuously falling lowest curve.	Q31	PYQ 2024-Jun	2.2, Fig. 10, p. 3.43
2.2.19	*See Topic 2.4: increasing returns to scale come from internal economies — specialised machinery, bulk-purchase discounts and greater division of labour (all of the above).*	Q44	MTP 2025-Jan S2	2.4, pp. 3.48 – 3.49

Topic 2.3 Long Run Average Cost Curve

9 Scanner questions · frequency PYQ 6 · RTP 2 · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	Short run average cost curves (SACs) are also called 'plant curves' — each relates to a given size of plant.	Q8	PYQ 2025-Sep	2.3, p. 3.45
2.3.2	The LAC curve is the 'envelope curve': it is tangent to each SAC and envelopes (supports) the family of SACs from below — but it is not tangent to their minimum points.	Q3, Q5, Q7 (+ 2.4 Q9)	PYQ 2024-Jun, 2025-Jan; RTP 2025-Jan, 2025-Sep; MTP 2025-Jan S2	2.3, pp. 3.46 – 3.47
2.3.3	The LAC curve is the 'planning curve': the firm operates in the short run and plans for the long run, choosing on the LAC the plant size that produces a given output at the least possible cost.	Q2	PYQ 2023-Jun; MTP 2025-Aug S1	2.3, p. 3.47
2.3.4	The 'U' shape of the LAC is due to returns to scale, not to the variable factor ratio: increasing returns to scale (output rising more than inputs) — from internal and external economies — make LAC fall; decreasing returns — from internal and external diseconomies of scale — make it rise.	Q1, Q4, Q9 (+ 2.4 Q4)	PYQ 2018-May, 2020-Nov, 2024-Jun; MTP 2025-May S2	2.3, p. 3.47
2.3.5	Economies of scope: the fall in average total cost when a firm produces more than one product.	Q6	MTP 2025-Jan S2	Not in SM (MTP-only)

Topic 2.4 Economies & Diseconomies of Scale

17 Scanner questions · frequency PYQ 9 · RTP 4 · MTP 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.1	Internal economies accrue to the firm itself when it expands its output — they arise within the firm from endogenous factors and are available exclusively to the expanding firm; external economies are the benefits accruing to each member firm as a result of expansion of the industry.	Q7	RTP 2024-Sep	2.4, p. 3.48
2.4.2	Initially a firm enjoys internal economies of scale and beyond a certain limit suffers internal diseconomies of scale.	Q8	PYQ 2025-Jan	2.4, p. 3.48
2.4.3	Internal economies are technical (specialised machinery, superior techniques, division of labour and specialisation), managerial, commercial (bulk orders for materials, advertising, sale of by-products), financial and risk-bearing; supply of skilled labour and localisation of industry are external, not internal.	Q11, Q14, Q15 (+ 2.2 Q44)	PYQ 2026-Jan; RTP 2025-May, 2025-Dec, 2026-Jan; MTP 2025-Jan S2, 2025-Aug S2	2.4, pp. 3.48 – 3.50
2.4.4	External economies arise from expansion of the industry: (1) cheaper raw materials and capital equipment; (2) technological external economies; (3) development of skilled labour; (4) growth of ancillary industries; (5) better transportation and marketing facilities; (6) economies of information.	Q3, Q6, Q15, Q17	PYQ 2020-Nov, 2023-Jun; RTP 2025-May, 2025-Dec, 2026-Jan; MTP 2026-Apr S2	2.4, pp. 3.50 – 3.51

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.5	*See Topic 2.3: increasing returns to scale (output rising more than inputs) result from internal and external economies together — a firm can enjoy both simultaneously.*	Q4, Q16	PYQ 2020-Nov; MTP 2026-Apr S1	2.3, p. 3.47 ('simultaneously ' is not SM wording)
2.4.6	External diseconomy: as an industry expands, increasing demand for inputs pushes factor prices up; conversely, a decrease in input demand pulls input prices down.	Q13	MTP 2025-Apr S1	2.4, pp. 3.51 – 3.52
2.4.7	*See Topic 2.3: the LAC is U-shaped and is also called the envelope curve (both).*	Q9	MTP 2025-Jan S2	2.3, p. 3.47
2.4.8	*See Topic 2.0: supernormal profit needs a price above per-unit economic cost — (₹25,000 + 10% of ₹1,50,000) ÷ 500 = ₹80, so ₹82.*	Q12	PYQ 2026-May	2.0, p. 3.36
2.4.9	Chapter 4 material: in the short run a loss-making firm continues if P ≥ AVC and shuts down when P < AVC; the shut-down point is P = minimum AVC (TR = TVC, loss = TFC).	Q1, Q2, Q5 (+ 2.0 Q19)	PYQ 2018-May, 2019-Nov, 2022-Dec; MTP 2024-Dec	Not in SM (PYQ-only)
2.4.10	See Unit 3.1 (production): returns to scale concern the change in output when all inputs change in the same proportion; the change in output from one more unit of a single input is its marginal product (keyed 'returns to scale').	Q10	MTP 2025-Jan S2	Not in SM (MTP-only)

Part B — Chapter 3 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 56% of ICAI appearances in this chapter.

Unit 1 — Theory of Production

#	One-liner	Weight	Part A ref
1	Production = creation/addition of utility, never creation of matter.	★	1.0.1
2	Production includes services (doctors, actors); excludes love-and-affection work, voluntary services, self-consumption — intention to exchange in the market is essential.	★	1.0.2
3	Four factors: land, labour, capital, entrepreneurial ability.	★	1.1.1
4	**Land (7): free gift · fixed supply · permanent/indestructible (Ricardo) · passive · immobile · multiple uses · heterogeneous. NOT perishable, active or homogeneous.**	★★★	1.1.2, 1.1.4
5	Land supply: perfectly inelastic for the economy; relatively elastic for a firm.	★	1.1.3
6	Labour: perishable · active · inseparable · heterogeneous · not all productive · weak bargaining power · mobile · NO rapid supply adjustment.	★★	1.1.5
7	Backward-bending labour supply: beyond a desired income, leisure preferred to more money.	★	1.1.6
8	Capital = wealth used for further production of wealth; produced means of production; stock concept.	★	1.1.7
9	**Fixed = series of services; Circulating = single use (seeds, fuel, raw materials); Intangible = goodwill, patents, copyrights; Social = roads, bridges.**	★★★	1.1.8
10	Entrepreneur: initiating & resource co-ordination (first) · risk/uncertainty bearing · innovations — not day-to-day supervision.	★★	1.1.9
11	Profit = uncertain residual reward of the entrepreneur after contractual payments.	★	1.1.10
12	Risk bearing = most important function (cannot be delegated); Knight: profit rewards uncertainty.	★	1.1.11
13	Schumpeter: innovation = the entrepreneur's true function; 'innovative entrepreneurship'.	★★	1.1.12
14	Objectives: Organic (survive by recovering costs → growth) · Economic · Social · Human · National.	★	1.1.13
15	Accounting profit = TR – explicit costs; economic profit also deducts implicit costs → generally lower.	★	1.1.14
16	Human: job contents interesting & challenging; National: train apprentices for skill formation.	★	1.1.15
17	4 P's: Product, Promotion, Price, Place.	★	1.1.16
18	Outside this unit: MR = MC (Ch 4); economies of scale internal & external (Unit 2); MPC = 1 – 1/k.	★★	1.1.18, 1.1.19, 1.1.23

#	One-liner	Weight	Part A ref
19	**Production function = technical relationship inputs → output; Samuelson: maximum output from given inputs, given technology; or minimum inputs for a given output.**	★★★	1.2.1
20	Short run: at least one input fixed; long run: all inputs variable.	★	1.2.2
21	Cobb-Douglas: Q = K·L^a·C^(1–a); US manufacturing; inputs labour & capital; labour ≈ 3/4, capital ≈ 1/4.	★★	1.2.3
22	Law of variable proportions = law of diminishing returns = returns to a variable input; short run only.	★★	1.2.4
23	**MPn = TPn – TPn–1 (slope of TP); AP = TP ÷ units; TP = ΣMP = AP × units — build the schedule first.**	★★★	1.2.5, 1.2.6
24	AP rising → MP > AP; AP maximum → MP = AP; AP falling → MP < AP.	★★	1.2.7, 1.1.17
25	LVP assumptions: technology unchanged · some input fixed · not fixed proportions · physical terms only.	★	1.2.8
26	**Point of inflexion → MP maximum; TP flattening → diminishing marginal returns begin.**	★★★	1.2.9
27	**Stages: increasing · diminishing · negative returns; TP falls and MP < 0 only in Stage 3; Stage 2 ends at TP maximum (MP = 0).**	★★★	1.2.10
28	Increasing returns: fuller use & indivisibility of fixed factor, efficiency of variable factor; diminishing: fixed factor inadequate.	★	1.2.11
29	Rational producer: Stage 2 only; Stages 1 & 3 = 'economic absurdity'.	★★	1.2.12
30	Laws of production ≠ least-cost combination (that is production optimisation).	★	1.2.13
31	Returns to scale: all inputs changed in the same proportion; long run only.	★★	1.2.14
32	**CRS = linear homogeneous production function; IRS > proportionate; DRS < proportionate; sequence IRS → long CRS → DRS.**	★★★	1.2.15
33	Cobb-Douglas: a + b > 1 IRS, = 1 CRS, < 1 DRS; original form assumed CRS.	★★	1.2.16
34	Secular period = very long period (Ch 4).	★	1.2.19
35	Isoquant = equal-product / iso-product curve: combinations giving the same output.	★★	1.3.1
36	Isoquants: negatively sloped, convex to origin (diminishing MRTS), non-intersecting.	★★	1.3.2
37	Iso-cost = budget line: combinations bought with a given outlay; straight line at given factor prices.	★★	1.3.3
38	Least-cost combination: isoquant tangent to iso-cost; MRTS_LK = MP_L/MP_K = P_L/P_K.	★	1.3.4, 1.3.5

Unit 2 — Theory of Cost

#	One-liner	Weight	Part A ref
1	Accounting cost = explicit = cash payments (wages, materials, fuel, rent, interest on borrowings); recorded in the books.	★★	2.0.1
2	Economic cost = explicit + implicit; accounting cost < economic cost.	★★	2.0.2
3	**Implicit = own capital's normal return + entrepreneur's foregone salary; own input → explicit cost zero; ₹ capital × normal rate.**	★★★	2.0.3, 2.0.4
4	Normal profit is part of implicit cost; TR = explicit + implicit → zero economic profit; supernormal only above it.	★★	2.0.5, 2.0.6
5	Accounting profit = TR − explicit; economic profit = TR − explicit − implicit; implicit = business profit − economic profit.	★★	2.0.7
6	**Outlay cost = actual expenditure, recorded in books; opportunity cost = next best alternative foregone, not recorded, useful in long-term calculations.**	★★★	2.0.8, 2.0.9, 2.1.4
7	Incremental = extra cost of a decision (new product line, new machinery, new clients).	★	2.0.10
8	**Sunk = incurred once and for all, unrecoverable (advertising, R&D, specialised equipment, railway lines); barrier to entry; irrelevant to decisions.**	★★★	2.0.11, 2.0.12, 2.0.13
9	Fixed costs inescapable till close-down; shut down costs continue even after suspension; casual wages and raw materials are variable.	★★	2.0.14, 2.0.15
10	Cost function = functional relation between cost and its determinants (factor prices, output, technology, capacity use, efficiency, time) — not output price; shapes the cost curves.	★★	2.1.1, 2.1.2
11	Short run: only variable factors change; long run: all factors, so all costs, variable.	★	2.2.1
12	Fixed · variable · semi-variable (electricity); stair-step = fixed over a range, then jumps (foreman).	★★	2.2.2, 2.2.3, 2.0.16
13	**TC = TFC + TVC; TC − TVC = TFC (vertical gap); TFC = constant term of the cost function.**	★★★	2.2.5, 2.1.3
14	TFC horizontal from Y-axis; TVC from origin, inverse-S — rises at an increasing rate once diminishing returns set in.	★★	2.2.4, 2.2.6
15	**AFC = TFC ÷ Q: falls throughout, never touches X-axis, never U-shaped.**	★★★	2.2.7
16	**AFC sums: TFC = TC at Q = 0 (or AFC × Q), then ÷ new Q.**	★★★	2.2.8, 2.1.6
17	**AVC = TVC ÷ Q = ATC − AFC; falls (increasing returns) then rises (diminishing returns).**	★★★	2.2.9, 2.2.10
18	**ATC = AFC + AVC = TC ÷ Q; U-shaped; ATC and AVC converge as AFC shrinks.**	★★★	2.2.11, 2.2.12
19	**MCn = TCn − TCn−1 = ΔTVC; over steps, ΔTC ÷ ΔQ; independent of fixed cost.**	★★★	2.2.13, 2.2.14
20	MC U-shaped (law of variable proportions); diminishing returns begin where MC starts rising.	★★	2.2.15, 2.2.16

#	One-liner	Weight	Part A ref
21	**AC falling → MC < AC; AC rising → MC > AC; AC minimum → MC = AC (MC cuts AC and AVC at their minima).**	★★★	**2.2.17, 2.2.18**
22	**SACs = plant curves; LAC = envelope (tangent to each SAC, not at their minima) = planning curve.**	★★★	**2.3.1, 2.3.2, 2.3.3, 2.4.7**
23	LAC U-shape from returns to scale: economies (internal + external) → falling; diseconomies → rising.	★★	**2.3.4, 2.4.5**
24	Internal economies: within the firm, exclusive to it — first economies, then diseconomies.	★	**2.4.1, 2.4.2**
25	**Internal kinds: technical · managerial · commercial (bulk buying, by-products) · financial · risk-bearing.**	★★★	**2.4.3, 2.2.19**
26	**External (industry expansion): cheaper materials · technology · skilled labour · ancillary industries · transport & marketing · information.**	★★★	**2.4.4**
27	External diseconomy: rising input demand → higher factor prices (and vice versa).	★	**2.4.6**
28	Outside the SM unit: economies of scope; shut-down rule P < AVC (Chapter 4).	★★	**2.3.5, 2.4.9, 2.0.17**

CHAPTER 4

Price Determination in Different Markets

376 Scanner questions · 128 one-liners · 102 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: Meaning and Types of Markets

SM Chapter 4, Unit 1, pages 4.1 – 4.15

Topic 1.0 Meaning of Market

34 Scanner questions · frequency PYQ 30 · RTP 1 · MTP 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.0.1	Price connotes money-value — the purchasing power of an article expressed in terms of money; prices of goods express their exchange value (value in exchange), which, according to Ricardo, means command over commodities in general, or power in exchange over purchasable commodities in general. In Economics we are concerned only with exchange value, not value in use or sentimental value.	Q33 (+ 2.0 Q3)	PYQ 2024-Sep, 2026-Sep	1.0, pp. 4.2 – 4.3; 2.0, p. 4.16
1.0.2	A market is a collection of buyers and sellers with the potential to trade — all those buyers and sellers of a good or service who influence price; it is the direct relationship between buyer and seller and need not be formal or held in a particular place (e.g. online).	Q13	PYQ 2022-Jun	1.0, p. 4.3
1.0.3	The five elements of a market are: (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. Volume of business, advertisement and awareness, 'no bargaining', 'multiple prices' and 'firm' are NOT elements.	Q3, Q9, Q10, Q17, Q27 (+ 1.1 Q2)	PYQ 2019-May, 2021-Jan, 2021-Jul, 2022-Dec, 2023-Jun, 2026-May	1.0, pp. 4.3 – 4.4
1.0.4	Markets are generally classified into product markets (households buy goods and services from firms) and factor markets (firms buy the resources they need — land, labour, capital and entrepreneurship); prices in factor markets are factor prices.	Q26	PYQ 2026-Jan	1.0.0, p. 4.4
1.0.5	Markets are classified on the basis of: (a) geographical area; (b) time; (c) nature of transaction; (d) regulation; (e) volume of business; (f) type of competition.	Q23, Q34	PYQ 2026-Sep; RTP 2024-Sep	1.0.0, p. 4.4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.0.6	On the basis of geographical area: local markets (highly perishable and bulky goods; hair dressers, retailers); regional markets (a wider area such as a few adjacent cities, parts of states or a cluster of states); national markets (demand limited to the national boundaries — the government's trade policy may restrict trading of a commodity to within the country, e.g. Hindi books); international markets (high-value, small-bulk goods such as gold and silver).	Q21, Q31, Q34	PYQ 2024-Sep, 2026-Sep (×2); MTP 2024-Aug	1.0.0, pp. 4.4 – 4.5
1.0.7	Alfred Marshall conceived the 'time' element in markets.	Q16, Q29, Q30	PYQ 2022-Dec; MTP 2025-Aug S1, 2026-Apr S2	1.0.0, p. 4.5
1.0.8	On the basis of time: very short period or market period — supply is fixed, so price depends on demand (perishables: vegetables, flowers, fish, eggs, fruits, milk); short period — supply increased by employing more variable factors; long period — all factors variable, long-run equilibrium price is the 'normal price'; very long or secular period — secular movements in population, capital supply, raw materials. (ICAI keys 'market price' for short-run price; in the SM the market price belongs to the market period.)	Q2, Q8, Q14, Q20	PYQ 2018-May, 2021-Jan, 2022-Jun, 2024-Jun; MTP 2025-Apr S1	1.0.0, p. 4.5
1.0.9	On the basis of nature of transaction: spot or cash market — goods exchanged for money payable either immediately or within a short span of time (grains sold in the mandi at current prices for immediate cash); forward or future market — contracts with a promise to pay and deliver goods at some future date (purchase of a foreign currency contract at a future rate from a bank).	Q1, Q5, Q6, Q7, Q12, Q18, Q19 (+ 1.1 Q5)	PYQ (CPT) 2017-Jun, 2019-Nov, 2020-Nov (×2), 2021-Jul, 2023-Jun, 2023-Dec, 2026-Jan; MTP 2025-Aug S2	1.0.0, pp. 4.5 – 4.6
1.0.10	On the basis of regulation: regulated market — transactions statutorily regulated to put an end to unfair practices (e.g. stock exchange); unregulated market — also called a free market as there are no stipulations on the transactions (e.g. weekly Haat Bazaar).	Q4, Q32	PYQ 2019-Nov, 2026-Sep	1.0.0, p. 4.6
1.0.11	On the basis of volume of business: wholesale market — commodities bought and sold in bulk or large quantities, transactions between traders (B2B); retail market — commodities sold in small quantities to ultimate consumers (B2C).	Q11, Q15, Q28	PYQ 2021-Jul, 2022-Jun, 2026-May	1.0.0, p. 4.6
1.0.12	*See Topic 1.2: AR = price, so the average revenue curve is also the firm's demand curve.*	Q24	PYQ 2025-Jan	1.2, p. 4.8
1.0.13	*See Topic 1.2: compute TR = P × Q at each point, then MRn = TRn − TRn−1 (₹30 × 19 = 570 → ₹28 × 20 = 560, so MR = −₹10; MR can be negative).*	Q25	PYQ 2025-May	1.2, p. 4.9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.0.14	Outside this unit: in a market economy resources are allocated by consumer demand and supply in the marketplace — the price mechanism (SM Chapter 1, Unit 2).	Q22	MTP 2024-Aug	Not in SM (MTP-only); see SM Ch. 1, 2.1.0, p. 1.20

Topic 1.1 Types of Market Structures

7 Scanner questions · frequency PYQ 4 · RTP 1 · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.1	A firm's demand expressed as a percentage of the industry (market) demand is its market share; how the market demand is shared among firms shapes market behaviour.	Q1	PYQ 2022-Jun	1.1, pp. 4.6 – 4.7 (term used, not defined)
1.1.2	Four basic market forms: perfect competition (many sellers, identical products); monopolistic competition (many sellers, differentiated products — shampoo); oligopoly (a few sellers, competing products — telecom); monopoly (single seller — Indian Railways). Price elasticity of demand of a firm: infinite under perfect competition, large under monopolistic competition, small under oligopoly and monopoly.	Q7	MTP 2025-Aug S2	1.1, p. 4.7 (Table 1)
1.1.3	The factors which determine the type of market are: nature of commodity, size of production and extent of demand.	Q6	PYQ 2026-May	Summary, p. 4.14
1.1.4	A negatively sloped market demand curve is found under every market structure, so the structure cannot be determined from it; what differs is the individual firm's demand (AR) curve — perfectly elastic under perfect competition, downward sloping in all forms of imperfect competition.	Q3, Q4	RTP 2024-Sep; MTP 2025-Jan S2, 2025-Apr S1	Not in SM (RTP/MTP-only); cf. 1.2, p. 4.11
1.1.5	*See Topic 1.0: the five elements of a market — 'firm' is not one of them.*	Q2	PYQ 2023-Jun	1.0, pp. 4.3 – 4.4
1.1.6	*See Topic 1.0: purchase of a foreign currency contract at a future rate from a bank is a forward (future) market transaction.*	Q5	PYQ 2026-Jan	1.0.0, p. 4.6

Topic 1.2 Concepts of Total Revenue, Average Revenue and Marginal Revenue

60 Scanner questions · frequency PYQ 54 · RTP – · MTP 14

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	Total revenue is the amount of money a firm realises by selling certain units of a commodity: TR = P × Q (130 units × ₹50 = ₹6,500). For a competitive firm (perfectly elastic demand) the TR curve is a positively sloped straight line starting from the origin.	Q13, Q17, Q27	PYQ 2020-Nov, 2021-Jan, 2022-Jun	1.2, p. 4.8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.2	Average revenue is the revenue earned per unit of output: AR = TR/Q = P (₹6,050 ÷ 121 = ₹50). Because AR is the price, the average revenue curve is also the firm's demand curve.	Q12, Q15, Q23, Q25, Q31 (+ 1.0 Q24)	PYQ 2020-Nov, 2021-Jan, 2021-Dec, 2022-Jun, 2023-Jun, 2025-Jan	1.2, pp. 4.8 – 4.9
1.2.3	Marginal revenue is the change in total revenue from the sale of an additional unit: MR = ΔTR/ΔQ; for a one-unit change, MRn = TRn − TRn−1. When TR is given at two outputs, divide the change in TR by the change in units (₹6,000 → ₹6,204 as sales rise 50 → 53: MR = 204/3 = ₹68); for consecutive units simply subtract (TR5 − TR4 = 400 − 360 = ₹40).	Q10, Q11, Q14, Q21, Q32, Q39, Q48, Q49, Q51	PYQ 2020-Nov (×3), 2021-Jul, 2023-Jun, 2025-Sep, 2026-Jan, 2026-May; MTP 2024-Aug	1.2, p. 4.9
1.2.4	When price and quantity are given, first compute TR = P × Q at each point, then MR = ΔTR/ΔQ: ₹20 × 10 = 200 → ₹19 × 11 = 209 gives MR = ₹9; ₹100 × 900 → ₹90 × 1,000 (both ₹90,000) gives MR = 0; MR can be negative (570 → 560 gives −₹10).	Q6, Q8, Q9, Q22, Q26, Q44 (+ 1.0 Q25)	PYQ 2019-May, 2019-Nov (×2), 2021-Dec, 2022-Jun, 2025-Jan, 2025-May	1.2, pp. 4.9 – 4.10 (Table 2)
1.2.5	TR at any level of output is the sum of the marginal revenues up to that level: TR = ΣMR (MR ₹10 + ₹5 + ₹3 = TR ₹18).	Q41, Q58	PYQ 2024-Sep, 2026-Sep	1.2, p. 4.10
1.2.6	For a falling AR (price) schedule, MR is always less than price: the MR curve lies below the AR curve and declines more rapidly, and after becoming zero MR becomes negative while AR (price) stays positive — so under monopoly or imperfect competition AR cannot be zero, but MR can be zero or negative.	Q34	PYQ 2023-Dec	1.2, p. 4.10
1.2.7	TR increases as long as MR is positive: it initially increases at a diminishing rate due to diminishing marginal revenue, is maximum when MR is zero (slope of TR = 0), and falls when MR is negative.	Q5, Q7, Q16, Q19, Q29, Q33, Q37	PYQ 2019-May, 2019-Nov (×2), 2021-Jan (×2), 2022-Dec, 2023-Dec, 2024-Jun	1.2, pp. 4.10 – 4.11
1.2.8	Under perfect competition the firm is a price taker: its AR (demand) curve is perfectly elastic, price is constant, so MR = AR and the AR and MR curves coincide as one horizontal line.	Q55	MTP 2025-Aug S2	1.2, p. 4.11
1.2.9	MR, AR and price elasticity of demand are uniquely related: MR = AR × (e − 1)/e, where e = price elasticity of demand.	Q2, Q42, Q59	PYQ 2018-Nov, 2025-Jan, 2026-Sep; MTP 2025-May S2	1.2.0, pp. 4.11 – 4.12
1.2.10	Numericals: put e into MR = AR × (e − 1)/e as a positive number — AR 5, e 2 → MR = 2.5; AR 45, e 3 → MR = 30; AR 21 with e = 3 and 7 → MR = 14 and 18.	Q18, Q38, Q45	PYQ 2021-Jan, 2024-Jun, 2025-May; MTP 2025-Apr S1	1.2.0, p. 4.12
1.2.11	If e = 1, MR = 0; if e > 1, MR is positive; if e < 1, MR is negative. On a straight-line demand curve MR is zero at the mid-point (e = 1), positive on the upper portion and negative on the lower portion.	Q4, Q20, Q50, Q52	PYQ 2019-May, 2021-Jul, 2026-Jan; MTP 2025-Apr S1, 2025-Aug S2	1.2.0, p. 4.12
1.2.12	Total revenue is maximum where price elasticity of demand is equal to one, because MR = 0 there.	Q43, Q54, Q60	PYQ 2025-Jan, 2026-Sep; MTP 2025-Aug S2	1.2.0, p. 4.12

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.13	Behavioural Principle 1: a firm should not produce at all if its total variable costs are not met — a competitive firm shuts down if price (AR) is below AVC. Minimum AVC is the shut-down price; at the shut-down point P = AVC, TR = TVC and the firm's loss equals its fixed cost (TFC). Shutting down is temporary.	Q1, Q3, Q40	PYQ 2018-May, 2019-May; MTP 2024-Aug, 2025-May S2	1.2.1, p. 4.13
1.2.14	Behavioural Principle 2: the firm makes maximum profits by expanding output to the level where marginal revenue equals marginal cost (MR = MC, the first-order condition); it pays to go on producing so long as MR exceeds MC. The MR curve slopes downwards and the MC curve slopes upwards; they intersect at the profit-maximising output.	Q3, Q24, Q28, Q35, Q36, Q46, Q47	PYQ (CPT) 2016-Dec, 2019-May, 2021-Dec, 2022-Jun, 2022-Dec, 2023-Dec (×2), 2025-May; MTP 2025-May S2	1.2.1, pp. 4.13 – 4.14
1.2.15	Profit (TR − TC) is maximum where TR exceeds TC by the greatest amount — the output at which the slopes of TR and TC are equal (MR = MC).	Q30	PYQ 2022-Dec	Not in SM (PYQ-only); follows from 1.2.1, p. 4.14
1.2.16	A rational person does not act unless the action produces marginal benefits that exceed marginal costs.	Q57	MTP 2025-Aug S1, 2026-Apr S1	Not in SM (MTP-only)
1.2.17	Unit 3 material: under monopolistic competition each firm independently maximises profit at MR = MC (price leadership, cartels and the kink point are oligopoly situations).	Q53	MTP 2025-Aug S1	Not in SM Unit 1 (MTP-only); SM Chapter 4, Unit 3
1.2.18	Chapter 3 material: explicit cost is the actual payment made by the entrepreneur to the providers of factor services.	Q56	MTP 2025-Dec S1	Not in SM Chapter 4 (MTP-only); SM Chapter 3

Unit 2: Determination of Prices

SM Chapter 4, Unit 2, pages 4.16 – 4.26

Topic 2.0 Introduction

6 Scanner questions · frequency PYQ 4 · RTP 1 · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.1	Prices of goods express their exchange value; prices also express the value of the services of factors of production — rent, wages, interest and profit for land, labour, capital and organisation.	Q1, Q2 (+ 1.0 Q33)	PYQ 2018-Nov, 2023-Jun, 2026-Sep	2.0, p. 4.16
2.0.2	*See Topic 1.0: exchange value, according to Ricardo, means command over commodities in general, or power in exchange over purchasable commodities in general.*	Q3	PYQ 2024-Sep	1.0, pp. 4.2 – 4.3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.0.3	Generally demand and supply determine price, but the Government sometimes intervenes and fixes prices fully or partially — e.g. procurement prices of wheat, rice and sugarcane (the minimum support price assured to farmers). A price floor is a minimum price fixed above the equilibrium price.	Q5, Q6	RTP 2025-May; MTP 2025-Apr S1 (×2), 2025-Aug S2	2.0, pp. 4.16 – 4.17 ('support price' and 'price floor' not defined in SM)
2.0.4	Chapter 3 material: economic cost = explicit cost + implicit cost. TR ₹1,20,000, explicit cost ₹95,000, forgone salary ₹30,000 → accounting cost ₹95,000, accounting profit ₹25,000, economic cost ₹1,25,000, economic loss ₹5,000.	Q4	PYQ 2025-May	Not in SM Chapter 4 (PYQ-only); SM Chapter 3

Topic 2.1 Determination of Prices - A General View

2 Scanner questions · frequency PYQ 1 · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	In an open competitive market, demand and supply determine equilibrium price; equilibrium price or market clearing price is the price at which quantity demanded equals quantity supplied, so there is no unsold stock and no unsupplied demand.	Q1	PYQ 2021-Jul	2.1, p. 4.17
2.1.2	If market price is above equilibrium there is excess supply (surplus) and competing sellers lower the price; if it is below equilibrium (equilibrium price greater than market price) there is excess demand (shortage) and buyers bid the price up — the stable equilibrium is restored automatically through the price mechanism.	Q2	MTP 2024-Aug, 2025-Apr S1	2.1, pp. 4.18 – 4.19

Topic 2.2 Changes in Demand and Supply

22 Scanner questions · frequency PYQ 22 · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	Factors other than the commodity's own price (income, tastes, population, technology, prices of factors) shift the curves; the four changes are an increase (shift to the right) or decrease (shift to the left) in demand, and an increase (shift to the right) or decrease (shift to the left) in supply.	Q8	PYQ 2024-Jun	2.2, p. 4.19
2.2.2	Increase in demand (supply unchanged): excess demand at the old price raises the equilibrium price, and the quantity bought and sold also rises. An expected rise in future prices (cars, motorcycles next year) increases current demand — the demand curve shifts to the right.	Q12, Q20, Q22	PYQ 2024-Jun, 2025-Sep; MTP 2025-Aug S1	2.2 (i), pp. 4.19 – 4.20; Illustration 1, p. 4.25
2.2.3	Decrease in demand (e.g. a fall in income; supply unchanged): the equilibrium price and the quantity demanded and supplied both decrease.	Q7, Q16	PYQ 2023-Jun, 2025-Jan	2.2 (ii), p. 4.20

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.4	Increase in supply (e.g. improved technology; demand unchanged): a surplus at the old price makes the equilibrium price go down and the quantity demanded go up.	Q3, Q19	PYQ 2019-Nov, 2025-Sep	2.2 (iii), pp. 4.20 – 4.21
2.2.5	Decrease in supply (e.g. obsolete technology, crop damage from heavy rain or storm; demand unchanged): a deficit at the old price makes the equilibrium price go up, while the amount sold and purchased goes down.	Q1, Q11, Q13	PYQ 2018-Nov, 2024-Jun, 2024-Sep	2.2 (iv), p. 4.21; Illustration 1, p. 4.25
2.2.6	*See Topic 2.3: simultaneous shifts — in the same direction, quantity is certain and price uncertain (equal increases leave price unchanged); in opposite directions, price is certain and quantity uncertain; the larger shift decides.*	Q2, Q4, Q5, Q6, Q9, Q10, Q14, Q15, Q17, Q18, Q21	PYQ 2019-May, 2021-Jul, 2021-Dec, 2022-Dec, 2024-Jun (×2), 2024-Sep, 2025-Jan (×3), 2025-May, 2025-Sep; MTP 2025-Apr S1	2.3, pp. 4.21 – 4.25

Topic 2.3 Simultaneous Changes in Demand and Supply

2 Scanner questions · frequency PYQ – · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	Demand and supply shifting in the same direction: when both increase, the equilibrium quantity increases but the change in equilibrium price is uncertain; when both decrease, the equilibrium quantity decreases but the change in price is uncertain. If the increase in demand equals the increase in supply, price stays the same and quantity rises.	(+ 2.2 Q2, 2.2 Q4, 2.2 Q5, 2.2 Q15, 2.2 Q21)	PYQ 2019-May, 2021-Jul, 2021-Dec, 2025-Jan (×2), 2025-Sep	2.3, p. 4.22
2.3.2	The larger shift decides the price: if demand increases more than supply, price rises; if supply increases in a greater proportion than demand, the new equilibrium price is less than the original (conversely, if the fall in supply exceeds the fall in demand, price goes up).	(+ 2.2 Q6, 2.2 Q17)	PYQ 2022-Dec, 2025-Jan	2.3, p. 4.22
2.3.3	Demand and supply shifting in opposite directions: when demand increases and supply decreases, the equilibrium price rises but nothing certain can be said about the equilibrium quantity; when demand decreases and supply increases, the equilibrium price falls, with quantity uncertain.	(+ 2.2 Q9, 2.2 Q14, 2.2 Q18)	PYQ 2024-Jun, 2024-Sep, 2025-May; MTP 2025-Apr S1	2.3, p. 4.23
2.3.4	Illustration 1 (D1 and S1 meet at point 1, SM figure numbering): demand up + factor price up → D2 with S3 = point 2; demand up + supply up (complement cheaper / better technology / cheaper factor) → D2 with S2 = point 7; crop damage from heavy rain → S3 alone = point 3; expected future price rise → D2 alone = point 5.	(+ 2.2 Q10, 2.2 Q11, 2.2 Q12)	PYQ 2024-Jun (×3)	Illustration 1, pp. 4.24 – 4.25

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.5	A price ceiling is the maximum price that can be charged for a good; fixed below the equilibrium price it causes shortages, the problem of allocating limited supplies among a large number of consumers, and black marketing.	Q1, Q2	MTP 2024-Aug, 2024-Dec S1, 2025-Dec S1	Not in SM (MTP-only); p. 4.17 only names price ceilings and floors as uses of equilibrium analysis

Unit 3: Price-Output Determination under Different Market Forms

SM Chapter 4, Unit 3, pages 4.27 – 4.65

Topic 3.0 Perfect Competition

64 Scanner questions · frequency PYQ 49 · RTP 4 · MTP 19

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.0.1	Under perfect competition all firms individually are price takers: no firm can control or influence the price, which is determined for the industry by the market forces of total (market) demand and total (market) supply — the equilibrium price is where they are equal.	Q1, Q5, Q27, Q36, Q40	PYQ (CPT) 2017-Jun, 2018-May, 2020-Nov, 2023-Jun, 2024-Sep, 2025-Sep; MTP 2025-May S2	3.0.0 (vi), p. 4.29; 3.0.1, pp. 4.29 – 4.30
3.0.2	Pure competition = (i) a large number of buyers and sellers, (ii) homogeneous (identical) products that are perfect substitutes, selling at a single market price, (iii) free entry and exit; its essential feature is the absence of any element of monopoly. Perfect competition adds perfect knowledge of market conditions, very low transaction costs and price-taking by all firms (the Summary also lists perfect mobility of factors, no government interference and absence of collusion).	Q23, Q32, Q46, Q48	PYQ 2022-Dec, 2026-May; MTP 2024-Aug, 2025-Jan S2	3.0.0, pp. 4.28 – 4.29; Summary, p. 4.63
3.0.3	NOT features of perfect (pure) competition: selling costs or advertising (even 'informative' advertising), inelastic demand, inefficient allocation of resources, and 'absence of transport cost' — the SM lists only very low transaction costs, and only as an extra condition of perfect (not pure) competition. Perfect competition has no selling costs, infinitely elastic firm demand and efficient allocation of resources.	Q7, Q17, Q20, Q30, Q38, Q49	PYQ 2018-Nov, 2021-Jan, 2021-Dec, 2023-Dec, 2025-May; MTP 2025-May S2, 2025-Dec S1	3.0.0, pp. 4.28 – 4.29; Table 7, pp. 4.55 – 4.56
3.0.4	The perfectly competitive market is regarded as a myth — its assumptions are never found in real-world markets; agricultural products, financial instruments (stocks, bonds, foreign exchange) and precious metals (gold, silver, platinum) only approach it.	Q15, Q22	PYQ 2019-Nov, 2022-Jun	3.0.0, p. 4.29; 3.0.5, p. 4.39
3.0.5	The price-taking firm's demand (AR) curve is a horizontal line at the market price — parallel to the X-axis — so it is perfectly (infinitely) elastic: price elasticity of demand of a firm is infinite only under perfect competition, and a firm facing a perfectly elastic demand curve is a perfect competitor.	Q10, Q12, Q28, Q29, Q31, Q37, Q44, Q63	PYQ 2018-Nov, 2019-Nov, 2023-Dec (×2), 2024-Jun, 2025-Jan, 2026-Sep; RTP 2026-Jan; MTP 2025-Jan S2	3.0.1, pp. 4.30 – 4.31; Summary table, p. 4.62

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.0.6	In perfect competition AR = MR = Price (AR and MR are the same curve) whatever the level of profit — so a firm earning supernormal profit still has AR = MR; this equality holds only under perfect competition.	Q11, Q26	PYQ 2019-May, 2023-Jun; MTP 2025-Apr S1	3.0.1, p. 4.31; Table 7, p. 4.56
3.0.7	Only the individual firm's demand curve is horizontal; the market (industry) demand curve DD under perfect competition slopes downward like any market demand curve (Figs. 14 and 16). All the listed market forms have negatively sloped market demand curves.	Q45	MTP 2025-Jan S2	3.0.1, pp. 4.29 – 4.32 (Figs. 14, 16)
3.0.8	Two conditions for equilibrium of a firm: (i) MR = MC — the profit-maximisation condition; (ii) the MC curve cuts the MR curve from below, i.e. MC has a positive slope. Where MC cuts MR from above (point T) there is no equilibrium; R, where it cuts from below, is the equilibrium.	Q2, Q8, Q16, Q19, Q35, Q42	PYQ 2018-May, 2018-Nov, 2019-May, 2021-Jul, 2024-Sep, 2025-Jan	3.0.1, pp. 4.31 – 4.32
3.0.9	If MR > MC the firm should expand production (each extra unit adds more to revenue than to cost); if MR < MC it should reduce output; profit is maximum only where MR = MC (= P for a competitive firm).	Q4	PYQ 2018-May	3.0.1, pp. 4.31 – 4.32
3.0.10	The MC curve of a firm in a perfectly competitive industry depicts its supply curve — precisely, the short-run supply curve is the portion of the MC curve lying above the minimum point of the AVC curve.	Q9, Q34	PYQ 2018-Nov, 2019-Nov, 2024-Sep; MTP 2025-Apr S1	3.0.2, pp. 4.32 – 4.33
3.0.11	Shut-down rule: if price falls below AVC — i.e. total revenue cannot cover even total variable cost — the firm supplies zero and shuts down (possibly temporarily); if it covers AVC and part of fixed cost, it continues in the short run.	Q33, Q39, Q60	PYQ 2024-Sep, 2025-Sep; RTP 2026-Jan	3.0.2, p. 4.33; 3.0.3, p. 4.35
3.0.12	Normal profit = zero economic profit: average revenue just equals average total cost (AR = ATC; TR – TC = 0); a normal percentage of profit for the entrepreneur's managerial services is already included in the cost of production.	Q14, Q18, Q62	PYQ 2019-Nov, 2021-Jul, 2026-Sep	3.0.3, pp. 4.33 – 4.35
3.0.13	Supernormal profit: AR (price) > ATC — the firm earns additional profit over the normal rate; since at equilibrium P = MC, this also means ATC < MC. Losses arise when ATC > AR. In the short run a competitive firm may earn any of the three.	Q13, Q43	PYQ 2019-Nov, 2025-Jan	3.0.3, pp. 4.33 – 4.35
3.0.14	In the long run, entry and exit wipe away supernormal profits and losses: every perfectly competitive firm earns only normal profit (so 'all firms earn profit' in the long run is false). In the short run the industry is in equilibrium at the price that clears the market (market demand = market supply).	Q6, Q21, Q55	PYQ 2018-Nov, 2021-Dec; MTP 2025-Dec S1	3.0.1, p. 4.29; 3.0.4, p. 4.37; Summary, p. 4.63

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.0.15	Long-run equilibrium of the competitive firm: LMC = LAC = P (with MR = MC and AR = AC), i.e. SMC = LMC = SAC = LAC = P = MR; for the industry, LAR = LMR = P = LMC = LAC.	Q3, Q25	PYQ 2018-May, 2022-Dec	3.0.4, pp. 4.37 – 4.38; 3.0.5, p. 4.39
3.0.16	Long-run optimality under perfect competition: output at minimum feasible cost; consumers pay the minimum price, P = MC; plants are used to full capacity so there is no wastage of resources (MC = AC) — hence no excess capacity; only normal profits (AC = AR); optimum number of firms.	Q53, Q54, Q61, Q64	PYQ 2026-Sep; RTP 2025-May, 2025-Sep; MTP 2025-Aug S1, 2026-Apr S2	3.0.5, p. 4.39; Table 7, p. 4.56
3.0.17	Price equals marginal cost only under perfect competition; under monopoly and monopolistic competition price is higher than MC. Monopolists charge higher prices and produce lower output than competitive firms, so supply is greater under competitive than under monopolised conditions.	Q41, Q47	PYQ 2025-Sep, 2026-Jan	Table 7, p. 4.55; 3.1.5 (2), p. 4.51
3.0.18	With a very large number of sellers in intense competition, ICAI keys the elasticity of supply as infinite; the SM itself speaks only of the firm's demand (not supply) being infinitely elastic.	Q24	PYQ 2022-Dec	Not in SM (PYQ-only); cf. 3.0.1, p. 4.31
3.0.19	A monopolist has no unique supply curve because it sets P > MC (no one-to-one price–quantity relation); under perfect competition P = MC, so the MC curve is the supply curve.	Q50	MTP 2025-Aug S2	Not in SM (MTP-only); cf. 3.0.2, p. 4.32
3.0.20	Accounting cost covers explicit payments (rent, salaries, interest on borrowed funds) but not normal profit, which is the implicit cost of the entrepreneur's own resources included in economic cost; TFC = TC – TVC (fixed cost = total cost at zero output).	Q58, Q59	MTP 2025-Dec S1 (×2)	3.0.3, pp. 4.33 – 4.34; Illustration 2, pp. 4.35 – 4.36
3.0.21	Cost-theory items (Chapter 3): the AFC curve is a rectangular hyperbola; AVC can fall even while MC rises, provided MC < AVC; LAC is the least cost of producing each output, the envelope of SAC curves, and U-shaped; SAC is U-shaped because of increasing and then diminishing returns.	Q51, Q52, Q56, Q57	MTP 2025-Dec S1 (×4)	Not in SM Ch. 4 Unit 3 (MTP-only; SM Chapter 3, Theory of Cost)

Topic 3.1 Monopoly

66 Scanner questions · frequency PYQ 51 · RTP 4 · MTP 31

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.1	Monopoly ('alone to sell'): a single seller of a product which has no close substitute. Features: single seller (firm = industry); strong barriers to entry; no close substitutes; market power. A large number of sellers, a single buyer, free entry or a homogeneous product are NOT monopoly features (the Summary table calls its product 'unique product without close substitute').	Q15, Q22, Q25, Q27, Q42	PYQ 2021-Jul, 2022-Jun, 2023-Jun, 2023-Dec, 2025-May	3.1, 3.1.0, pp. 4.39 – 4.40; Summary table, p. 4.62

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.2	The fundamental cause of monopoly is barriers to entry — economic, institutional, legal or artificial: e.g. control of scarce resources, exclusive government rights, patents and copyrights given by government to protect intellectual property rights, huge start-up costs, natural monopoly. Entry is restricted at all times. In India: Indian Railways in rail transport; government monopoly over nuclear power.	Q8, Q19, Q29, Q46, Q56	PYQ 2019-May, 2021-Dec, 2024-Jun, 2025-Sep; MTP 2025-Jan S2, 2025-Apr S1, 2025-Aug S1	3.1.0 – 3.1.1, pp. 4.39 – 4.41
3.1.3	With no close substitutes, the cross elasticity of demand for the monopolist's product with any other product is zero or very small and its price elasticity of demand is less than one: the monopolist faces a steep, downward-sloping (highly inelastic) demand curve — its AR curve falls from left to right.	Q7, Q34, Q37, Q38, Q49, Q57	PYQ 2018-Nov, 2025-Jan, 2026-Jan; MTP 2024-Aug, 2024-Dec S1, 2025-Apr S1, 2025-May S2	3.1.0 (3), pp. 4.39 – 4.40; 3.1.2, p. 4.41; Table 7, p. 4.55
3.1.4	The single firm constitutes the industry — there is no distinction between firm and industry — so the monopolist's demand curve is identical with the market demand curve.	Q4, Q55	PYQ 2018-May, 2026-May; MTP 2024-Aug, 2025-Aug S1	3.1.0 (1), p. 4.39; 3.1.2, p. 4.41
3.1.5	Degree of control over price: none under perfect competition, some under monopolistic competition and oligopoly, very considerable (very large) under monopoly — the monopolist is a price maker.	Q17, Q18	PYQ 2021-Dec (×2); MTP 2025-May S2	3.1.0 (3), p. 4.39; Summary table, pp. 4.62 – 4.63
3.1.6	Monopoly AR and MR: both slope downward; MR is less than AR (lies below it) because, to sell an extra unit, the monopolist must lower the price on all units; the slope of MR is twice that of AR (MR lies half-way between AR and the Y-axis); AR cannot be zero but MR can be zero (where TR is maximum) or even negative.	Q5, Q21, Q28, Q52, Q63	PYQ 2018-Nov, 2022-Jun, 2024-Jun, 2026-Jan; MTP 2026-Apr S1	3.1.2, pp. 4.41 – 4.43
3.1.7	AR–MR–elasticity link: MR = AR × (1 – 1/e), so AR = MR × e/(e – 1); the gap between AR and MR depends on price elasticity. E.g. P = 60: e = 5 gives MR = 48, e = 6 gives MR = 50; MR = 15 and e = 1.5 give AR = 45. Output is shifted to the market with the higher MR (higher elasticity) until MRs are equal.	Q51, Q53, Q65	PYQ 2021-Dec, 2026-Jan, 2026-May; MTP 2026-Apr S2	3.1.4 (numerical example), p. 4.47
3.1.8	Short-run equilibrium of a monopolist: MC = MR with MC cutting MR from below; profit per unit = AR – ATC. A monopolist need not always earn profit: if ATC > AR it incurs losses (it stays open if it covers AVC).	Q48	PYQ 2026-Jan	3.1.3, pp. 4.43 – 4.45
3.1.9	In the long run the monopolist will not continue if he makes losses (he may exit, or adjust his plant to break even or earn profit), but he continues to earn supernormal profits even in the long run because entry of outside firms is blocked; he need not produce at the minimum of LAC.	Q3, Q24, Q32, Q40, Q61	PYQ 2018-May (×2), 2022-Dec; MTP 2024-Aug, 2025-Jan S2, 2025-May S2, 2025-Aug S2, 2025-Aug S1	3.1.3, pp. 4.44 – 4.45; Summary, p. 4.63

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.10	Market power: the ability to charge a price above marginal cost and earn a positive profit — so the degree of monopoly power is judged by the gap between price and MC.	Q47, Q58	PYQ 2025-Sep; MTP 2025-May S2	3.1.0 (4), p. 4.40; Summary, p. 4.63 ('measure' is not SM wording)
3.1.11	Economic effects of monopoly: higher prices and lower output than competitive firms, unjustifiable long-run economic profits, price above MC, reduced consumer surplus, price discrimination — monopolies are exploitative, so governments take steps to regulate them and prevent their formation.	Q2, Q23, Q54	PYQ 2018-May, 2022-Jun, 2026-May	3.1.5, p. 4.51; Summary, p. 4.64
3.1.12	Price discrimination: charging different prices for different units of the same commodity (to different buyers) for reasons not associated with differences in cost — a pricing method adopted by a monopolist to earn abnormal profits. Simple monopoly charges a uniform price; discriminating monopoly charges different prices (e.g. dynamic fares of Indian Railways).	Q16, Q31, Q35	PYQ 2021-Dec, 2024-Sep; MTP 2024-Aug	3.1.2, p. 4.43; 3.1.4, p. 4.46
3.1.13	Price discrimination cannot persist under perfect competition (the seller has no influence over the market price); it requires an element of monopoly.	Q10, Q36, Q59	PYQ 2019-May, 2021-Dec; RTP 2024-Sep; MTP 2025-May S2	3.1.4, p. 4.46
3.1.14	Conditions for price discrimination: (I) the seller has some control over supply (price-setting power); (II) the market can be divided into two or more sub-markets; (III) price elasticity differs between sub-markets — discrimination is profitable only when elasticities differ; (IV) buyers in the low-priced market cannot resell to the high-priced market (no arbitrage).	Q1, Q39, Q43, Q64	PYQ (CPT) 2016-Dec, 2025-May; RTP 2025-Sep; MTP 2025-Jan S2, 2025-Apr S1, 2025-May S2, 2025-Dec S1, 2026-Apr S2	3.1.4, p. 4.46
3.1.15	Objectives of price discrimination: to earn maximum profit; to dispose of surplus stock; to enjoy economies of scale; to capture foreign markets; to secure equity through pricing (not 'to escape foreign markets' or 'to hold excess stock').	Q26, Q45	PYQ (CPT) 2017-Jun, 2023-Jun, 2025-Sep	3.1.4, pp. 4.47 – 4.48
3.1.16	Prof. Pigou classified three degrees: first degree — the market is separated into each individual consumer, each charged what he is willing and able to pay, extracting the entire consumer surplus (doctors, lawyers, auctions); second degree — different prices for different quantities sold, taking only part of the surplus; third degree — price varies by attributes such as location or customer segment.	Q6, Q33, Q44, Q50, Q60, Q62	PYQ 2018-Nov, 2025-May, 2026-Jan; MTP 2024-Aug, 2025-May S2 (×2), 2025-Aug S1	3.1.4, p. 4.48; Summary, p. 4.64
3.1.17	Third-degree examples: dumping; different prices for domestic and commercial uses (electricity cheaper for rural homes or farmers than for industry); lower railway fares for senior citizens — all are price discrimination.	Q13, Q14, Q20, Q30, Q41, Q66	PYQ 2020-Nov, 2021-Jul, 2021-Dec, 2023-Dec, 2024-Jun; RTP 2025-Jan, 2025-May; MTP 2025-Aug S2, 2026-Apr S2	3.1.4, pp. 4.45 – 4.48

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.18	To reach equilibrium the discriminating monopolist makes three decisions: how much total output to produce (aggregate MR = MC), how to distribute it between the sub-markets (equal MRs), and what prices to charge (higher in the less elastic market).	Q9	PYQ 2019-May	3.1.4, pp. 4.48 – 4.50
3.1.19	*See Topic 3.3: the kinked demand curve is highly elastic above, and inelastic below, the prevailing price.*	Q11	PYQ 2019-May	3.3.3, p. 4.61
3.1.20	*See Topic 3.0: the demand curve is horizontal (perfectly elastic) only under perfect competition.*	Q12	PYQ 2019-May	3.0.1, pp. 4.30 – 4.31

Topic 3.2 Imperfect Competition-Monopolistic Competition

30 Scanner questions · frequency PYQ 20 · RTP 3 · MTP 13

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.2.1	Monopolistic competition: many sellers offering differentiated products — close, but not perfect, substitutes — to many buyers. Features: large number of sellers, product differentiation, freedom of entry and exit, non-price competition (with high selling costs); it is a blend of monopoly and perfect competition.	Q3, Q15, Q16, Q19, Q22	PYQ 2019-May, 2024-Sep, 2025-Jan; MTP 2024-Aug, 2025-Jan S2	3.2.0, pp. 4.52 – 4.53; Summary, p. 4.64
3.2.2	Product differentiation (by brand, size, design, colour, packaging, promotion — true or fancied) is the main feature of monopolistic competition and the one respect in which it differs from perfect competition (both have many sellers, many buyers, free entry and exit, and only normal profit in the long run). A hamburger, a shirt and an automobile are all differentiated products.	Q2, Q12, Q13, Q24, Q30	PYQ 2018-Nov, 2023-Jun, 2024-Jun, 2026-Sep; MTP 2025-Apr S1	3.2.0 (ii), p. 4.52; Table 7, p. 4.55
3.2.3	SM examples of monopolistic competition: soaps and detergents (Lux, Liril, Dettol, Dove ...), clothing, retail trade, grocery and shoe shops, restaurants, repair shops, laundries, beauty parlours — so toothpaste brands, hotels and pubs, restaurants and car repair are monopolistically competitive.	Q1, Q7, Q20, Q21, Q29	PYQ 2018-Nov, 2021-Jul, 2025-Jan, 2025-Sep; RTP 2026-Jan; MTP 2025-Jan S2, 2026-Apr S2	3.2, pp. 4.51 – 4.52
3.2.4	Non-price competition: firms compete on bases other than price — aggressive advertising, product development, better distribution, after-sales service — to avoid price wars; selling costs are vital (huge) under monopolistic competition, versus none under perfect competition and generally low under monopoly.	Q9, Q11, Q14	PYQ 2021-Jul, 2022-Jun; MTP 2024-Aug, 2024-Aug S2	3.2.0 (iv), pp. 4.52 – 4.53; Table 7, p. 4.56
3.2.5	Edward Chamberlin (USA) formulated the theory of monopolistic competition and distinguished selling costs from production costs.	Q26, Q28	RTP 2025-May; MTP 2026-Apr S2	Not in SM (RTP/MTP-only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.2.6	Each firm is a price maker facing a downward-sloping but relatively elastic (flat) demand curve because rival brands are close substitutes, with MR lying below it; the less differentiated the product, the more elastic the curve. Monopoly's demand curve is steeper (highly inelastic); both monopoly and monopolistic competition have downward-sloping demand curves.	Q5, Q8, Q10, Q17	PYQ 2019-Nov, 2021-Jul, 2021-Dec; RTP 2024-Sep; MTP 2025-Apr S1, 2025-Dec S1	3.2.0 (ii), p. 4.52; 3.2.1, p. 4.53; Table 7, p. 4.55
3.2.7	Equilibrium of the firm: MC = MR and MC cuts MR from below; in the short run a monopolistically competitive firm may earn supernormal profit, normal profit or incur losses.	Q25	MTP 2025-May S2	3.2.1, pp. 4.53 – 4.54
3.2.8	In the long run, entry (or exit) wipes out supernormal profits (or losses): all firms earn only normal profits — the long-run similarity with perfect competition.	Q4, Q6	PYQ 2019-Nov, 2021-Jan	3.2.1, p. 4.54; Table 7, p. 4.56
3.2.9	Long-run equilibrium is where AR is tangent to AC on its falling portion: the firm never produces at the lowest point of LAC, is not of optimum size and has excess capacity.	Q18	MTP 2024-Dec S1	3.2.1, pp. 4.54 – 4.55; Summary, p. 4.64
3.2.10	Differentiated products are found under both monopolistic competition and (differentiated or imperfect) oligopoly.	Q27	MTP 2025-Dec S1	3.3, p. 4.56; Types of Oligopoly, p. 4.57
3.2.11	*See Topic 3.0: in long-run equilibrium of a perfectly competitive industry all firms are in equilibrium earning only normal (not supernormal) profits, quantity supplied equals quantity demanded, and plants are used to full capacity.*	Q23	PYQ 2021-Jan, 2026-Jan	3.0.5, pp. 4.38 – 4.39

Topic 3.3 Oligopoly

83 Scanner questions · frequency PYQ 70 · RTP 5 · MTP 25

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.1	Oligopoly — 'competition among the few': a few (two to ten) large sellers of homogeneous or differentiated products, each big enough to influence the market; the industry is dominated by a few large firms behind strong barriers to entry; firms are price makers, and the collective behaviour of the few dominant firms shapes price. Stigler: a firm bases its market policy, in part, on the expected behaviour of a few close rivals.	Q20, Q21, Q27, Q30, Q44, Q53	PYQ 2020-Nov, 2021-Jan, 2021-Dec (×2); MTP 2024-Aug, 2024-Dec S1	3.3, pp. 4.56 – 4.57; 3.3.0, p. 4.58
3.3.2	Oligopoly is the market form that sells either homogeneous or differentiated products; firms in an industry producing a differentiated product are either monopolistically competitive or oligopolists.	Q60, Q79	RTP 2025-Sep, 2026-Jan; MTP 2025-Jan S2, 2025-Dec S1, 2026-Apr S2	3.3, p. 4.56; Summary table, p. 4.63

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.3	SM examples of oligopoly: the cold drinks and automobile industries in India, airlines, petroleum refining, power generation and supply, mobile telephony and Internet service providers (hence smartphones and telecom); OPEC is the best example of an agreement (cartel) among oligopolists.	Q2, Q14, Q16, Q41, Q48, Q76, Q82	PYQ 2018-May, 2020-Nov (×3), 2023-Dec, 2024-Sep, 2026-Sep; MTP 2025-Aug S1	3.3, p. 4.57; 3.3.1 (iii), p. 4.60
3.3.4	The Theory of Games — a different approach to the strategic behaviour of oligopolists under uncertainty — was developed by Von Neumann and Oskar Morgenstern (1944).	Q55, Q69	PYQ 2026-May; MTP 2024-Dec S1	Game Theory in Oligopoly, p. 4.57
3.3.5	Types of oligopoly: pure (perfect) — homogeneous product, e.g. aluminium, steel, petroleum; differentiated (imperfect) — goods sold on product differentiation, e.g. talcum powder; open — new firms can enter and compete with existing firms; closed — entry restricted.	Q15, Q22, Q40, Q49, Q65, Q70	PYQ 2020-Nov, 2021-Jan, 2023-Jun, 2024-Sep, 2025-Sep, 2026-May; MTP 2025-Aug S2	Types of Oligopoly, p. 4.57
3.3.6	Collusive oligopoly — firms come to a common understanding (cooperate) in fixing price or output or both; competitive — no such understanding. Partial — industry dominated by one large firm looked upon as leader (the price leader); full — no price leadership. Syndicated — firms sell through a centralised syndicate; organised — firms form a central association to fix prices, output, quotas.	Q12, Q18, Q29, Q58, Q63, Q77, Q78	PYQ (CPT) 2017-Jun, 2019-Nov, 2020-Nov (×2), 2021-Dec, 2024-Jun, 2025-Jan, 2025-May; RTP 2025-May; MTP 2025-Apr S1, 2026-Apr S1, 2026-Apr S2	Types of Oligopoly, pp. 4.57 – 4.58
3.3.7	Characteristics of oligopoly: strategic interdependence (the most important — each firm must weigh rivals' reactions), importance of advertising and selling costs (non-price competition, avoiding price wars) and group behaviour; kinked demand and cartels are typical of it. Free entry, a large number of firms selling close substitutes, and 'no importance to advertising' are NOT features.	Q1, Q5, Q11, Q26, Q43, Q46, Q59, Q66, Q73	PYQ 2018-May, 2018-Nov, 2019-Nov, 2021-Jul, 2024-Jun, 2026-Jan, 2026-May; RTP 2026-Jan; MTP 2024-Aug, 2025-Jan S2	3.3.0, pp. 4.58 – 4.59; Summary, p. 4.65
3.3.8	Because rivals react to every price change, an oligopolist cannot have a sure and determinate demand curve — demand under oligopoly is indeterminate, so economists use several models (independent action; Cournot, Stackelberg, Bertrand; collusion).	Q47	MTP 2024-Aug, 2025-May S2	3.3.1, p. 4.59
3.3.9	The oligopoly price is higher than under perfect competition but lower than under monopoly; if rivals cooperate, they can charge prices above marginal cost.	Q39	PYQ 2022-Dec	Not in SM (PYQ-only); cf. 3.3.1, p. 4.59

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.10	Cartel: a group of firms that explicitly agree (collude) to coordinate their activities; cartels form where there are a few firms, all similar in size, and most have only a subset of producers. Colluding firms act jointly as a monopoly to raise price and maximise joint profit — if members keep to the agreement the cartel earns monopoly profits (so a market-sharing cartel reaches the monopoly position only sometimes). Collusion is impossible with a large number of firms.	Q17, Q25, Q42, Q45, Q61, Q72, Q74, Q75	PYQ 2020-Nov, 2021-Jul, 2023-Dec, 2026-May; RTP 2025-Jan; MTP 2024-Aug, 2025-Jan S2, 2025-Apr S1	3.3.1 (iii), pp. 4.59 – 4.60; 3.3.2, p. 4.60
3.3.11	Price leadership is a characteristic of oligopoly: by a dominant firm (a 'live and let live' philosophy towards fringe firms), by a low-cost firm, or barometric — an old, experienced, largest or most respected firm assesses market conditions and its price is generally accepted by the rest. 'Live and let live' belongs to dominant-firm, not barometric, leadership.	Q6, Q8, Q19	PYQ 2018-Nov, 2019-Nov, 2020-Nov	3.3.2, p. 4.60
3.3.12	The kinked demand curve hypothesis — Sweezy's model, given by American economist Paul A. Sweezy — is found under oligopoly and explains price rigidity: prices stay sticky even when costs or demand change.	Q13, Q23, Q24, Q31, Q34, Q37, Q62, Q64, Q80	PYQ 2020-Nov, 2021-Jan, 2021-Jul, 2021-Dec, 2022-Jun, 2022-Dec, 2025-May, 2025-Sep; MTP 2025-Apr S1, 2026-Apr S2	3.3.3, pp. 4.60 – 4.62; Summary, p. 4.65
3.3.13	The kink is at the prevailing price: the upper segment is highly (relatively) elastic and the lower segment inelastic — consumers respond more to a price rise than to a price cut.	Q32, Q35, Q38, Q50	PYQ 2021-Dec, 2022-Jun (×2), 2022-Dec, 2024-Sep	3.3.3, p. 4.61
3.3.14	Assumed reaction pattern: each oligopolist believes that if it lowers its price below the prevailing level competitors will follow, but if it raises its price competitors will not follow — so a firm that raises its price loses customers (market share) to rivals.	Q68, Q83	PYQ 2026-Jan, 2026-Sep	3.3.3, p. 4.61
3.3.15	In both Chamberlin's oligopoly model and the kinked demand curve model, oligopolists recognise their interdependence, do not collude and tend to keep prices constant.	Q54	MTP 2024-Aug, 2024-Dec S1	Not in SM (MTP-only); cf. 3.3.3, p. 4.62
3.3.16	Duopoly: only two firms in the market (e.g. two rival cold-drink sellers) — a subset (special case) of oligopoly.	Q9, Q10, Q71	PYQ 2019-Nov (×2), 2026-May	3.3.4, p. 4.62
3.3.17	Monopsony: a single buyer of a product or service, mostly in factor markets where one firm is the only buyer of a factor; oligopsony: a small number of large buyers, mostly in factor markets.	Q7, Q57, Q67	PYQ 2019-May, 2025-Jan, 2026-Jan; MTP 2025-Apr S1	3.3.4, p. 4.62
3.3.18	Bilateral monopoly: only a single buyer and a single seller — a combination of a monopoly market and a monopsony market.	Q3, Q4, Q28, Q33, Q51, Q81	PYQ 2018-May, 2018-Nov, 2021-Dec (×2), 2023-Dec, 2024-Sep, 2026-Sep	3.3.4, p. 4.62
3.3.19	In a zero-sum game one player's gain is exactly the other's loss — e.g. competition for a fixed market share; the prisoners' dilemma is not zero-sum.	Q52	MTP 2024-Dec S1	Not in SM (MTP-only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.20	An oligopolist making short-run losses may, in the long run, go out of business, stay in business or break even — any outcome is possible.	Q56	MTP 2024-Dec S1	Not in SM (MTP-only)
3.3.21	*See Topics 3.0 and 3.3: an industry consists of many firms; price rigidity is a feature of oligopoly (not monopoly); there are no selling costs under perfect competition, where factors move freely.*	Q36	PYQ 2022-Dec	3.0.1, p. 4.29; 3.3.3, p. 4.62; Table 7, p. 4.56

Part B — Chapter 4 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 54% of ICAI appearances in this chapter.

Unit 1 — Meaning and Types of Markets

#	One-liner	Weight	Part A ref
1	Price = money-value; prices express exchange value; Ricardo: command over commodities in general; Economics deals only with exchange value.	★	1.0.1
2	Market = buyers and sellers with the potential to trade who influence price; need not be a formal place.	★	1.0.2
3	**Five elements: buyers & sellers · product/service · bargaining for a price · knowledge of market conditions · one price at a given time (NOT volume of business, advertisement, firm, multiple prices).**	★★★	1.0.3, 1.1.5
4	Product markets (households buy from firms) vs factor markets (firms buy land, labour, capital, entrepreneurship).	★	1.0.4
5	Six bases: area · time · nature of transaction · regulation · volume of business · competition.	★	1.0.5
6	Area: local · regional (adjacent cities / cluster of states) · national (trade policy keeps trade within the country) · international (gold, silver).	★★	1.0.6
7	Time element conceived by Alfred Marshall.	★★	1.0.7
8	Time: very short = market period (supply fixed, perishables) · short · long ('normal price') · very long = secular period.	★★	1.0.8
9	**Nature of transaction: spot/cash (immediate payment; mandi grain) vs forward/future (future delivery; forex contract from a bank).**	★★★	1.0.9, 1.1.6
10	Regulation: regulated (stock exchange) vs unregulated = free market, no stipulations (Haat Bazaar).	★	1.0.10
11	Volume of business: wholesale (bulk, B2B) vs retail (small quantities, B2C).	★★	1.0.11
12	Market share = firm's demand as a percentage of industry demand.	★	1.1.1
13	Four forms: perfect competition · monopolistic competition · oligopoly · monopoly; firm's elasticity of demand infinite only under perfect competition.	★	1.1.2
14	Type of market depends on nature of commodity, size of production, extent of demand.	★	1.1.3
15	Downward-sloping market demand fits every structure — structure cannot be inferred from it.	★★	1.1.4
16	TR = P × Q; competitive firm's TR is a straight line from the origin.	★★	1.2.1
17	**AR = TR/Q = P; AR curve = firm's demand curve.**	★★★	1.2.2, 1.0.12
18	**MR = ΔTR/ΔQ; MRn = TRn − TRn−1; from P and Q compute TR first; MR can be zero or negative.**	★★★	1.2.3, 1.2.4, 1.0.13
19	TR = ΣMR.	★	1.2.5

#	One-liner	Weight	Part A ref
20	Falling AR → MR < price, MR below AR; AR never zero, MR can be zero or negative.	★	1.2.6
21	**TR rises at a diminishing rate (diminishing MR), is maximum when MR = 0, falls when MR < 0.**	★★★	1.2.7
22	Perfect competition: AR = MR, both horizontal and coincident.	★	1.2.8
23	**MR = AR × (e − 1)/e — take e as a positive number.**	★★★	1.2.9, 1.2.10
24	e = 1 → MR = 0; e > 1 → MR positive; e < 1 → MR negative.	★★	1.2.11
25	TR is maximum where e = 1.	★★	1.2.12
26	Principle 1: shut down if TVC not covered (P < AVC); at the shut-down point P = AVC, TR = TVC, loss = TFC.	★★	1.2.13
27	**Principle 2: maximum profit at MR = MC (first-order condition); MR slopes down, MC slopes up.**	★★★	1.2.14, 1.2.15

Unit 2 — Determination of Prices

#	One-liner	Weight	Part A ref
1	Prices express exchange value; factor prices = rent, wages, interest, profit.	★★	2.0.1
2	**Government may fix prices (procurement/support prices); floor above equilibrium; ceiling below equilibrium → shortages, allocation problems, black marketing.**	★★★	2.0.3, 2.3.5
3	Equilibrium = market clearing price: Qd = Qs, no unsold stock, no unsupplied demand.	★	2.1.1
4	Price above equilibrium → surplus → price falls; below → shortage → price rises (stable equilibrium).	★	2.1.2
5	Non-price factors shift curves: right = increase, left = decrease.	★	2.2.1
6	Demand ↑ → P ↑, Q ↑; expected future price rise shifts demand right.	★★	2.2.2
7	Demand ↓ → P ↓, Q ↓.	★	2.2.3
8	Supply ↑ → P ↓, Q ↑; Supply ↓ → P ↑, Q ↓.	★★	2.2.4, 2.2.5
9	**Same direction: quantity certain, price uncertain; equal shifts leave price unchanged; the larger shift decides price.**	★★★	2.3.1, 2.3.2
10	Opposite directions: price certain (moves with demand), quantity uncertain.	★★	2.3.3
11	Illustration 1: D2+S3 = point 2; D2+S2 = point 7; S3 alone = point 3; D2 alone = point 5.	★★	2.3.4

Unit 3 — Price-Output Determination under Different Market Forms

#	One-liner	Weight	Part A ref
1	Perfect competition: large number of buyers and sellers · homogeneous products (perfect substitutes) · free entry and exit = pure competition; + perfect knowledge · very low transaction costs · price-taking = perfect competition.	★★	3.0.2

#	One-liner	Weight	Part A ref
2	**NOT perfect competition: selling costs, advertising, inelastic demand, inefficient allocation; 'absence of transport cost' is not an SM condition.**	★★★	3.0.3
3	Perfect competition is a myth; agricultural products, financial instruments and precious metals come close.	★	3.0.4
4	**Firms are price takers: no control over price; industry price set by market demand = market supply.**	★★★	3.0.1
5	**Firm's demand (AR) = horizontal line, parallel to X-axis, infinitely elastic; but the market demand curve still slopes down.**	★★★	3.0.5, 3.0.7
6	AR = MR = P only under perfect competition.	★★	3.0.6
7	**Equilibrium: MR = MC and MC cuts MR from below (MC positive slope).**	★★★	3.0.8
8	MR > MC → expand output; MR < MC → reduce output.	★	3.0.9
9	Short-run supply curve = MC above minimum AVC.	★★	3.0.10
10	Price < AVC (TR < TVC) → shut down.	★★	3.0.11
11	Normal profit: AR = ATC (zero economic profit); supernormal: AR > ATC; loss: ATC > AR — all possible in the short run.	★★	3.0.12, 3.0.13
12	Long run: entry and exit leave only normal profit.	★★	3.0.14
13	Long-run equilibrium: LMC = LAC = P; LAR = LMR = P = LMC = LAC.	★	3.0.15
14	Long-run optimality: minimum cost, P = MC, full capacity, no wastage, no excess capacity, optimum number of firms.	★★	3.0.16
15	P = MC only under perfect competition; monopoly charges more and supplies less (P > MC; no unique supply curve).	★★	3.0.17, 3.0.19
16	Elasticity of supply 'infinite' under intense competition — ICAI key only; SM speaks of demand.	★	3.0.18
17	Normal profit is an implicit cost, not part of accounting cost; TFC = TC – TVC.	★	3.0.20
18	Cost items (Ch. 3): AFC rectangular hyperbola; AVC falls while MC < AVC; LAC envelope, U-shaped; SAC U-shaped from returns.	★★	3.0.21
19	Monopoly = single seller, no close substitutes; features: single seller · barriers to entry · no close substitutes · market power.	★★	3.1.1
20	**Barriers to entry = fundamental cause: patents and copyrights, government rights, scarce resources, natural monopoly; entry restricted at all times; nuclear power = government monopoly.**	★★★	3.1.2
21	**Cross elasticity zero or very small; price elasticity < 1; steep downward-sloping AR.**	★★★	3.1.3
22	Firm = industry; monopolist's demand = market demand.	★★	3.1.4
23	Control over price: very considerable under monopoly; price maker.	★★	3.1.5
24	MR < AR; MR slope = 2 × AR slope; AR cannot be zero, MR can be zero or negative.	★★	3.1.6

#	One-liner	Weight	Part A ref
25	MR = AR(1 − 1/e); AR = MR·e/(e − 1); shift output to the market with the higher MR.	★★	3.1.7
26	Monopolist can make short-run losses (ATC > AR).	★	3.1.8
27	**Long run: no continuing losses; supernormal profit persists because entry is blocked.**	★★★	3.1.9
28	Market power = price above MC with positive profit.	★	3.1.10
29	Effects of monopoly: higher price, lower output, unjust profits → government regulates and prevents monopolies.	★★	3.1.11
30	Price discrimination: different prices for different units of the same commodity, not cost-based; simple vs discriminating monopoly (dynamic fares).	★★	3.1.12
31	Price discrimination needs monopoly; impossible under perfect competition.	★★	3.1.13
32	**Conditions: price-setting power · separable sub-markets · different elasticities (profitable only then) · no resale.**	★★★	3.1.14
33	Objectives: maximum profit, dispose of surplus stock, economies of scale, capture foreign markets, equity through pricing.	★★	3.1.15
34	**Pigou's degrees: 1st = each individual consumer (entire surplus); 2nd = quantities sold; 3rd = location or customer segment.**	★★★	3.1.16
35	**Third-degree examples: dumping; domestic vs commercial (rural vs industrial) electricity; railway senior-citizen fares.**	★★★	3.1.17
36	Discriminating monopolist decides total output, its split (equal MRs) and the prices (higher where demand is less elastic).	★	3.1.18
37	Monopolistic competition: many sellers, differentiated close substitutes, free entry, non-price competition.	★★	3.2.1
38	Product differentiation = main feature; it is the only difference from perfect competition.	★★	3.2.2
39	**Examples: soaps and detergents, toothpaste, restaurants, hotels, repair shops, clothing, retail.**	★★★	3.2.3
40	Non-price competition and huge selling costs → monopolistic competition.	★★	3.2.4
41	Chamberlin (USA): theory of monopolistic competition; selling cost vs production cost.	★	3.2.5
42	**Demand curve downward sloping, relatively elastic; MR below it; monopoly's demand curve is steeper.**	★★★	3.2.6
43	Short run: normal profit, supernormal profit or loss.	★	3.2.7
44	Long run: normal profit only (as in perfect competition).	★	3.2.8
45	Long run: never at minimum LAC → excess capacity, not of optimum size.	★	3.2.9
46	**Differentiated products: monopolistic competition and oligopoly.**	★★★	3.2.10, 3.3.2

#	One-liner	Weight	Part A ref
47	**Oligopoly = competition among the few (2–10), homogeneous or differentiated, strong barriers to entry, price makers.**	★★★	3.3.1
48	**Oligopoly examples: cold drinks, automobiles, airlines, telecom, ISPs, smartphones; OPEC = best example of a cartel.**	★★★	3.3.3
49	Game theory: Von Neumann and Oskar Morgenstern (1944).	★	3.3.4
50	**Pure/perfect (homogeneous: aluminium) vs imperfect (differentiated: talcum powder); open vs closed.**	★★★	3.3.5
51	**Collusive vs competitive; partial (one dominant leader) vs full; syndicated (central syndicate) vs organised (central association).**	★★★	3.3.6
52	**Characteristics: strategic interdependence (most important) · advertising and selling costs · group behaviour — no free entry.**	★★★	3.3.7
53	Oligopoly demand curve is indeterminate.	★	3.3.8
54	Oligopoly price lies between competitive and monopoly price (PYQ-only).	★	3.3.9
55	**Cartel = explicit collusion; few firms of similar size; subset of producers; aim to raise price; impossible with many firms.**	★★★	3.3.10
56	Price leadership: dominant firm (live and let live) · low-cost firm · barometric (experienced firm reads market conditions).	★★	3.3.11
57	**Kinked demand curve: Paul A. Sweezy; explains price rigidity.**	★★★	3.3.12
58	Kink at prevailing price: upper segment elastic, lower inelastic.	★★	3.3.13
59	Rivals follow a price cut but not a price rise.	★	3.3.14
60	Chamberlin and kinked models: recognised interdependence, no collusion, stable prices.	★	3.3.15
61	Duopoly = two firms, a subset of oligopoly.	★★	3.3.16
62	Monopsony = single buyer; oligopsony = few large buyers (factor markets).	★★	3.3.17
63	**Bilateral monopoly = single buyer + single seller = monopoly + monopsony.**	★★★	3.3.18
64	Zero-sum game: competition for market share.	★	3.3.19

CHAPTER 5

Determination of National Income

270 Scanner questions · 133 one-liners · 74 revision pointers · SM Chapter 6 in the July 2026 Study Material

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: National Income Accounting

SM Chapter 6, Unit 1, pages 6.1 – 6.30

Topic 1.1 National Income Accounting

1 Scanner question · frequency PYQ 1 · RTP – · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.1	National Income Accounting, pioneered by the Nobel prize-winning economists Simon Kuznets and Richard Stone, is the system of macro-economic accounts from the stage of production of goods and services to the stage of their final disposal.	Q1	PYQ 2025-Sep	1.1, p. 6.2

Topic 1.2 Usefulness and Significance of National Income Estimates

4 Scanner questions · frequency PYQ 4 · RTP – · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	*See Topic 1.1: the Central Statistical Organisation (CSO) in the Ministry of Statistics and Programme Implementation (MoSPI) is responsible for compiling National Accounts Statistics; at State level the State Directorates of Economics and Statistics (DESs) compile State Domestic Product.*	Q1, Q4	PYQ 2025-May, 2026-Sep	1.1, p. 6.2
1.2.2	Uses of national income estimates (SM list): businesses forecast future demand for their products; composition and structure of national income by sectors, periodical variations and broad sectoral shifts; sector-specific development policies; a quantitative basis for macroeconomic modelling and for choosing and evaluating economic policies; income distribution and inequality; structural ratios (investment, taxes, fiscal deficit, government expenditure to GDP); international comparisons that decide eligibility for loans; and, with financial and monetary data, a guide to policies for growth and inflation. Policies on population growth are NOT in the list.	Q2	PYQ 2025-May	1.2, pp. 6.2 – 6.3
1.2.3	*See Topic 1.3: GNPMP = GDPMP + NFIA, so a negative NFIA makes GNPMP smaller than GDPMP (a positive NFIA makes it greater).*	Q3	PYQ 2026-Jan	1.3.2, p. 6.7

Topic 1.3 Different Concepts of National Income

86 Scanner questions · frequency PYQ 51 · RTP 2 · MTP 20 · Model Q 21

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.1	Gross Domestic Product (GDP) is the value of all final goods and services produced in the country (within its borders) within a given period, each valued at its market price (GDPMP).	Q17; MQ 1.3: Q1	PYQ 2025-Jan; Model Q	1.3.1, p. 6.3
1.3.2	Only final goods enter GDP; a good bought by a producer for use in further production (e.g. uniforms bought by a professional team) is an intermediate good, and counting it separately would be double counting.	Q14	MTP 2024-Dec S1	1.3.1, p. 6.3 (final goods); the example is MTP-only
1.3.3	Nominal GDP is GDP at current prices; real GDP is GDP at constant (base-year) prices — the sum of quantities of final goods times constant prices — so it removes the effect of price changes (inflation) and is the right measure for comparing output and welfare over time.	Q21, Q58; MQ 1.1: Q2; MQ 1.6: Q1	PYQ 2025-Jan; MTP 2026-Apr S1; Model Q ×2	1.3.1, pp. 6.3 – 6.4; Summary, p. 6.29
1.3.4	The GDP deflator is the ratio of nominal GDP to real GDP of the same year; it is a price index that measures inflation (the current level of prices relative to the base year) and is used to 'deflate' nominal GDP into real GDP. Because it is built from the current year's output, it uses the present production basket.	Q8, Q55, Q61	PYQ 2024-Sep; MTP 2025-Dec S1, 2026-Apr S2	1.3.1, pp. 6.4 – 6.5
1.3.5	GDP deflator = (Nominal GDP ÷ Real GDP) × 100 — e.g. 6,750 ÷ 4,500 × 100 = 150.	Q5, Q42	PYQ 2024-Jun, 2026-May	1.3.1, p. 6.4; Illustration 1, p. 6.5
1.3.6	Real GDP = (Nominal GDP ÷ GDP deflator or price index) × 100; Nominal GDP = Real GDP × price index ÷ 100 (e.g. real 450, index 120 → nominal 540).	Q19, Q38, Q50, Q60; MQ Real GDP: Q1	PYQ 2025-Jan, 2026-Jan; RTP 2025-May; MTP 2025-Aug S2, 2026-Apr S2; Model Q	1.3.1, p. 6.5; Illustrations 3 – 4, p. 6.6
1.3.7	In the base year nominal and real GDP are equal, so the deflator is always 100. Deflator above 100 → nominal GDP greater than real GDP and prices higher than in the base year (120 = prices 20% above base); below 100 (nominal < real) → price level lower than the base year.	Q3, Q30, Q33, Q63; MQ GDP Deflator: Q1	PYQ 2024-Jun, 2025-Sep (×2), 2026-Sep; Model Q	1.3.1, pp. 6.5 – 6.6; Illustrations 1 – 2
1.3.8	Inflation rate in year 2 = (GDP deflator in year 2 – GDP deflator in year 1) ÷ GDP deflator in year 1 × 100. If next year's deflator is lower than this year's, the price level has fallen; if higher, prices have risen.	Q6, Q9, Q22, Q34, Q35	PYQ 2024-Jun, 2024-Sep, 2025-May, 2025-Sep (×2)	1.3.1, p. 6.5; Illustration 1, pp. 6.5 – 6.6
1.3.9	Inflation is measured by price indices — the Wholesale Price Index, the Consumer Price Index and the GDP deflator; purchasing power parity prices are not a measure of inflation.	Q53	MTP 2025-Aug S1	Not in SM (MTP-only); the SM covers only the GDP deflator, p. 6.4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.10	Net Domestic Product (NDP) = GDP − depreciation: the total value of production minus the value of capital used up. Gross and net differ only by depreciation (consumption of fixed capital), so NDP can never exceed GDP, and gross domestic investment − net domestic investment = GDP − NDP.	Q10, Q13, Q49; MQ 1.1: Q1	PYQ 2024-Sep; RTP 2024-Sep; MTP 2025-Jan S2 (×2); Model Q	1.3.1, p. 6.7
1.3.11	Gross = Net + Depreciation, so gross investment = net investment + replacement investment. If depreciation exceeds gross investment, net investment is negative and the economy's stock of capital is shrinking.	Q15, Q51	MTP 2024-Dec S1, 2025-Apr S1, 2025-May S2, 2025-Dec S1	1.3.1, p. 6.7 (capital-stock inference is MTP-only)
1.3.12	Gross National Product (GNP) is the market value of all final economic goods and services produced within the domestic territory of a country by normal residents during an accounting year, including net factor income from abroad; it includes income our citizens earn abroad and excludes income foreigners earn here.	Q23; MQ 1.3: Q2	PYQ 2024-Jun, 2025-May; Model Q	1.3.2, p. 6.7
1.3.13	Profits a foreign company earns from its operations in India (e.g. Apple's Indian manufacturing; a South Korean company's Indian plant) are part of India's GDP but of the home country's GNP — they are not part of India's national income.	Q31 (+ 1.4 MQ 1.4 Q1)	PYQ 2024-Jun, 2025-Sep; Model Q	1.3.2, p. 6.7
1.3.14	GNPMP = GDPMP + NFIA; GDPMP = GNPMP − NFIA. NFIA = what a country's citizens and companies earn abroad − what foreign citizens and overseas companies earn in that country (net compensation of employees + net income from property and entrepreneurship + net retained earnings). Negative NFIA → GDPMP greater than GNPMP.	Q11, Q18; MQ 1.2: Q2; MQ 1.3.2: Q1	PYQ 2024-Jun, 2024-Sep, 2025-Jan; Model Q ×2	1.3.2, p. 6.7
1.3.15	The distinction between 'national' and 'domestic' is net factor income from abroad: National = Domestic + NFIA (depreciation separates gross from net; net indirect taxes separate market price from factor cost).	Q48	PYQ 2026-May	1.3.2, p. 6.8
1.3.16	NNPMP = GNPMP − Depreciation = NDPMP + NFIA = GDPMP + NFIA − Depreciation (all three are correct; 'NDPMP − Depreciation' is not). Rearranged: Depreciation = GDPMP + NFIA − NNPMP; NFIA = NNPMP − NDPMP.	Q12, Q29, Q32; MQ 1.3.3: Q1	PYQ 2024-Sep, 2025-Sep (×2); Model Q	1.3.5, p. 6.8; Illustration 7, p. 6.14
1.3.17	Market price and factor cost differ by net indirect taxes (indirect taxes − subsidies): Market Price = Factor Cost + Indirect Taxes − Subsidies; Factor Cost = Market Price − Indirect Taxes + Subsidies. So GDPMP = GDPFC + NIT, and National Income (NNPFC) = NNPMP − NIT.	Q1, Q46, Q52; MQ 1.3: Q3	PYQ 2024-Jun, 2026-May; MTP 2025-May S2; Model Q	1.3.6, p. 6.8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.18	MP ↔ FC numericals: add or subtract only indirect taxes and subsidies (net indirect taxes); direct taxes play no part — e.g. NNPMP = 15,000 + 450 − 250 = 15,200; subsidies = NNPFC − NNPMP + indirect taxes.	Q39, Q43, Q44; MQ 1.3.4: Q1	PYQ 2026-Jan, 2026-May (×2); Model Q	1.3.6, p. 6.8
1.3.19	GDPFC = Compensation of employees + Operating surplus (rent + interest + profit) + Mixed income of self-employed + Depreciation; GDPMP = NDPFC + Consumption of fixed capital + Net indirect taxes.	Q39, Q40, Q41	PYQ 2026-Jan (×3)	1.3.6, p. 6.8; Illustration 5, pp. 6.12 – 6.13
1.3.20	Basic price = Factor cost + Production taxes − Production subsidies (the subsidised price without tax); Market price = Basic price + Product taxes − Product subsidies.	Q24	PYQ 2025-May	1.3.6, p. 6.9
1.3.21	Net Domestic Product at Factor Cost (NDPFC) is the total factor incomes earned by the factors of production: NDPFC = NDPMP − Net indirect taxes = GDPFC − Depreciation = Compensation of employees + Operating surplus + Mixed income.	MQ 1.3.5: Q1	Model Q	1.3.7, p. 6.10
1.3.22	National Income = NNP at Factor Cost: the factor income accruing to the normal residents of the country in a year = sum of domestic factor incomes (FID) + net factor income from abroad.	Q57, Q62	PYQ 2026-Sep; MTP 2026-Apr S1	1.3.8, p. 6.10
1.3.23	Per capita income = aggregate income (output) ÷ total population (e.g. 1,200 billion ÷ 250 million = 4,800) — economic output per person; it serves as an indicator of the standard of living of a country.	MQ 1.2: Q1; MQ 1.3.6: Q1	Model Q ×2	1.3.9, p. 6.10
1.3.24	Personal income is the income received by the household sector including Non-Profit Institutions Serving Households — actual current income receipts from all sources, which may or may not be earned from productive activities (so it includes transfer payments such as social security benefits and unemployment compensation: income received but not earned). It excludes retained earnings, indirect business taxes, corporate income taxes and contributions towards social security. PI = NI + income received but not earned − income earned but not received.	Q2, Q20, Q26, Q56	PYQ 2024-Jun, 2025-Jan, 2025-May; MTP 2025-Dec S1	1.3.10, pp. 6.10 – 6.11
1.3.25	Disposable personal income (DI) is the money in the hands of individuals available for their consumption or savings: DI = PI − Personal income taxes − Non-tax payments (other compulsory payments to government, e.g. provident fund, ESI).	Q4, Q7, Q25; MQ 1.3.8: Q1, Q2	PYQ 2024-Jun, 2024-Sep, 2025-May; Model Q ×2	1.3.11, p. 6.11
1.3.26	Net National Disposable Income (NNDI) = Net National Income + other net current transfers from the rest of the world; Gross National Disposable Income = NNDI + consumption of fixed capital.	MQ 1.3: Q1	Model Q	1.3.11, p. 6.11

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.27	Private income is the income (both factor and transfer income) accruing to the private sector from all sources within and outside the country = factor income from NDP accruing to the private sector + NFIA + national debt interest + current transfers from government + other net transfers from the rest of the world. Since PI = Private income − corporate tax − corporate saving (undistributed profits), Private income = PI + corporate tax + undistributed profits.	Q27; MQ 1.3.9: Q1	PYQ 2025-May; Model Q	1.3.12, p. 6.12; Illustration 6, p. 6.13
1.3.28	*See Topic 1.4: pensions, scholarships and unemployment allowance are transfer payments — income redistributed without any current contribution by the recipient — so they are neither factor payments nor part of government final consumption expenditure (which covers defence, education, healthcare). Free uniforms to defence personnel, salaries of MPs and imputed rent are factor payments.*	Q36, Q47, Q54	PYQ 2026-Jan, 2026-May; MTP 2025-Aug S2	1.4.4, p. 6.19; 1.4.3, p. 6.18
1.3.29	*See Topic 1.4: exchanges of previously produced (second-hand) goods and of stocks and bonds do not enter national income.*	Q16	MTP 2024-Dec S1, 2025-Dec S1	1.4.3, p. 6.18
1.3.30	*See Topic 1.4: the income method sums the factor incomes paid out by all production units within the domestic territory (wages and salaries, rent, interest, profit), excluding transfer income.*	Q45	PYQ 2026-May	1.4.3, p. 6.18
1.3.31	*See Topic 1.4: GVAMP = Value of output − Intermediate consumption = (Sales + Closing stock − Opening stock) − IC (GST needs no adjustment at market price); NDPMP = GVAMP − Consumption of fixed capital (5,800 − 620 = 5,180); IC = Value of output − GVAMP (6,800 − 5,800 = 1,000).*	Q37, Q64, Q65	PYQ 2026-Jan, 2026-Sep (×2)	1.4.2, p. 6.17; 1.3.1, p. 6.7
1.3.32	*See Topic 1.4: C + I + G + (X − M) gives GDPMP by the expenditure method; national income (NNPFC) needs a further − depreciation + NFIA − net indirect taxes.*	Q59	MTP 2026-Apr S1	1.4.4, p. 6.20
1.3.33	*See Topic 1.5: activities such as railways, communications, banking, insurance and central government administration that cut across state boundaries are the 'supra-regional sectors'.*	Q28	PYQ 2025-May	1.5, p. 6.27
1.3.34	Opportunity cost is the highest-valued alternative given up when a choice is made (a Chapter 1 / production-cost idea, not national income).	MQ 1.3: Q2	Model Q	Not in SM (Model Q only)
1.3.35	India's real GDP is reported at constant (2011-12) prices; the SM does not say how often the base year is revised (the Model Q keys 'every 7–10 years').	MQ 1.4: Q1	Model Q	Not in SM (Model Q only); 2011-12 base at 1.3.1, p. 6.4

Topic 1.4 Measurement of National Income in India

48 Scanner questions · frequency PYQ 10 · RTP 3 · MTP 22 · Model Q 18

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.1	Circular flow of income has three interlinked phases — production, distribution (income) and disposition (expenditure); the value of output is distributed as factor incomes (rent, wages, interest, profit), so income generated equals the value of output.	Q3; MQ 1.4.1: Q1	PYQ 2024-Sep; Model Q	1.4.1, pp. 6.15 – 6.16
1.4.2	Three methods: Value Added (Product) Method — the unduplicated contribution by each industry (production units) to total output; Income Method — the sum of factor incomes paid out by all production units within the domestic territory; Expenditure (Income Disposal) Method — aggregate final expenditure in an accounting year.	Q30	PYQ 2026-Sep	1.4.1, Table 1.1.1, p. 6.16; 1.4.2 – 1.4.4, pp. 6.16 – 6.18
1.4.3	The Value Added Method — also called Product Method, Industrial Origin Method, Net Output Method or production method — measures the contribution of each producing enterprise in the domestic territory in an accounting year by consolidating the production of each industry less intermediate purchases from all other industries.	Q4, Q10, Q17, Q21	PYQ 2024-Sep, 2025-Jan, 2026-May; MTP 2025-May S2	1.4.2, p. 6.16; Summary, p. 6.30
1.4.4	Multiple (double) counting is avoided by counting only final goods (or only value added); the sum of values added at all stages equals the price of the final good, the total income generated and its total cost including profit.	Q8, Q14, Q20	RTP 2026-Jan; MTP 2024-Dec S1, 2025-Jan S2, 2025-Apr S1, 2025-May S2 (×2)	1.4.2, p. 6.16; 1.3.1, p. 6.3
1.4.5	Value added = Value of output − Intermediate consumption; so value of the final product = intermediate purchases + value added (800 + 400 = 1,200), and a firm's value added is only what it adds itself.	MQ 1.4.2: Q1, Q2, Q3	Model Q ×3	1.4.2, p. 6.17
1.4.6	GVAMP = Value of output − Intermediate consumption = (Sales + Change in stock) − Intermediate consumption, where change in stock = closing − opening stock (750 + 200 − 300 − 250 = 400).	Q1, Q12	PYQ 2024-Jun, 2025-Jan	1.4.2, p. 6.17; Illustrations 9 and 12, pp. 6.21, 6.23
1.4.7	NVAMP = GVAMP − Depreciation; factor cost = market price − indirect taxes + subsidies (GVAFC = 180 + 15 − 100 + 10 = 105); NDPFC + NFIA = National Income. Rent and profit are distributions of value added, not extra items.	Q9	MTP 2024-Dec S1	1.4.2, p. 6.17; Illustration 12, pp. 6.23 – 6.24
1.4.8	Value added includes own-account production of fixed assets (e.g. a new house built by an artisan), imputed value of goods produced for self-consumption, imputed rent of owner-occupied houses and change in stock; unpaid household work (housewives' work, teaching one's own child) and resale of old shares are excluded.	Q27	MTP 2025-Dec S1	1.4.2, p. 6.17; 1.4.3, p. 6.18; 1.6 (d), p. 6.27

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.9	Income Method (Factor Income / Factor Payment / Distributed Share Method): national income is the summation of factor incomes — wages and salaries, rent, interest and profit — paid out by all production units in the domestic territory: NDPFC; NI = Compensation of employees + Operating surplus + Mixed income + NFIA. Profits are a factor income; transfers, subsidies and indirect taxes are not.	Q25, Q26; MQ 1.1: Q2	RTP 2025-Sep (×2); Model Q	1.4.3, p. 6.18
1.4.10	Only incomes of owners of primary factors are included: wages (not pensions of retired workers), bonus, DA, commission, employers' contribution to provident fund, rent (actual and imputed), royalty, interest on loans for productive services, dividends, commissions and brokerages. Excluded: capital gains, windfall profits, transfer incomes, sale of second-hand goods and financial assets (shares and bonds), payments out of past savings, interest on public debt and on consumption loans.	Q11, Q16, Q22	PYQ 2025-Jan, 2026-Jan; MTP 2025-Aug S1	1.4.3, p. 6.18
1.4.11	Profit = Corporate (profit) tax + Dividend + Retained earnings (undistributed profit) — all three are components of profit.	Q15	MTP 2025-Jan S2	1.4.3, p. 6.18
1.4.12	Mixed income of the self-employed (lawyers, engineers, traders, proprietors; agriculture, trade, transport) is income in which the labour element and the capital element cannot be separated.	Q2, Q23	PYQ 2024-Sep; MTP 2025-Aug S1, 2025-Dec S1	1.4.3, pp. 6.18 – 6.19
1.4.13	Income-method numericals: add compensation of employees + rent + interest + profits + mixed (proprietors') income; then + depreciation + net indirect taxes (taxes on production and imports) for GDPMP, and + NFIA for national aggregates.	MQ 1.4.3: Q1, Q2, Q3, Q4, Q5	Model Q ×5	1.4.3, p. 6.18; Illustration 5, p. 6.12
1.4.14	Compensation of employees is the largest component of national income.	Q18	MTP 2025-Apr S1	Not in SM (MTP-only)
1.4.15	Expenditure Method (Income Disposal Approach): GDPMP = Σ final expenditure = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation + Net exports (C + I + G + X − M); net exports may be negative.	MQ 1.1: Q1; MQ 1.4.4: Q1, Q2, Q3, Q4, Q5	Model Q ×6	1.4.4, pp. 6.18 – 6.20
1.4.16	Final consumption expenditure arises in both the household sector (PFCE, including NPISH) and the government sector (GFCE: collective services such as defence, education, healthcare, valued at cost).	Q24	MTP 2025-Aug S2	1.4.4, p. 6.19
1.4.17	Transfer payments (pensions, scholarships, unemployment allowance) are excluded from GDP because they do not reflect current production; including them would overstate GDP.	Q6, Q19	MTP 2024-Dec S1, 2025-Apr S1	1.4.4, p. 6.19; Summary, p. 6.30

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.18	Gross domestic capital formation = acquisition of fixed assets (machinery and equipment such as a bank's digital-assistant robot, construction) + change in inventories (including unsold stock) + acquisition of valuables; so an increase in business inventories counts as investment.	Q13, Q28	MTP 2025-Jan S2, 2025-Apr S1, 2025-Dec S1	1.4.4, p. 6.20
1.4.19	Net domestic expenditure = Consumption expenditure + Net domestic investment (gross capital formation − depreciation).	Q5	MTP 2024-Dec S1	1.4.4, p. 6.20 (by derivation; the term is not in the SM)
1.4.20	India cannot estimate national income wholly by one method: agriculture — production (value added/output) method; small-scale sector — income method; construction — expenditure method. The income method suits developed economies where income-tax returns are properly filed.	Q7, Q29; MQ 1.4: Q2	MTP 2024-Dec S1, 2026-Apr S1; Model Q	1.4.4, p. 6.20
1.4.21	*See Topic 1.3: profits earned by a foreign company from its operations in India are part of India's GDP but not of India's national income (they are factor income paid abroad, netted out through NFIA).*	MQ 1.4: Q1	Model Q	1.3.2, p. 6.7

Topic 1.5 The System of Regional Accounts in India

4 Scanner questions · frequency PYQ 1 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.1	State income (Net State Domestic Product) estimates are prepared by the State Income Units of the respective State Directorates of Economics and Statistics (DESs); the Central Statistical Organisation assists the States with advice on conceptual and methodological problems.	Q1, Q2	PYQ 2024-Sep; MTP 2024-Dec S1	1.5, p. 6.27; 1.1, p. 6.2
1.5.2	Per capita state income = NSDP ÷ midyear projected population of the state — a measure of regional economic performance.	Q3	MTP 2024-Dec S1	1.5, p. 6.27 (poverty ratio and employment rate are MTP-only)
1.5.3	Labour-market measures are not in the SM; the MTP keys the labour force participation rate as the measure of unemployment.	Q4	MTP 2025-Jan S2	Not in SM (MTP-only)

Topic 1.6 GDP and Welfare

5 Scanner questions · frequency PYQ 2 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.6.1	GDP is not a perfect measure of welfare; it excludes: income distribution (so per capita GDP is inadequate); quality improvements; production hidden from authorities or illegal (drugs, gambling); non-market production; loss of leisure; economic 'bads' such as crime, pollution and traffic congestion; volunteer work; externalities; and the difference between production that makes us better off and that which only prevents us becoming worse off.	Q3, Q4, Q5	PYQ 2026-Jan; MTP 2025-May S2, 2026-Apr S1	1.6, pp. 6.27 – 6.28
1.6.2	*See Topic 1.3: per capita income serves as an indicator of the standard of living of a country.*	Q2	PYQ 2025-May	1.3.9, p. 6.10
1.6.3	If population grows faster than the economy, per capita income falls and there is lesser saving.	Q1	MTP 2024-Dec S1	Not in SM (MTP-only)

Topic 1.7 Limitations and Challenges of National Income Computation

5 Scanner questions · frequency PYQ 1 · RTP – · MTP 1 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.7.1	Conceptual difficulties in measuring national income: lack of an agreed definition; accurate distinction between final and intermediate goods; issue of transfer payments; services of durable goods; difficulty of incorporating distribution of income; valuation of a new good at constant prices; valuation of government services. (Quality improvements belong to the GDP-and-welfare list, not this one.)	Q1; MQ 1.7: Q2	PYQ 2024-Sep; Model Q	1.7, p. 6.28
1.7.2	Other challenges: inadequacy and unreliability of data; non-monetised sector; production for self-consumption; incomes not recorded due to illiteracy and ignorance; lack of proper occupational classification; accurate estimation of consumption of fixed capital.	MQ 1.7: Q3	Model Q	1.7, p. 6.29
1.7.3	Production hidden from the authorities (tax evasion or illegal activity) is left out of GDP, so a large underground economy understates official national income.	Q2; MQ 1.7: Q3	MTP 2026-Apr S1; Model Q	1.6 (c), p. 6.27
1.7.4	GDP measures total output, not output per person: per capita GDP adjusts for population (1.3.9), and the SM's main welfare gap is income distribution (1.6).	MQ 1.7: Q1	Model Q	1.3.9, p. 6.10; 1.6 (a), p. 6.27 (population-size wording is Model Q only)

Unit 2: The Keynesian Theory of Determination of National Income

SM Chapter 6, Unit 2, pages 6.34 – 6.70

Topic 2.1 Introduction

10 Scanner questions · frequency PYQ 3 · RTP 1 · MTP 8 · Model Q 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	John Maynard Keynes put forth the theory of determination of equilibrium aggregate income and output in 'The General Theory of Employment, Interest, and Money' (1936); the classical economists of the Great Depression of the 1930s had no theory to explain persistent unemployment.	Q8; MQ 1.1: Q1	MTP 2026-Apr S1; Model Q	2.1, p. 6.35; Summary, p. 6.68
2.1.2	According to Keynes, national income depends upon aggregate effective demand; output remains below full employment as long as there is insufficient spending in the economy — which, Keynes argued, was precisely what happened in the Great Depression.	Q1, Q2	PYQ 2023-Dec, 2024-Sep; MTP 2024-Dec S1, 2025-Dec S1	2.4.1, p. 6.46; 2.8, p. 6.68
2.1.3	Keynes supplied the macroeconomic theory that justified government spending as a way of reducing unemployment: by appropriate changes in government spending (G) and taxes, the government can counteract recession and unemployment — an activist, stabilising role.	Q3, Q7 (+ 2.3 Q18)	MTP 2025-Jan S2, 2025-Aug S2 (×2)	2.1, p. 6.35; 2.8, p. 6.68
2.1.4	Macroeconomics studies the economy as a whole — the aggregate level of output, income, employment, consumption, investment and prices.	Q4	RTP 2025-Sep; MTP 2025-Jan S2	Not in SM Unit 2 (MTP/RTP-only); cf. SM Chapter 1, 1.2, pp. 1.8 – 1.9
2.1.5	Keynes's building blocks of modern macroeconomics: (1) the relation of consumption to income, and the multiplier; (2) Liquidity Preference — the term Keynes gave to the demand for money; (3) the importance of expectations (psychological factors, popularly 'animal spirits' — a phrase not in the SM) in affecting consumption and investment.	Q5 (+ 2.3 Q23)	PYQ 2025-May; MTP 2026-Apr S1	2.1, p. 6.36
2.1.6	Keynesian models relate to short-period equilibrium and contain no dynamic elements — one equilibrium is compared with another by comparative statics (investment is taken as constant in the short run).	Q9	MTP 2026-Apr S2	2.5, p. 6.53; 2.3.1, p. 6.38
2.1.7	*See Topic 2.3: Keynes proposed the consumption function C = a + bY — consumption rises with income, but by less than the rise in income (the 'psychological law of consumption').*	Q6	MTP 2025-Aug S1	2.3.2, pp. 6.39 – 6.40

Topic 2.2 Circular flow in a Simple Two-Sector Model

8 Scanner questions · frequency PYQ 2 · RTP – · MTP – · Model Q 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	Effective (aggregate) demand is the total planned expenditure on final goods and services in the economy; in the two-sector model AD = C + I.	MQ 1.1: Q1	Model Q	2.3.1, p. 6.38; 2.8, p. 6.68
2.2.2	The two-sector model consists of the household and the business sectors (government and foreign sectors absent); the three-sector model adds the government sector and the four-sector model adds the foreign sector.	MQ 1.2: Q1; MQ 1.4: Q1	Model Q ×2	2.1, p. 6.36; 2.2, p. 6.36
2.2.3	Households own all factors of production and sell factor services to firms for factor incomes (factor payments, e.g. wages); firms sell goods and services to households. Real flows (broken lines) are flows of factor services and goods; money flows (continuous lines) are the payments — factor payments from firms to households and consumption payments from households to firms.	MQ 1.2: Q2, Q3	Model Q ×2	2.2, pp. 6.36 – 6.37
2.2.4	The simple two-sector flow has no injections or leakages; the whole of household income is spent on firms' output, so Factor Payments = Household Income = Household Expenditure = Total Receipts of Firms = Value of Output.	Q2	PYQ 2026-Sep	2.2, p. 6.37
2.2.5	The three interlinked phases of the circular flow of income are production, distribution and disposition.	Q1	PYQ 2025-Sep	Not in SM Unit 2 (PYQ-only); belongs to SM Chapter 6, Unit 1
2.2.6	*See Topic 2.3: AD given as a function of the price level — substitute the given P (2,000 – 100 × 15 = 500).*	MQ 1.3.1: Q1	Model Q	Not in SM (Model Q only)

Topic 2.3 Basic Concepts and Functions

36 Scanner questions · frequency PYQ 17 · RTP 1 · MTP 13 · Model Q 8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	Aggregate demand is total planned (ex ante) expenditure; in the two-sector economy AD = C + I, investment (firms' demand for investment goods) being determined exogenously and constant in the short run — private investment is thus a component of AD that affects national income.	MQ 1.1: Q1; MQ 1.4: Q1	Model Q ×2	2.3.1, p. 6.38; 2.6, p. 6.56
2.3.2	AD or SRAS written as a function of the price level (AD = A – bP; SRAS = c + dP): substitute the given P. These are Model-Q constructs; the SM's Keynesian model assumes prices fixed.	MQ 1.3.1: Q1; MQ 1.3.5: Q1 (+ 2.2 MQ 1.3.1 Q1)	Model Q ×3	Not in SM (Model Q only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.3	The consumption function expresses the functional relationship between aggregate consumption expenditure and aggregate disposable income, C = f(Y) — consumption is determined by disposable income.	Q4, Q27	PYQ 2025-Jan, 2026-Sep; MTP 2024-Dec S1	2.3.2, p. 6.38
2.3.4	Keynes's specific form is C = a + bY: 'a' (autonomous consumption) is the positive consumption at zero disposable income — consumption unaffected by income; a rise in 'a' shifts the consumption function upward.	Q8, Q19 (+ 2.5 Q16)	MTP 2025-Jan S2, 2025-Aug S2, 2026-Apr S1	2.3.2, p. 6.39; Ill. 2 – 3, p. 6.47
2.3.5	Numerical: C = a + b × Y, then S = Y − C (e.g. C = 1,000 + 0.6 × 4,000 = 3,400; S = 4,000 − 3,400 = 600).	MQ 1.3.2: Q1; MQ 1.3.3: Q1; MQ 1.3.4: Q1	Model Q ×3	2.3.2, p. 6.39; 2.3.5, p. 6.41
2.3.6	The Keynesian assumption (Keynes's 'psychological law of consumption'): consumption increases with disposable income, but by less than the increase in income — 0 < b < 1; MPC is always less than unity but greater than zero.	Q1, Q7, Q9, Q17 (+ 2.1 Q6)	PYQ 2024-Jun, 2025-Jan, 2025-May; MTP 2025-Aug S1 (×2)	2.3.2, pp. 6.39 – 6.40; 2.3.5, p. 6.42
2.3.7	MPC = ΔC/ΔY = b, the slope of the consumption function — a higher MPC makes the consumption function steeper (not a shift). From data: ΔC ÷ ΔY (75/100 = 0.75).	Q12, Q15, Q25	PYQ 2025-Sep, 2026-May; MTP 2025-Dec S1, 2026-Apr S2	2.3.2, p. 6.39; Table 1.2.1, p. 6.40
2.3.8	APC = Total Consumption ÷ Total Income = C/Y, so Y = C/APC (900/0.45 = 2,000). The proportion of income spent on consumption decreases as income increases — consumption grows slower than income.	Q2, Q6, Q20, Q26	PYQ 2024-Sep, 2025-Jan, 2026-Sep; MTP 2025-Dec S1	2.3.3, p. 6.40
2.3.9	Income is either spent or saved (Y = C + S); MPS = ΔS/ΔY = 1 − b, so MPC + MPS = 1.	Q10	PYQ 2025-May; MTP 2025-Apr S1	2.3.5, pp. 6.41 – 6.42
2.3.10	APS = Total Saving ÷ Total Income = S/Y, where S = Y − C; S = APS × Y. (C 300, Y 1,200 → 0.75; C 800, Y 4,000 → 0.8; Y 500, C 400 → 0.2.)	Q5, Q11, Q14, Q28	PYQ 2025-Jan, 2025-Sep, 2026-May, 2026-Sep	2.3.5, p. 6.42; Ill. 1, p. 6.42
2.3.11	Ex ante aggregate supply is the total supply firms plan to sell; it equals national income, which is either consumed or saved: AS = C + S (so saving = income − consumption).	Q13; MQ 1.4.1: Q1	PYQ 2026-Jan; Model Q	2.3.8, p. 6.42; 2.3.5, p. 6.41
2.3.12	Drawing on past savings to buy consumer goods (a sofa, a holiday) is dissaving to finance consumption — consumption increases; government bonds are a financial asset, and spending abroad is an import.	Q3	RTP 2024-Sep	2.3.2, p. 6.39; 2.6, p. 6.56; 2.7, p. 6.63
2.3.13	A fall in the rate of interest raises investment expenditure; liquidity preference explains how monetary policy affects interest rates and aggregate demand.	Q24	MTP 2026-Apr S2	2.1, p. 6.36 (interest–investment link MTP-only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.14	*See Topic 2.4: when AD < AS, unsold inventories build up, firms cut output and national income falls; adjustment continues until AD = AS (through changes in spending and output, not prices).*	Q21, Q22	MTP 2026-Apr S1 (×2)	2.4, pp. 6.44 – 6.45; 2.6, pp. 6.57 – 6.58
2.3.15	*See Topic 2.5: k = ΔY/ΔI = 1/(1 − MPC), so MPC = 1 − 1/k (2,000/1,600 = 1.25 → MPC 0.2).*	Q16	PYQ 2026-May	2.5, p. 6.51; Ill. 10, p. 6.53
2.3.16	*See Topic 2.1: Keynes advocated increased government spending to tackle recession and unemployment.*	Q18	MTP 2025-Aug S2	2.1, p. 6.35; 2.8, p. 6.68
2.3.17	*See Topic 2.1: 'animal spirits' — the role of expectations (psychological factors) in consumption and investment decisions.*	Q23	MTP 2026-Apr S1	2.1, p. 6.36

Topic 2.4 The Two-Sector Model of National Income Determination

17 Scanner questions · frequency PYQ 9 · RTP – · MTP 5 · Model Q 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.1	Equilibrium output occurs when the desired amount of output demanded by all agents exactly equals the amount produced in a given time period: aggregate demand (C + I) = aggregate supply (C + S), i.e. C + I = C + S, or I = S (planned saving = planned investment).	Q8, Q11; MQ 1.4: Q1	PYQ 2026-May, 2026-Sep; MTP 2024-Dec S1; Model Q	2.4, p. 6.43; Summary, pp. 6.68 – 6.69
2.4.2	Numerical: solve Y = C + I. With C = a + bY and I = $\bar{I}$, Y = (a + $\bar{I}$)/(1 − b); if I also depends on Y (I = $\bar{I}$ + iY), collect all Y terms: Y = (a + $\bar{I}$)/(1 − b − i). ((10 + 200)/0.5 = 420; (12 + 188)/0.25 = 800; 42/0.35 = 120.)	Q2, Q5, Q12	PYQ 2024-Sep, 2025-Sep, 2026-Sep; MTP 2025-Aug S2	2.4, Ill. 4 – 6 and 8, pp. 6.47 – 6.50
2.4.3	Numerical from the saving function: set S = I (−20 + 0.25Y = 100 → Y = 480); then C = Y − S (240 − 100 = 140).	Q6, Q7	PYQ 2026-Jan, 2026-May	2.4, Ill. 7, p. 6.49
2.4.4	If leakages exceed injections (AD below output), unplanned inventories pile up and national income falls; if injections exceed leakages (AD above output — e.g. consumption alone exceeding income), inventories run down and income rises; readjustment through changes in spending and output, not prices, restores equilibrium.	MQ 1.4: Q2 (+ 2.3 Q21, 2.3 Q22)	MTP 2026-Apr S1 (×2); Model Q	2.4, pp. 6.44 – 6.45; 2.6, pp. 6.57 – 6.58
2.4.5	Keynesian equilibrium need not be at full employment. Deficient demand — aggregate demand for an amount of output less than the full-employment output — gives a deflationary (recessionary or contractionary) gap.	Q1, Q10	PYQ 2024-Jun, 2026-Sep	2.4.1, p. 6.45
2.4.6	Excess demand — aggregate demand greater than the full-employment output — gives an inflationary gap: real output stays constant while the price level rises (demand-pull inflation), so only nominal output increases.	Q4 (+ 2.7 Q8)	RTP 2025-May; MTP 2024-Dec S1, 2026-Apr S2	2.4.1, p. 6.46; 2.8, p. 6.68

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.7	Keynesian prescription: in recession raise government spending and cut taxes; in inflation restrain spending (the SM speaks of fiscal policy — G and taxes; monetary tightening is outside this unit).	MQ 1.1: Q1; MQ 1.8: Q1	Model Q ×2	2.8, p. 6.68
2.4.8	Monetary measures to correct excess demand: raise repo rate, CRR and margin requirements.	Q3	MTP 2024-Dec S1	Not in SM Unit 2 (MTP-only)
2.4.9	The AD curve (price–output space) is flatter the more sensitive investment spending is to the rate of interest.	Q9	MTP 2025-Aug S1	Not in SM Unit 2 (MTP-only)
2.4.10	AD = 2,000 − 100P and SRAS = 1,000 + 150P: equate AD = AS → 250P = 1,000, P = 4, Y = 1,600.	MQ 1.4.1: Q1	Model Q	Not in SM (Model Q only)

Topic 2.5 The Investment Multiplier

24 Scanner questions · frequency PYQ 11 · RTP 2 · MTP 8 · Model Q 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.1	Investment multiplier k = ΔY/ΔI — the ratio of the change in national income to the change in investment; an increase in investment leads to a proportionately larger (multiple) change in equilibrium income — the magnification of an initial change in spending throughout the economy ('ripple effect').	Q2, Q6, Q14; MQ 1.8: Q1	PYQ 2024-Jun, 2025-Jan; RTP 2025-Sep; Model Q	2.5, pp. 6.50 – 6.52
2.5.2	k = 1/(1 − MPC) = 1/MPS — the multiplier is the reciprocal of MPS; MPC (and hence MPS) is the determinant of its value.	Q15, Q18; MQ 1.5: Q1, Q3	PYQ 2026-Sep; MTP 2025-Dec S1; Model Q ×2	2.5, pp. 6.51 – 6.52
2.5.3	Direct relationship: the higher the MPC (the lower the MPS), the greater the multiplier; its maximum value is infinity when MPC = 1.	Q8, Q11	PYQ 2025-Sep, 2026-May; MTP 2024-Dec S1, 2024-Dec	2.5, p. 6.51
2.5.4	Numerical — find ΔY: k = 1/(1 − MPC) (or 1/MPS), then ΔY = k × ΔI (or ΔG). (MPS 0.2 or b 0.8 → k 5; MPC 0.6 → k 2.5, ΔY = 2.5 × 300 = 750; MPC 0.8, ΔG 100 → ΔY 500.)	Q5, Q13; MQ 1.5: Q2; MQ 1.6.1: Q1	PYQ 2025-Jan; MTP 2025-May S2, 2025-Aug S2; Model Q ×2	2.5, Ill. 9, 11, 12, pp. 6.53 – 6.54
2.5.5	Numerical — find k or MPC: k = ΔY/ΔI, then MPC = 1 − 1/k. (1,500/500 = 3 → 0.67; 2,000/200 = 10 → 0.9; 600/150 = 4 → 0.75; 12,000/4,000 = 3.)	Q3, Q7, Q9, Q17 (+ 2.3 Q16)	PYQ 2024-Jun, 2025-Sep, 2026-May, 2026-Sep; RTP 2025-Jan	2.5, p. 6.51; Ill. 10, p. 6.53
2.5.6	An increase in autonomous spending (I or G) shifts the aggregate demand schedule upward (C + I to C + I + ΔI) and raises equilibrium income by more than the increase; a change in the MPC (behavioural coefficient) changes the slope instead.	Q12; MQ 1.6.1: Q2	MTP 2025-Aug S1; Model Q	2.5, pp. 6.50 – 6.51; 2.7, p. 6.66

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.7	Leakages — income not spent on currently produced consumption goods — reduce the multiplier: progressive taxation; high liquidity preference and idle saving; demand met from stocks or imports; purchase of existing wealth or securities; undistributed profits of corporations; debt repayment; inflation at full employment; scarcity of goods. Distributed profits are NOT a leakage; saving is a withdrawal.	Q1, Q4, Q10	PYQ 2024-Jun, 2026-Jan; MTP 2024-Dec S1	2.5, p. 6.52
2.5.8	*See Topic 2.3: a rise in autonomous consumption ('a') shifts the consumption function upward.*	Q16	MTP 2026-Apr S1	2.3.2, p. 6.39

Topic 2.6 Determination of Equilibrium Income: Three Sector Model

9 Scanner questions · frequency PYQ 5 · RTP – · MTP 2 · Model Q 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.6.1	Aggregate demand in the three-sector closed economy (neglecting foreign trade) = household consumption (C) + business investment (I) + government demand (G); equilibrium Y = C + I + G (AD = Y = AS: C + I + G = C + S + T). The foreign sector is excluded.	Q2, Q4; MQ 1.6: Q1, Q2	PYQ 2024-Sep, 2025-May; Model Q ×2	2.6, pp. 6.54 – 6.56
2.6.2	Numerical with taxes and transfers: C = a + bYd, Yd = Y − T + TR; Y = (a − bT + bTR + I + G)/(1 − b). (C = 8 + 0.6(Y − 10), I 60, G 10 → Y 180; C = 200 + 0.8(Y − 150 + 75), I 200, G 150 → Y 2,450.)	Q1, Q3	PYQ 2024-Jun, 2025-Jan	2.6.1, pp. 6.58 – 6.60
2.6.3	Government spending is autonomous — it adds to aggregate demand (the C + I + G line lies above C + I) and raises equilibrium income through the multiplier.	Q6	MTP 2026-Apr S1	2.6, p. 6.57; 2.7, p. 6.66
2.6.4	A leakage is income not spent on currently produced consumption goods and services (saving, taxes, imports); injections are investment, government spending and exports.	Q5	PYQ 2026-May	2.5, p. 6.52; 2.6, p. 6.56
2.6.5	The balanced budget multiplier equals one.	Q7	MTP 2026-Apr S1	Not in SM Unit 2 (MTP-only)

Topic 2.7 Determination of Equilibrium Income: Four Sector Model

11 Scanner questions · frequency PYQ 4 · RTP 1 · MTP 4 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.7.1	The four-sector model includes household, business, government and foreign sectors; net exports (X − M) are the foreign sector's contribution to aggregate expenditure, and equilibrium is Y = C + I + G + (X − M).	MQ 1.7: Q2, Q3	Model Q ×2	2.7, pp. 6.62 – 6.63
2.7.2	Numerical: AD = C + I + G + (X − M) (2,000 + 700 + 750 + 100 = 3,550); with C = a + bY, Y = (a + I + G + X − M)/(1 − b), net imports being subtracted ((300 + 800 − 100)/0.25 = 4,000).	Q1, Q2	PYQ 2024-Jun; MTP 2024-Dec S1	2.7, p. 6.63; Ill. 17 – 18, pp. 6.66 – 6.68

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.7.3	Foreign trade multiplier = 1/(1 − b + m), b = MPC and m = marginal propensity to import; the greater m, the lower the multiplier (1/(1 − 0.6 + 0.04) = 2.27).	Q3	PYQ 2026-Jan	2.7, pp. 6.63 – 6.66
2.7.4	Exports are injections and imports leakages: an increase in exports has an expansionary effect, an autonomous increase in imports a contractionary effect, on equilibrium income.	Q4	PYQ 2026-Jan	2.7, pp. 6.63, 6.66
2.7.5	Leakages (S + T + M) equal injections (I + G + X) only at equilibrium income — investment is an injection, saving a leakage.	Q6, Q7	MTP 2025-Dec S1, 2026-Apr S1	2.7, p. 6.65
2.7.6	Households and firms (business) are common to every sector model; government and foreign sectors are added in the three- and four-sector models.	Q5	PYQ 2026-May	2.1, p. 6.36
2.7.7	*See Topic 2.4: according to Keynes, an inflationary gap is caused by excess demand.*	Q8	RTP 2025-May; MTP 2026-Apr S2	2.4.1, p. 6.46
2.7.8	Consumption plus taxes exceeding income (Y = C + S + T) implies negative saving (dissaving); 'deficit' in this sense is not an SM term.	MQ 1.7: Q1	Model Q	Not in SM (Model Q only)

Topic 2.8 Conclusion

2 Scanner questions · frequency PYQ – · RTP 1 · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.8.1	According to the Keynesian theory, national income depends upon aggregate effective demand: if it falls short of full-employment output there is unemployment; if it exceeds it there is inflation.	Q1 (+ 2.1 Q1)	PYQ 2024-Sep; RTP 2025-Jan; MTP 2025-Dec S1	2.8, p. 6.68
2.8.2	Without stabilisation policy incomes are unstable because investment is unstable; government plays an active role — appropriate changes in government spending and taxes (fiscal policy), with monetary policy acting on interest rates and aggregate demand.	Q2	MTP 2025-Apr S1	2.8, p. 6.68; 2.1, p. 6.36

Part B — Chapter 5 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 28% of ICAI appearances in this chapter.

Unit 1 — National Income Accounting

#	One-liner	Weight	Part A ref
1	NI accounting pioneered by Kuznets and Stone; CSO (MoSPI) compiles national accounts; State DESs compile State Domestic Product.	★★	1.1.1, 1.2.1
2	Uses of NI estimates: demand forecasting, sectoral composition and shifts, sector policies, macro modelling, income distribution, structural ratios, international comparisons, growth and inflation policy — not population policy.	★	1.2.2
3	GDP = value of all final goods and services produced in the country in a period, at market prices; only final goods counted.	★	1.3.1, 1.3.2
4	Nominal = current prices; Real = constant (base-year) prices — removes the price effect; real GDP is the one to compare over time.	★	1.3.3
5	**GDP deflator = Nominal ÷ Real × 100 — a price index that measures inflation (PPP prices do not).**	★★★	1.3.4, 1.3.5, 1.3.9
6	Real = Nominal × 100 ÷ deflator; Nominal = Real × index ÷ 100.	★★	1.3.6
7	Base-year deflator = 100; > 100 → nominal > real, prices above base; < 100 → prices below base.	★★	1.3.7
8	Inflation = (D2 − D1) ÷ D1 × 100; deflator falls year-on-year → price level fell.	★★	1.3.8
9	**Gross − Net = depreciation: NDP = GDP − dep, so NDP ≤ GDP; gross investment = net + replacement; dep > gross investment → capital stock shrinks.**	★★★	1.3.10, 1.3.11
10	GNP = GDP + NFIA; a foreign firm's profits here are in our GDP and its home country's GNP, not our national income.	★★	1.3.12, 1.3.13, 1.4.21
11	NFIA negative → GDP > GNP; National = Domestic + NFIA.	★★	1.3.14, 1.3.15, 1.2.3
12	NNPMP = GNPMP − dep = NDPMP + NFIA = GDPMP + NFIA − dep.	★★	1.3.16
13	**MP − FC = net indirect taxes (IT − subsidies); direct taxes irrelevant.**	★★★	1.3.17, 1.3.18
14	GDPFC = CoE + OS (rent + interest + profit) + mixed income + dep; GDPMP = NDPFC + CFC + NIT.	★★	1.3.19, 1.4.13
15	Basic price = FC + production taxes − production subsidies; MP = basic price + product taxes − product subsidies.	★	1.3.20
16	NDPFC = CoE + OS + MI = NDPMP − NIT; National Income (NNPFC) = domestic factor incomes + NFIA.	★	1.3.21, 1.3.22
17	Per capita income = aggregate ÷ population — indicator of the standard of living.	★	1.3.23, 1.6.2
18	Personal income = receipts of households incl. NPISH from all sources (incl. transfers); excludes retained earnings, corporate tax, social security contributions.	★★	1.3.24
19	DI = PI − personal income taxes − non-tax payments; available for consumption or saving.	★★	1.3.25

#	One-liner	Weight	Part A ref
20	NNDI = NNI + other net current transfers from abroad; GNDI = NNDI + CFC.	MQ	1.3.26
21	Private income = factor + transfer income to the private sector from all sources within and outside the country = PI + corporate tax + undistributed profits.	★	1.3.27
22	Circular flow: production → distribution → disposition; output = income = expenditure.	★	1.4.1
23	Three methods: value added (unduplicated industry contribution), income (factor incomes paid out), expenditure / income disposal (final expenditure).	★	1.4.2, 1.3.30
24	**Value added = Product = Industrial Origin = Net Output method; count only final goods / value added to avoid double counting.**	★★★	1.4.3, 1.4.4, 1.4.5
25	**GVAMP = (Sales + closing − opening stock) − IC; NVA = GVA − dep; FC = MP − IT + subsidies.**	★★★	1.4.6, 1.4.7, 1.3.31
26	Include own-account fixed assets, self-consumption, imputed rent, change in stock; exclude unpaid household work and resale of old shares.	★	1.4.8
27	Income method = Factor Payment = Distributed Share method; NI = CoE + OS + MI + NFIA.	★	1.4.9
28	Include wages, PF contribution, commissions, brokerages, imputed rent, royalty, interest on productive loans; exclude pensions, transfers, capital gains, windfalls, second-hand goods, shares and bonds, black money.	★★	1.4.10, 1.3.29
29	Profit = corporate tax + dividend + undistributed profit; mixed income = inseparable labour and capital income of the self-employed.	★★	1.4.11, 1.4.12
30	Expenditure method: GDPMP = PFCE + GFCE + GDCF + (X − M) — this is GDPMP, not national income.	★	1.4.15, 1.3.32
31	Final consumption arises in households and government; GFCE excludes pensions, scholarships, unemployment allowance (transfers).	★★	1.4.16, 1.3.28
32	Transfer payments are excluded from GDP — no current production.	★★	1.4.17, 1.7.1
33	GDCF = fixed assets + inventory change + valuables; unsold inventory counts as investment; net domestic expenditure = C + net investment.	★★	1.4.18, 1.4.19
34	India uses no single method: agriculture — product; small-scale — income; construction — expenditure.	★	1.4.20
35	State income (NSDP) by State Income Units of DESs, CSO advises; supra-regional sectors (railways, banking, insurance) allocated by indicators; per capita state income = NSDP ÷ midyear population.	★★	1.5.1, 1.5.2, 1.3.33
36	GDP ≠ welfare: misses income distribution, quality improvements, hidden/illegal output, non-market work, leisure, economic bads (traffic congestion), volunteer work, externalities.	★★	1.6.1
37	Conceptual difficulties: definition, final vs intermediate, transfers, durable-goods services, income distribution, new goods at constant prices, government services.	★	1.7.1

#	One-liner	Weight	Part A ref
38	Other challenges: data, non-monetised sector, self-consumption, unrecorded incomes, occupational classification, CFC estimation; underground economy understates NI.	★	1.7.2, 1.7.3

Unit 2 — The Keynesian Theory of Determination of National Income

#	One-liner	Weight	Part A ref
1	Keynes, 'The General Theory of Employment, Interest, and Money' (1936) — answer to the Great Depression's persistent unemployment.	★	2.1.1
2	**National income depends on aggregate effective demand; the Depression = insufficient spending.**	★★★	2.1.2, 2.8.1
3	Government spending and taxes to fight recession and unemployment — an active role.	★★	2.1.3, 2.4.7, 2.8.2
4	Building blocks: consumption–income relation & multiplier · liquidity preference (= demand for money) · expectations.	★	2.1.5
5	Keynesian analysis = short period, comparative statics.	★	2.1.6
6	Macroeconomics = economy as a whole (SM Chapter 1).	★	2.1.4
7	Models: two-sector (households + firms) · three-sector (+ government) · four-sector (+ foreign).	★★	2.2.2, 2.6.1, 2.7.6
8	Circular flow: real flows (factor services, goods) vs money flows (factor payments, consumption payments).	MQ	2.2.3
9	Two-sector identity: Factor payments = Household income = Household expenditure = Firms' receipts = Value of output.	★	2.2.4
10	Circular-flow phases: production, distribution, disposition (Unit 1).	★	2.2.5
11	AD = total planned expenditure = C + I; I exogenous, constant in the short run.	MQ	2.2.1, 2.3.1
12	Consumption function C = f(Y): consumption vs disposable income.	★★	2.3.3
13	C = a + bY; a = autonomous consumption (intercept) — a rise in a shifts C upward.	★★	2.3.4, 2.3.5, 2.5.8
14	0 < MPC < 1: consumption rises by less than income.	★★	2.3.6
15	MPC = ΔC/ΔY = slope; higher MPC → steeper C.	★★	2.3.7
16	APC = C/Y; falls as income rises.	★★	2.3.8
17	Y = C + S; MPS = 1 − b; MPC + MPS = 1.	★	2.3.9
18	APS = S/Y; S = APS × Y.	★★	2.3.10
19	AS = C + S = national income.	★	2.3.11
20	Equilibrium: C + I = C + S, i.e. I = S; output demanded = output produced.	★★	2.4.1
21	**Solve Y = C + I (or S = I); C = Y − S.**	★★★	2.4.2, 2.4.3

#	One-liner	Weight	Part A ref
22	AD < output → inventories pile up → income falls; AD > output → income rises; adjustment via output, not prices.	★	2.4.4, 2.3.14
23	Deflationary (recessionary) gap = deficient demand below full-employment output.	★	2.4.5
24	Inflationary gap = excess demand; real output constant, prices rise.	★★	2.4.6, 2.7.7
25	k = ΔY/ΔI; a multiple (more than proportionate) change in income.	★★	2.5.1
26	**k = 1/(1 − MPC) = 1/MPS; higher MPC → larger k; k = ∞ when MPC = 1.**	★★★	2.5.2, 2.5.3
27	**ΔY = k × ΔI; MPC = 1 − 1/k.**	★★★	2.5.4, 2.5.5, 2.3.15
28	Change in autonomous spending = upward shift of the AD line; change in MPC = change in slope.	★	2.5.6
29	Leakages list — UNdistributed (not distributed) profits; saving is a withdrawal.	★★	2.5.7, 2.6.4
30	Three-sector: AD = C + I + G; C + I + G = C + S + T.	★	2.6.1
31	Y = (a − bT + bTR + I + G)/(1 − b).	★	2.6.2
32	G is autonomous → multiplier effect on income.	★	2.6.3
33	Four-sector: Y = C + I + G + (X − M).	★	2.7.1, 2.7.2
34	Foreign trade multiplier 1/(1 − b + m); higher m → smaller multiplier.	★	2.7.3
35	Exports expansionary; autonomous imports contractionary.	★	2.7.4
36	Leakages S + T + M = injections I + G + X at equilibrium.	★	2.7.5

CHAPTER 6

Business Cycles

191 Scanner questions · 58 one-liners · 40 revision pointers · SM Chapter 5 in the July 2026 Study Material

Part A — One-liners mapped to Scanner questions and Study Material

Business Cycles

SM Chapter 5, pages 5.1 – 5.15

Topic 6.0 Introduction

10 Scanner questions · frequency PYQ 5 · RTP 5 · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.0.1	Business cycles (trade cycles) are the rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time — alternate expansion and contraction of overall business activity, manifested in fluctuations in measures of aggregate economic activity such as gross national product (output), employment and income.	Q3, Q4, Q9, Q10	PYQ 2021-Jan, 2021-Jul; RTP 2026-Jan; MTP 2024-Dec S1, 2025-Jan S2	5.0, p. 5.3; Summary, p. 5.14
6.0.2	SM introductory examples: the UK boom of the 1920s (rapid growth in GDP, production and living standards, fuelled by new technology such as the assembly line), and China's recent slowdown, which fostered a cycle of decline and panic across much of the world — the beginning of a recessionary phase.	Q2	PYQ 2019-Nov	5.0, p. 5.2
6.0.3	The Information Technology (Dot.Com) bubble (roughly 1997–2000) is an example of a business cycle: low interest rates of 1998–99 and over-optimism drove up stock prices of internet companies; the bubble collapsed during 1999–2001 and economies felt the downturn.	Q6	RTP 2024-Sep, 2025-May	5.1 (Examples), p. 5.8
6.0.4	Global Economic Crisis (2008–09) originated in US financial markets: after the IT bubble burst the US Federal Reserve cut interest rates, creating large liquidity; cheap credit and lending to sub-prime households without checking creditworthiness inflated house prices; prices began to decline in 2006 and the housing bubble burst in the second half of 2007.	Q5	PYQ 2022-Dec	5.1 (Examples), p. 5.9
6.0.5	Subprime Crisis and Greece Crisis shared high financial leverage, low interest rates and credit expansion — 'all of the above'. The SM describes only the subprime side (low interest rates, excess liquidity, easy credit); the Greece crisis is not in the SM.	Q7	RTP 2024-Sep; MTP 2025-Dec S1	Not in SM (RTP/MTP-only); subprime side at p. 5.9
6.0.6	A counter-cyclical variable moves in the opposite direction to aggregate economic activity — down in expansions, up in contractions (e.g. unemployment); a pro-cyclical variable moves with it.	Q1	PYQ 2018-May	Not in SM (PYQ-only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.0.7	Globalisation indicates rapid integration between countries. (The SM says only that economies of nearly all nations are interconnected through trade, so fluctuations in one part of the world are easily transmitted to others.)	Q8	RTP 2024-Sep	Not in SM (RTP-only); cf. 5.3, p. 5.13

Topic 6.1 Phase of Business Cycle

110 Scanner questions · frequency PYQ 103 · RTP 3 · MTP 24

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.1.1	A typical business cycle has four distinct phases: (1) Expansion (also called Boom or Upswing); (2) Peak (or boom or Prosperity); (3) Contraction (also called Downswing or Recession); (4) Trough (or Depression). 'Reconstruction' is NOT a phase. (One RTP lists the four as Peak, recession, trough and recovery — Recovery is the SM's name for the climb out of the trough.)	Q5, Q11, Q28, Q65, Q78, Q89, Q91	PYQ 2018-Nov, 2019-May, 2020-Nov, 2023-Jun, 2025-Sep, 2026-Jan; RTP 2024-Sep	5.1, p. 5.3; Summary, pp. 5.14 – 5.15
6.1.2	Sequence: the cycle starts at the trough → expansion → peak → contraction → trough again; expansion lies between trough and peak; the peak marks the end of expansion and the beginning of contraction; the period from peak to trough is a contraction — i.e. economic expansions are followed by contractions.	Q24, Q81, Q82, Q100	PYQ 2019-Nov, 2020-Nov; MTP 2025-Jan S2 (×2), 2025-Aug S2	5.1, p. 5.3
6.1.3	Peak and trough are the turning points of the cycle (the trough is the 'lowest turning point'); since the SM names the peak 'Peak or boom' and the trough 'Trough or Depression', boom and depression are also called turning points.	Q12, Q38, Q54, Q73	PYQ 2019-May, 2021-Jul, 2022-Dec, 2023-Dec; MTP 2024-Aug, 2025-Apr S1	5.1, pp. 5.3, 5.5 – 5.6
6.1.4	Expansion is when economic activity is increasing — characterised by increase in national output, employment, aggregate demand, capital and consumer expenditure, sales, profits, rising stock prices and bank credit; prices and costs rise faster; good net investment; high consumer spending and business confidence. Rising unemployment is NOT a feature.	Q13, Q43, Q45, Q55, Q60	PYQ 2019-May, 2021-Jul, 2021-Dec (×2), 2022-Dec, 2023-Jun	5.1, p. 5.4; Summary, p. 5.14
6.1.5	Expansion continues till there is full employment of resources and production is at its maximum possible level; involuntary unemployment is almost zero — whatever unemployment exists is frictional (change of jobs, strikes, imperfect mobility of labour) or structural (caused by structural changes in the economy).	Q17, Q19, Q66, Q85	PYQ 2019-Nov (×2), 2022-Jun, 2023-Dec, 2025-May	5.1, p. 5.4
6.1.6	Peak is the top or highest point of the business cycle (maximum production), reached in the later stages of expansion; it is the end of expansion, where economic growth stabilises for a short time and then moves in the reverse direction.	Q16, Q18, Q46, Q102	PYQ 2019-Nov (×2), 2021-Dec; MTP 2025-Apr S1, 2025-Dec S1	5.1, p. 5.4; Summary, p. 5.15

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.1.7	At the Peak (prosperity): inputs are short of demand so input prices rise; output prices rise rapidly, increasing the cost of living and the strain on fixed income earners; consumers review spending on housing and durables; actual demand stagnates.	Q21, Q40, Q48, Q92, Q95, Q108	PYQ 2019-May, 2019-Nov, 2021-Jul, 2022-Jun, 2026-Jan, 2026-May, 2026-Sep	5.1, p. 5.4
6.1.8	Contraction (Downswing/Recession): once the peak is reached the increase in demand is halted and starts decreasing; investment and employment fall; producers do not instantaneously recognise the pulse of the economy and maintain investment and production, so supply far exceeds demand; they then hold back investment and cancel orders for equipment and inputs, triggering a chain of reactions in input markets — the turning point and beginning of recession.	Q7, Q9, Q22, Q30, Q63, Q76, Q98, Q103	PYQ 2018-Nov, 2019-May, 2019-Nov, 2020-Nov, 2021-Jul, 2023-Jun, 2024-Sep, 2026-May; MTP 2025-Aug S2	5.1, p. 5.5; Summary, p. 5.15
6.1.9	As recession deepens: input prices fall, wage and interest incomes decline, producers cut prices to clear inventories, consumers postpone purchases and aggregate demand falls, generally causing a fall in prices; production, employment and income decline; bank credit shrinks, investor confidence is lowest, stock prices fall and unemployment rises despite falling wage rates. Bad trade = falling prices and high unemployment; in recession unemployment rises and output falls.	Q26, Q33, Q71, Q83, Q88, Q90	PYQ 2019-May, 2020-Nov, 2021-Jan, 2025-Sep, 2026-Jan; MTP 2024-Aug, 2025-Jan S2	5.1, p. 5.5; 5.0, p. 5.3
6.1.10	Depression is the severe form of recession (not the reverse) and the last stage of the recession process — extremely sluggish economic activity; growth rate becomes negative; national income and expenditure decline rapidly; prices are at their lowest; firms shut down facilities; mounting (rampant) unemployment leaves consumers with very little disposable income.	Q1, Q3, Q27, Q53, Q56, Q86, Q99	PYQ 2018-May (×2), 2020-Nov, 2022-Jun, 2022-Dec, 2025-May; MTP 2025-May S2	5.1, pp. 5.5 – 5.6; Summary, p. 5.15
6.1.11	Typical feature of depression: fall in the interest rate, so people's demand for holding liquid money (cash) increases; demand for credit still declines as investor confidence has fallen; capital and consumer durable goods industries suffer from excess capacity; bankruptcies and liquidations reduce trade.	Q15, Q23, Q31, Q41, Q49	PYQ 2019-Nov (×3), 2021-Jan, 2021-Jul, 2022-Jun	5.1, pp. 5.5 – 5.6
6.1.12	Trough: at the depth of depression all economic activities touch the bottom — the lowest point of economic activity, where production is lowest and unemployment highest; the trough lasts for some time and marks the end of pessimism and the beginning of optimism.	Q20, Q77, Q104	PYQ 2019-Nov, 2022-Jun, 2024-Sep; MTP 2025-Dec S1	5.1, p. 5.6
6.1.13	Recovery: the process of reversal is initially felt in the labour market — pervasive unemployment forces workers to accept lower wages; producers anticipate lower costs, invest again and build stocks; banks expand credit; employment and aggregate demand pick up — the turning point from depression to expansion.	Q75	PYQ 2024-Sep	5.1, p. 5.6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.1.14	Phase signatures (SM wording): Expansion — increase in national output, employment, demand, capital and consumer expenditure; Contraction — fall in investment and employment and mismatch between demand and supply; Depression (Trough) — extremely sluggish economic activities; Recovery — employment increases and expansion takes place.	Q110	PYQ 2026-Sep	5.1, pp. 5.4 – 5.6
6.1.15	It is very difficult to predict the turning points of business cycles; economists use changes in a variety of activities — called indicators — to measure the cycle and predict where the economy is headed. Three types: leading, lagging and coincident (concurrent).	Q47	PYQ 2021-Dec; MTP 2025-May S2, 2025-Aug S1	5.1, pp. 5.6 – 5.7
6.1.16	A leading indicator is a measurable economic factor that changes before the economy starts to follow a particular pattern or trend — variables that change before real output changes, often prior to large economic adjustments (widely used but not always accurate).	Q8, Q34, Q37, Q61, Q67	PYQ 2019-May, 2020-Nov, 2021-Jan, 2021-Jul, 2023-Jun, 2023-Dec	5.1, p. 5.7; Summary, p. 5.15
6.1.17	Leading indicators (precursors of upturns/downturns): changes in stock prices, profit margins and profits, indices such as housing, interest rates and prices; value of new orders for consumer goods, new orders for plant and equipment, building permits for private houses, slower deliveries, index of consumer confidence and money growth rate.	Q4, Q52, Q69, Q79, Q101, Q109	PYQ 2018-May, 2022-Jun, 2023-Dec, 2025-Jan, 2026-Sep; MTP 2025-Aug S1	5.1, p. 5.7
6.1.18	Lagging indicators reflect the economy's historical performance — variables that change after real output changes; if leading indicators signal the onset of business cycles, lagging indicators confirm these trends.	Q39, Q50, Q57, Q62, Q70, Q74, Q80	PYQ 2021-Jul, 2022-Jun, 2022-Dec, 2023-Jun, 2024-Jun, 2025-Jan; MTP 2024-Aug	5.1, p. 5.7; Summary, p. 5.15
6.1.19	Lagging indicators: unemployment, corporate profits, labour cost per unit of output, interest rates, the consumer price index and commercial lending activity. Changes in stock prices are leading; personal income is coincident.	Q58, Q64, Q72, Q93, Q96, Q109	PYQ 2022-Dec, 2023-Jun, 2026-Jan, 2026-May, 2026-Sep; MTP 2024-Aug, 2025-Aug S2, 2025-Dec S1	5.1, p. 5.7
6.1.20	Coincident indicators — also called concurrent indicators — coincide or occur simultaneously with business-cycle movements, describe the current state of the cycle and give information about the rate of change of the expansion or contraction more or less at the same time it happens.	Q25, Q35, Q42, Q44, Q51, Q59, Q87	PYQ 2020-Nov, 2021-Jan, 2021-Jul, 2021-Dec, 2022-Jun, 2023-Jun, 2025-May	5.1, pp. 5.7 – 5.8; Summary, p. 5.15
6.1.21	Coincident indicators: Gross Domestic Product, industrial production, inflation, personal income, retail sales and financial market trends such as stock market prices. New orders for plant and equipment (leading) and interest rates (lagging) are NOT coincident.	Q14, Q29, Q68, Q84, Q94, Q109	PYQ 2019-Nov, 2020-Nov, 2023-Dec, 2026-May, 2026-Sep; RTP 2025-Jan, 2025-Sep	5.1, pp. 5.7 – 5.8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.1.22	Great Depression: the longest, deepest and most widespread depression of the 20th century, in the 1930s (1929–33); it started in the US and became worldwide (global GDP fell about 15% between 1929 and 1932). Keynes blamed lower aggregate expenditure; monetarists blamed the banking crisis and LOW money supply (not excess money supply); recovery began in 1933.	Q2, Q6, Q10, Q36	PYQ 2018-May, 2018-Nov (×2), 2019-May, 2021-Jan; MTP 2025-Apr S1 (×2)	5.1, pp. 5.6, 5.8
6.1.23	Stagflation is a low rate of growth combined with a rise in the general price level.	Q105	MTP 2026-Apr S2	Not in SM (MTP-only)
6.1.24	A recession is commonly defined as a decline in real GDP that lasts six months or longer (the SM gives no such time test — only falling investment, employment, output and prices).	Q106	MTP 2026-Apr S2	Not in SM (MTP-only)
6.1.25	*See Topic 6.3: expansionary fiscal policy (higher government spending and/or tax cuts) boosts aggregate demand — so it suits the contraction phase.*	Q97	PYQ 2026-May	5.3, p. 5.11
6.1.26	*See Topic 6.3: according to Keynes, fluctuations in economic activity are due to fluctuations in aggregate effective demand — insufficient demand means lower output, income and employment (the involuntary unemployment link is the MTP's; not SM wording).*	Q107	MTP 2026-Apr S1	5.3, pp. 5.10 – 5.11
6.1.27	*See Topic 6.4: businesses whose fortunes are closely linked to the rate of economic growth are 'cyclical' businesses.*	Q32	PYQ 2021-Jan	5.4, p. 5.14

Topic 6.2 Features of Business Cycle

23 Scanner questions · frequency PYQ 18 · RTP – · MTP 12

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.2.1	Business cycles occur periodically (they are recurrent) but do not exhibit the same regularity — not at regular intervals; different cycles differ in duration and intensity; the phases seldom display smoothness and regularity and the length of each phase is not definite; no economy follows a perfectly timed cycle — some have longer booms, others longer depressions.	Q12, Q13, Q14, Q16, Q18, Q19, Q21, Q22, Q23	PYQ 2023-Dec (×3), 2025-Jan, 2025-May, 2025-Sep, 2026-Sep; MTP 2026-Apr S2, 2026-Apr S1	5.2 (a)–(b), p. 5.9; 5.0, p. 5.3; 5.1, p. 5.6
6.2.2	Features: occur periodically; have distinct phases of expansion, peak, contraction and trough; generally originate in free market economies; are pervasive — disturbances in one or more sectors get easily transmitted to all other sectors.	Q3, Q4, Q5, Q11, Q15	PYQ 2018-Nov, 2019-May, 2020-Nov, 2023-Jun; MTP 2024-Dec S1, 2025-Apr S1 (×2), 2025-Dec S1	5.2 (a)–(c), p. 5.9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.2.3	Business cycles are exceedingly complex phenomena; they do NOT have uniform characteristics and causes — they are caused by varying factors, so accurate prediction before their occurrence is difficult. They have serious consequences on the well-being of society.	Q6, Q8, Q9, Q11	PYQ 2021-Jan, 2021-Jul, 2021-Dec, 2023-Jun; MTP 2025-Apr S1	5.2 (e) and (h), pp. 5.9 – 5.10
6.2.4	Business cycles are contagious and international in character: they begin in one country and mostly spread to others through trade relations (e.g. the 1930s Great Depression); with economies interconnected through trade, financial disruptions are easily transmitted across countries.	Q2, Q7, Q9, Q10, Q17	PYQ 2018-Nov, 2021-Jan, 2021-Dec, 2022-Jun; MTP 2025-Jan S2, 2025-Apr S1	5.2 (g), p. 5.10; 5.3, p. 5.13
6.2.5	Repercussions of business cycles are felt simultaneously on nearly all economic variables — output, employment, investment, consumption, interest, trade and price levels (so 'asynchronous' is NOT a feature).	Q10, Q20	PYQ 2022-Jun; MTP 2025-Apr S1 (×2), 2025-Dec S1	5.2 (f), p. 5.10
6.2.6	All sectors are hit, but capital goods industries and durable consumer goods industries are disproportionately affected; the industrial sector is more prone to trade cycles than agriculture.	Q1	PYQ 2018-May; MTP 2025-Aug S2	5.2 (d), p. 5.9

Topic 6.3 Causes of Business Cycles

38 Scanner questions · frequency PYQ 36 · RTP 1 · MTP 8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.3.1	Internal causes (endogenous factors): fluctuations in effective demand; fluctuations in investment; variations in government spending; macroeconomic (monetary and fiscal) policies; money supply; psychological factors. Natural factors, technology shocks, population growth and post-war reconstruction are NOT internal.	Q3, Q5, Q10, Q13, Q20, Q23, Q29, Q33, Q36, Q38	PYQ 2018-Nov (×2), 2019-May, 2020-Nov, 2021-Jul, 2023-Jun, 2023-Dec, 2025-Jan, 2026-May, 2026-Sep; MTP 2025-Apr S1, 2025-Aug S2, 2026-Apr S1	5.3, pp. 5.10 – 5.12
6.3.2	External causes (exogenous factors): war; post-war reconstruction; technology shocks; natural factors; population growth. Fluctuations in effective demand, money supply, government spending, macro policies and psychological factors are NOT external.	Q2, Q8, Q21, Q22, Q24, Q27	PYQ 2018-Nov, 2019-Nov, 2022-Dec, 2023-Jun, 2023-Dec, 2024-Jun; RTP 2024-Sep	5.3, pp. 5.10, 5.12 – 5.13
6.3.3	Keynes: fluctuations in economic activities are due to fluctuations in aggregate effective demand (willingness and ability to buy) — higher aggregate demand raises output, income and employment (and causes inflation if it outstrips aggregate supply); low aggregate demand reduces them.	Q16, Q17	PYQ 2021-Dec, 2022-Dec; MTP 2025-Apr S1	5.3, pp. 5.10 – 5.11; Summary, p. 5.15
6.3.4	According to some economists, fluctuations in investment are the prime cause of business cycles — investment spending is the most volatile component of aggregate demand, changing with entrepreneurs' profit expectations, new inventions and the rate of interest.	Q6	PYQ 2019-May	5.3, p. 5.11

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.3.5	Macroeconomic (monetary and fiscal) policies cause cycles by altering aggregate demand: expansionary policies (more government spending, tax cuts, softer interest rates) cause booms; anti-inflationary measures (reduction in government spending, higher taxes and interest rates) put downward pressure on aggregate demand and slow the economy, possibly into recession.	Q31, Q37	PYQ 2025-Sep; MTP 2026-Apr S1	5.3, p. 5.11
6.3.6	Hawtrey: the trade cycle is a purely monetary phenomenon — unplanned changes in money supply cause fluctuations (more money → expansion; less money → recession). Monetarists likewise blamed the Great Depression on low money supply.	Q1, Q12, Q15, Q19	PYQ 2018-May, 2021-Jan, 2021-Dec, 2022-Dec; MTP 2025-Aug S2	5.3, pp. 5.11 – 5.12; 5.1, p. 5.8
6.3.7	Pigou: modern business activities are based on the anticipations of the business community and are affected by waves of optimism or pessimism — fluctuations are the outcome of these psychological states of mind; optimism → investment and expansion; pessimism → restricted investment and contraction.	Q7, Q9, Q11, Q14, Q28	PYQ 2019-May, 2020-Nov, 2021-Jan, 2021-Jul, 2025-Jan	5.3, p. 5.12
6.3.8	Theorist map: Hawtrey — money supply; Pigou — psychological factors; Schumpeter — innovations (trade cycles occur as a result of innovations from time to time); Keynes — effective aggregate demand. ('Pigou — fluctuations in investment' is false.)	Q4, Q18, Q25	PYQ 2018-Nov, 2021-Jan, 2022-Dec, 2024-Jun	5.3, pp. 5.10 – 5.12; Summary, p. 5.15
6.3.9	Nicholas Kaldor propounded the cobweb theory: present prices substantially influence production at some future date, so present price fluctuations cause later fluctuations in output and employment.	Q34, Q35	MTP 2025-Apr S1, 2025-Aug S2	5.3, p. 5.12
6.3.10	War: production of war goods (weapons, arms) increases and most resources are diverted to them, cutting production of capital and consumer goods — fall in income, profits and employment, triggering contraction.	Q26	PYQ 2024-Sep	5.3, p. 5.12
6.3.11	Post-war reconstruction (an external cause): after a war the country rebuilds houses, roads and bridges, which pushes up effective demand, output, employment and income.	Q30	PYQ 2025-May	5.3, p. 5.12
6.3.12	Technology shocks (external): growing technology needs huge investment, boosting employment, income and profits — e.g. the advent of mobile phones caused a boom in the telecom industry.	Q32	PYQ 2025-Sep	5.3, p. 5.12
6.3.13	Natural factors (exogenous): weather cycles — droughts or excessive floods — cut agricultural output and farm incomes, reducing demand for industrial goods and possibly causing industrial recession, especially in agrarian economies.	Q21	PYQ 2022-Dec, 2023-Jun	5.3, p. 5.13

Topic 6.4 Relevance of Business Cycles in Business Decision Making

10 Scanner questions · frequency PYQ 7 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
6.4.1	Businesses whose fortunes are closely linked to the rate of economic growth are 'cyclical' businesses — fashion retailers, electrical goods, house-builders, restaurants, advertising, overseas tour operators, construction and other infrastructure firms: strong demand in a boom, sharp drop in a slump. Agriculture and washing powder are not in the list.	Q1, Q2, Q3, Q5, Q6 (+ 6.1 Q32)	PYQ 2018-Nov, 2021-Jan, 2022-Jun, 2022-Dec, 2023-Dec, 2024-Sep	5.4, p. 5.14
6.4.2	Business cycles do not affect all sectors uniformly — some businesses actually benefit from a downturn when their products are seen as good value for money or a cheaper alternative; so NOT all producers are hit in a recession.	Q7	MTP 2025-Jan S2	5.4, p. 5.14
6.4.3	Capital goods and durable consumer goods industries are most affected (most volatile output); agriculture-based necessities such as food-grain processing are less sensitive (an inference from the SM, which names only the most affected sectors).	Q4, Q10	PYQ 2023-Jun; MTP 2026-Apr S1	5.2 (d), p. 5.9
6.4.4	The phase of the business cycle is important for a new business deciding on market entry and is an important determinant of the success of a new product launch; the stage of the cycle is crucial for decisions on expansion or down-sizing.	Q9	MTP 2026-Apr S2	5.4, pp. 5.13 – 5.14
6.4.5	*See Topic 6.3: according to Pigou, modern business activities are based on the anticipations (expectations) of the business community.*	Q8	PYQ 2026-Jan	5.3, p. 5.12

Part B — Chapter 6 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 74% of ICAI appearances in this chapter.

Business Cycles (SM Chapter 5)

#	One-liner	Weight	Part A ref
1	UK boom of the 1920s; China's slowdown → cycle of decline and panic worldwide (start of recession).	★	6.0.2
2	Business/trade cycle = rhythmic fluctuations in aggregate economic activity over time; measured by GNP, employment, income.	★★	6.0.1
3	**Good trade = rising prices, low unemployment; bad trade = falling prices, high unemployment.**	★★★	6.1.9
4	**Four phases: Expansion (boom/upswing) · Peak (boom/prosperity) · Contraction (downswing/recession) · Trough (depression). Not 'reconstruction'.**	★★★	6.1.1
5	Trough → expansion → peak → contraction → trough; expansions are followed by contractions; peak starts contraction.	★★	6.1.2
6	**Turning points = peak and trough (boom and depression).**	★★★	6.1.3
7	**Expansion: output, employment, AD, capital & consumer expenditure, sales, profits, stock prices, bank credit all rise.**	★★★	6.1.4
8	Expansion: involuntary unemployment almost zero; only frictional or structural unemployment.	★★	6.1.5
9	Peak = highest point, maximum production, later stage of expansion; growth stabilises, then reverses.	★★	6.1.6
10	**Peak: input and output prices rise, cost of living up, strain on fixed income earners; actual demand stagnates.**	★★★	6.1.7
11	**Contraction: demand halted; investment and employment fall; supply far exceeds demand; orders cancelled → beginning of recession.**	★★★	6.1.8
12	**Recession deepens: prices fall, unemployment rises, output falls, bank credit shrinks, stock prices fall.**	★★★	6.1.9
13	**Depression = severe form of recession: negative growth, rapid fall in national income and expenditure, rampant unemployment.**	★★★	6.1.10
14	**Depression: interest rate falls, liquidity preference rises; excess capacity in capital and durable goods industries.**	★★★	6.1.11
15	Trough = lowest point: end of pessimism, beginning of optimism.	★★	6.1.12
16	Recovery: reversal first felt in the labour market; turning point from depression to expansion.	★	6.1.13, 6.1.14
17	**Great Depression 1930s (1929–33): began in the US; Keynes → low aggregate expenditure; monetarists → low money supply.**	★★★	6.1.22
18	IT/Dot.Com bubble 1997–2000, burst 2000; US housing bubble burst in the second half of 2007 → crisis of 2008–09.	★★	6.0.3, 6.0.4

#	One-liner	Weight	Part A ref
19	Turning points are hard to predict → indicators: leading, lagging, coincident.	★★	6.1.15
20	**Leading = changes BEFORE real output (precursor of upturns and downturns).**	★★★	6.1.16
21	**Leading examples: stock prices, new orders for consumer goods and plant & equipment, building permits, consumer confidence, money growth.**	★★★	6.1.17
22	**Lagging = changes AFTER real output; reflects history; confirms trends.**	★★★	6.1.18
23	**Lagging examples: unemployment, corporate profits, labour cost per unit of output, interest rates, CPI, commercial lending.**	★★★	6.1.19
24	**Coincident = concurrent: moves WITH the cycle; describes current state and rate of change.**	★★★	6.1.20
25	**Coincident examples: GDP, industrial production, inflation, personal income, retail sales, financial market trends.**	★★★	6.1.21
26	**Features: periodic but not regular; duration, intensity and phase length vary.**	★★★	6.2.1
27	**Features: four distinct phases; originate in free market economies; pervasive.**	★★★	6.2.2
28	Complex; NO uniform characteristics or causes; hard to predict; serious consequences for society's well-being.	★★	6.2.3
29	**Contagious and international; spread through trade; effects felt simultaneously on nearly all variables.**	★★★	6.2.4, 6.2.5, 6.0.7
30	Capital goods and durable consumer goods are hit hardest; industry is more prone than agriculture.	★★	6.2.6, 6.4.3
31	**Internal (endogenous): effective demand, investment, govt spending, macro policies, money supply, psychological factors.**	★★★	6.3.1
32	**External (exogenous): war, post-war reconstruction, technology shocks, natural factors, population growth.**	★★★	6.3.2
33	Keynes → aggregate effective demand; 'some economists' → investment (the most volatile component of AD).	★★	6.3.3, 6.3.4
34	Expansionary policy → boom; anti-inflationary (lower govt spending, higher taxes and interest rates) → slowdown.	★★	6.3.5, 6.1.25
35	**Hawtrey → purely monetary (money supply); Pigou → psychology (optimism/pessimism); Schumpeter → innovations; Kaldor → cobweb.**	★★★	6.3.6, 6.3.7, 6.3.8, 6.3.9
36	War diverts resources to arms → contraction; reconstruction → demand up; mobile phones → telecom boom; droughts/floods → agrarian slump.	★★	6.3.10, 6.3.11, 6.3.12, 6.3.13
37	**Cyclical businesses: fashion retail, electrical goods, house-building, restaurants, advertising, overseas tours, construction.**	★★★	6.4.1
38	Not all firms suffer in a slump — value-for-money and cheaper alternatives can gain.	★	6.4.2
39	Stage of the cycle decides market entry, new product launch, and expansion vs down-sizing.	★	6.4.4

#	One-liner	Weight	Part A ref
40	Outside the SM: counter-cyclical variable; stagflation = low growth + rising prices; recession = fall in real GDP for 6+ months.	★★	**6.0.6, 6.1.23, 6.1.24**

CHAPTER 7

Public Finance

259 Scanner questions · 174 one-liners · 86 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: Fiscal Functions: An Overview, Centre and State Finance

SM Chapter 7, Unit 1, pages 7.1 – 7.18

Topic 1.2 The Role of Government in an Economic System

7 Scanner questions · frequency PYQ 3 · RTP 1 · MTP 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	Richard Musgrave, in 'The Theory of Public Finance' (1959), introduced the three-branch taxonomy of the role of government in a market economy: resource allocation (to ensure efficiency), income redistribution (to guarantee fairness) and macroeconomic stabilisation (to ensure price stability).	Q2, Q5, Q7	PYQ 2024-Sep, 2026-Sep; MTP 2025-Jan S2, 2025-May S2, 2025-Aug S2, 2026-Apr S2	1.2, p. 7.4
1.2.2	The allocation and distribution functions are primarily microeconomic functions, while stabilisation is a macroeconomic function.	Q1	PYQ 2024-Jun	1.2, p. 7.4
1.2.3	Adam Smith's canons of taxation include the canon of equity (with certainty, convenience and economy); canons of productivity, diversity etc. are later additions. The SM unit cites Smith only for the State's roles in defence, justice and public works.	Q3	RTP 2024-Sep	Not in SM (RTP-only)
1.2.4	The Economic Survey is published by the Ministry of Finance, Government of India.	Q4	MTP 2025-May S2	Not in SM (MTP-only)
1.2.5	*See Topic 1.5: the Finance Commission (Article 280) is the constitutional body at the centre of fiscal federalism, dealing with the division of resources between the union and the states.*	Q6	MTP 2026-Apr S2	1.5 Centre and State Finance, pp. 7.12 – 7.13

Topic 1.3 The Allocation Function

6 Scanner questions · frequency PYQ 2 · RTP – · MTP 4 · Model Q 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.1	Resource allocation refers to the way the available resources or factors of production are allocated among the various uses to which they might be put; it is a critical problem because resources are limited while wants are unlimited.	MQ 1.3: Q1	Model Q	1.3, p. 7.5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.2	Private-sector allocation is characterised by market supply and demand and the price mechanism, as determined by consumer sovereignty and producer profit motives; the State's allocation works through the revenue and expenditure of the budget. In the real world, allocation is determined by both market and government.	Q1, Q3; MQ 1.3: Q2	PYQ 2024-Jun; MTP 2025-Aug S1, 2025-Aug S2; Model Q	1.3, p. 7.5
1.3.3	The allocation function aims to correct the sources of inefficiency in the economic system: market failures (monopoly power, public goods, merit goods, common property resources, externalities, factor immobility, imperfect information, inequalities) provide the rationale for government's allocative function.	Q4	MTP 2026-Apr S1	1.2, p. 7.4; 1.3, pp. 7.5 – 7.6
1.3.4	Allocation instruments: direct production of an economic good (e.g. electricity, public transportation), taxes and subsidies through the price mechanism, legislation and force (ban on single-use plastic), competition and merger policies, regulatory activities (licensing, controls, minimum wages) and legal frameworks.	Q2	PYQ 2025-Jan; MTP 2025-Jan S2	1.3, p. 7.7

Topic 1.4 The Redistribution Function

11 Scanner questions · frequency PYQ 4 · RTP – · MTP 3 · Model Q 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.1	Left to the market, the distribution of income and wealth is likely to be skewed, so the government intervenes to ensure a more socially optimal and egalitarian distribution; the distributive function relates to the basic question of 'for whom' an economy should produce.	Q6; MQ 1.4: Q1	PYQ 2026-Sep; Model Q	1.4, p. 7.8
1.4.2	Redistribution works through both sides of the budget, not taxation alone: on the expenditure side, free or subsidised education, healthcare, housing, food and basic goods; on the revenue side, progressive taxation.	Q2, Q6	PYQ 2025-Sep, 2026-Sep	1.4, p. 7.8
1.4.3	Under progressive taxation the tax rate rises as income rises, so high-income earners (greater ability to pay) bear a larger share — the revenue-side tool of redistribution.	Q1; MQ 1.4: Q2; MQ 1.13: Q3	PYQ 2025-Jan; MTP 2025-Apr S1; Model Q ×2	1.4, p. 7.8 (rate definition: Model Q only)
1.4.4	The distribution function aims at an equitable distribution of societal output among households, advancing the well-being of the deprived, providing equality of income, wealth and opportunities, and security of basic needs with a minimum standard of living for everyone.	Q6; MQ 1.13: Q1	PYQ 2026-Sep; Model Q	1.4, p. 7.8; 2.13, p. 7.40
1.4.5	Proceeds from progressive taxes used to supply essential food grains at highly subsidised prices to BPL households is an example of the redistribution function.	Q2	PYQ 2025-Sep	1.4, p. 7.8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.6	Redistribution has efficiency costs or deadweight losses: high rates of taxes on the rich may act as a disincentive to entrepreneurship and work and discourage saving, investment and risk-taking — so equity and efficiency must be balanced.	Q3	PYQ 2026-Jan	1.4, p. 7.9
1.4.7	The modern state is a welfare state: most egalitarian welfare states provide free or subsidised education, health care, unemployment benefits, pensions and other social security; the primary goal of the State is to promote the general welfare of society.	Q4	MTP 2025-May S2	1.1, p. 7.2; 1.4, p. 7.9
1.4.8	Inequitable distribution of income and wealth tends to result in higher levels of poverty and social unrest.	MQ 1.13: Q2	Model Q	Not in SM (Model Q only)
1.4.9	*See Topic 1.5: in fiscal federalism, vertical equity means deciding the share of all states in the revenue collected by the centre (centre–state revenue sharing); horizontal equity is the allocation of that share among states.*	Q5	MTP 2026-Apr S2	1.5 Centre and State Finance, p. 7.13

Topic 1.5 Stabilization Function

31 Scanner questions · frequency PYQ 14 · RTP 5 · MTP 11 · Model Q 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.1	Macroeconomic stability exists when output matches production capacity, total spending matches total output, labour is fully employed and inflation is low and stable; the stabilisation function is the government's effort to stabilise the aggregate economy (employment, output, prices, balance of payments, growth) against fluctuations.	MQ 1.5: Q1	Model Q	1.5, pp. 7.9 – 7.10
1.5.2	Stagflation is a state of affairs in which inflation and unemployment exist side by side; the 'contagion effect' is the easy transmission of instability from one country to others.	Q12	PYQ 2026-Jan	1.5, p. 7.10
1.5.3	The stabilisation function is one of the key functions of fiscal policy and aims at eliminating macroeconomic fluctuations arising from suboptimal allocation of resources.	Q9	PYQ 2025-May	1.5, p. 7.10
1.5.4	Stabilisation may be through monetary policy (controlling money supply and interest rates — the central bank) as well as fiscal policy (government expenditure and taxation).	Q6; MQ 1.2: Q1; MQ 1.3: Q1	MTP 2024-Dec S1; Model Q ×2	1.5, p. 7.10
1.5.5	To control high inflation: contractionary fiscal policy — cut government expenditure and/or raise taxes — and reduce the money supply; in recession: increase spending, cut taxes, increase money supply. Raising interest rates is a monetary, not a fiscal, measure.	Q22; MQ 1.2: Q1; MQ 1.5: Q2	RTP 2025-Sep; Model Q ×2	1.5, p. 7.11

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.6	Progressive taxes act as automatic stabilisers: tax collections rise faster than income in booms and fall in recessions without any fresh policy decision.	Q25	MTP 2026-Apr S1	Not in SM (MTP-only)
1.5.7	*See Topic 1.1: the three main macroeconomic goals of any nation are economic growth, high levels of employment and stable price levels (universal education is not one).*	Q13	PYQ 2026-Jan	1.1, p. 7.3
1.5.8	Fiscal federalism, a term introduced by Richard Musgrave, deals with the division of governmental functions and financial relations among the different levels of government.	Q5, Q20	RTP 2025-May; MTP 2024-Dec S1, 2025-Aug S1	1.5 Centre and State Finance, p. 7.11
1.5.9	Musgrave: the central government should be responsible for economic stabilisation and income redistribution; allocation of resources should be the responsibility of state and local governments.	Q1	PYQ 2024-Jun	1.5 Centre and State Finance, p. 7.11
1.5.10	Article 246 demarcates the powers of the union and the states into three lists — union, state and concurrent; on conflict in the concurrent list, the law passed by the centre prevails.	Q24, Q26	PYQ 2026-Sep; RTP 2026-Jan	1.5 Centre and State Finance, pp. 7.11 – 7.12
1.5.11	Union taxes: income other than agricultural income, customs and export duties, corporation tax, security transaction tax, CGST, union excise. State taxes: agricultural income, lands and buildings, mineral rights, electricity, vehicles, tolls, professions, land revenue and excise on certain items.	Q7, Q16	PYQ 2025-Jan, 2026-May	1.5 Centre and State Finance, p. 7.12
1.5.12	Articles 268 to 281 contain the provisions on distribution of finances among states: Art. 268 duties levied by union, collected and appropriated by states; 269 levied and collected by union, assigned to states; 270 levied and collected by union and distributed between union and states; 271 surcharge for purposes of the union; 275 statutory grants-in-aid; 282 grants for any public purpose; 293 loans for any public purpose.	Q3, Q10, Q14, Q26	PYQ 2024-Sep, 2025-Sep, 2026-May, 2026-Sep	1.5 Centre and State Finance, p. 7.12
1.5.13	Since the constitutional amendment of 2000, the divisible pool consists of all taxes of the union (Art. 270) — income tax, corporation tax and union excise are all shared with the states.	Q19	MTP 2025-May S2	1.5 Centre and State Finance, pp. 7.12 – 7.13
1.5.14	Article 280 provides the Finance Commission — a constitutionally mandated body at the centre of fiscal federalism — which recommends the sharing of taxes between union and states and the principles of their distribution among states, weighing vertical equity (share of all states in central revenue) and horizontal equity (allocation among states).	Q4, Q8, Q26 (+ 1.2 Q6, 1.4 Q5)	PYQ 2025-Jan, 2026-Sep; MTP 2024-Dec S1, 2025-Apr S1, 2025-May S2, 2026-Apr S2 (×2)	1.5 Centre and State Finance, pp. 7.12 – 7.13

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.15	The Finance Commission determines the principles and quantum of grants-in-aid to states in need (statutory grants, Art. 275); the Plan/non-Plan distinction ended with the abolition of the Planning Commission.	Q21	MTP 2025-Aug S1	1.5 Centre and State Finance, p. 7.13
1.5.16	Net divisible pool: cesses, surcharges and non-tax revenue are netted out of the union's gross tax revenue; the NDP is the portion shared between the centre and the states (15th FC: states' share 41% for 2021-26).	Q11	PYQ 2026-Jan; RTP 2026-May	1.5 Centre and State Finance, p. 7.13
1.5.17	15th Finance Commission criteria for distributing central taxes among states, 2021-26: income distance, area, population (2011), demographic performance, forest and ecology, and tax and fiscal efforts — not infrastructure performance or adult literacy.	Q2, Q15	PYQ 2026-May; MTP 2024-Aug	1.5 Centre and State Finance, pp. 7.13 – 7.14
1.5.18	GST (1 July 2017) subsumes the majority of indirect taxes — excise, service tax, sales tax, octroi — making India's indirect tax regime unitary; it replaced production-based taxation with consumption-based taxation.	Q23	RTP 2025-Sep	1.5 Centre and State Finance, p. 7.14
1.5.19	GST accounts for 35 per cent of the gross tax revenue of the union and around 44 per cent of the own tax revenue of the states.	MQ 1: Q1	Model Q	1.5 Centre and State Finance, p. 7.14
1.5.20	The cascading effect is 'tax on tax' — tax levied on a value that already includes tax, raising costs; GST's input tax credit removes it.	Q18	MTP 2025-Apr S1	Not in SM (MTP-only)
1.5.21	Centre: defence, foreign affairs, foreign trade and exchange management, money and banking, cross-state transport and communication. States: agriculture and industry, health and education, police protection, state roads. Local bodies: water supply, sanitation, local roads.	Q17	PYQ 2026-May	1.5 Centre and State Finance, p. 7.15

Unit 2: Market Failure/Government Intervention to Correct Market Failure

SM Chapter 7, Unit 2, pages 7.23 – 7.44

Topic 2.1 Introduction

5 Scanner questions · frequency PYQ 2 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	*See Topic 2.4: public goods are non-excludable, so people free-ride and profit-maximising firms will not produce them — a market failure.*	Q1	MTP 2025-Jan S2	2.4, p. 7.28
2.1.2	*See Topic 2.4: public goods are non-rival and non-excludable, indivisible and more vulnerable to externalities and free-riding; excludability is a feature of private goods.*	Q2, Q3	PYQ 2025-May; MTP 2025-Aug S1	2.4, p. 7.28

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.3	*See Topic 2.4: Paul A. Samuelson introduced the 'collective consumption good' (1954), later known as the public good.*	Q4	PYQ 2025-Sep	2.4, p. 7.27
2.1.4	Impure public goods are a package of public and private goods — partly rival and/or partly excludable.	Q5	MTP 2025-Dec S1	Not in SM (MTP-only)

Topic 2.2 The Concept of Market Failure

5 Scanner questions · frequency PYQ 3 · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	Market failure is the inefficient allocation of resources: the free market misallocates scarce resources so that there is either overproduction or underproduction of particular goods, a less than optimal outcome.	Q3	MTP 2025-Jan S2	2.2, p. 7.24
2.2.2	Complete market failure ('missing markets'): the market does not supply the product at all though people want it (e.g. pure public goods). Partial market failure: the market functions but gives the wrong quantity or the wrong price.	Q5	PYQ 2025-Sep	2.2, p. 7.24
2.2.3	*See Topic 2.3: externalities cause market failure because they are costs or benefits not reflected in free market prices — 'external' to the market.*	Q1	PYQ 2024-Jun	2.3.2, p. 7.25
2.2.4	*See Topic 2.3: Social Cost = Private Cost + External Cost.*	Q4	PYQ 2025-May	2.3.2, p. 7.27
2.2.5	*See Topic 2.8: education subsidy rests on education being a merit good with substantial positive externalities (a subsidy on fees is a consumption subsidy).*	Q2	MTP 2024-Dec S1	2.7, p. 7.37; 2.8, p. 7.37

Topic 2.3 Why Do Market Fail

8 Scanner questions · frequency PYQ 4 · RTP – · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	Four major reasons for market failure: market power, externalities, public goods and incomplete information; perfect competition is not practical, and prices fail to reflect true social costs and benefits.	Q3, Q6	MTP 2024-Dec S1, 2025-Aug S1, 2025-Dec S1	2.3, p. 7.24; 2.3.2, p. 7.27
2.3.2	Externalities are costs (negative) or benefits (positive) of an activity borne by third parties that are not reflected in market prices — also called spillover, neighbourhood, third-party or side-effects; they are not internal costs.	Q7 (+ 2.2 Q1)	PYQ 2024-Jun; MTP 2026-Apr S1	2.3.2, p. 7.25

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.3	Four types — negative/positive production and negative/positive consumption externalities, each received in consumption or production; undisciplined students disrupting a class is a negative consumption externality (affecting production).	Q5	PYQ 2026-May	2.3.2, p. 7.26
2.3.4	Social Cost = Private Cost + External Cost; firms consider only private cost, so under a negative externality the market output exceeds the socially optimal level (positive externality → under-production).	Q8 (+ 2.2 Q4)	PYQ 2025-May; MTP 2026-Apr S1	2.3.2, p. 7.27; Summary p. 7.42
2.3.5	*See Topic 2.7: a complete ban on smoking in public places is a direct control, or command solution, against a negative consumption externality.*	Q1	PYQ 2024-Jun	2.7, p. 7.34
2.3.6	*See Topic 2.7: cap and trade is a market-based government intervention to correct (negative) externalities.*	Q2	PYQ 2025-Jan	2.7, pp. 7.35 – 7.36
2.3.7	*See Topic 2.8: the Right of Children to Free and Compulsory Education Act, 2009 (ages six to fourteen) is government intervention in the case of merit goods.*	Q4	PYQ 2025-Sep	2.8, p. 7.37

Topic 2.4 Public Goods

9 Scanner questions · frequency PYQ – · RTP 1 · MTP 3 · Model Q 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.1	Paul A. Samuelson ('The Pure Theory of Public Expenditure', 1954) introduced the 'collective consumption good': a public (social) good is enjoyed in common, each person's consumption leading to no subtraction from others' — e.g. defence, street lights, public parks provided for all.	MQ 1.2: Q1; MQ 1.3: Q1 (+ 2.1 Q4)	PYQ 2025-Sep; Model Q ×2	2.4, p. 7.27; 2.10, p. 7.39
2.4.2	Public goods are non-rival, non-excludable and indivisible, with zero additional cost of another user, and are more vulnerable to externalities, inadequate property rights and free-riding; private goods are rivalrous and excludable.	Q1 (+ 2.1 Q2, 2.1 Q3)	PYQ 2025-May; MTP 2025-Aug S1, 2026-Apr S1	2.4, p. 7.28
2.4.3	Free-rider problem: as no one can be excluded, people consume without paying, so firms will not produce public goods or will grossly under-produce them; free-riding mostly occurs with public goods.	Q3 (+ 2.1 Q1)	MTP 2025-Jan S2, 2026-Apr S2	2.4, p. 7.28
2.4.4	Common property resources (e.g. the environment) are overused in individual pursuit of self-interest; the usual remedy is government regulation of their use.	Q2	RTP 2025-Sep; MTP 2026-Apr S1	1.3, p. 7.6; remedy Not in SM (RTP/MTP-only)
2.4.5	*See Topic 2.3: market power is the ability of a firm to profitably raise the market price over its marginal cost; such firms are price makers who restrict output.*	MQ 1.3.1: Q1	Model Q	2.3.1, p. 7.25

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.6	The distinguishing feature of oligopoly is interdependence among the firms in the market.	MQ 1.3.1: Q2	Model Q	Not in SM (Model Q only)
2.4.7	*See Topic 2.6: competition/antitrust laws prohibit actions restraining competition; a natural monopoly can produce the entire market output at lower cost than several firms (electricity, gas, water) and is price-regulated.*	MQ 1.6: Q1, Q2	Model Q ×2	2.6, pp. 7.32 – 7.33

Topic 2.5 Incomplete Information

17 Scanner questions · frequency PYQ 4 · RTP 1 · MTP 6 · Model Q 9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.1	Complete information is an essential element of a competitive market; it fails because of complex products, difficulty of getting correct information and deliberate misinformation — information failure results in market failure.	MQ 1.12: Q1	Model Q	2.5, p. 7.29
2.5.2	Asymmetric information is an imbalance of information between buyer and seller — either may know more (landlord, borrower, used-car seller, health-insurance buyer, insider trader); it distorts choices.	MQ 1.3: Q1; MQ 1.5: Q1	Model Q ×2	2.5.1, p. 7.29
2.5.3	Adverse selection is generated by asymmetric information and acts before the transaction: high-risk people seek insurance cover to a greater extent than low-risk people, pushing premiums up and healthy buyers out.	Q6; MQ 1.5: Q3	MTP 2025-Aug S1; Model Q	2.5.1, pp. 7.29 – 7.30
2.5.4	Insurers counter adverse selection by screening and pooling risks through underwriting; the SM notes only that identifying each buyer's risk is costly and raises premiums.	MQ 1.5.1: Q1	Model Q	Not in SM (Model Q only)
2.5.5	George Akerlof's 'lemons problem' (used-car market): 'lemons' are poor-quality cars; buyers pay only for average quality, so good cars are withdrawn and the market fills with lemons — a seller concealing past accident damage illustrates it.	Q1, Q3; MQ 1.5.1: Q2	PYQ 2024-Sep, 2025-May; MTP 2024-Aug; Model Q	2.5.1, pp. 7.30 – 7.31
2.5.6	Asymmetric information eliminates high-quality goods from the market; economic agents end up selecting a sub-standard product or leaving the market altogether.	Q2	RTP 2026-Jan; MTP 2025-Jan S2, 2025-Apr S1	2.5.1, p. 7.31
2.5.7	Moral hazard: after the exchange, an informed party takes advantage of the less-informed through an unobserved action because he will not bear the consequences — e.g. a driver with comprehensive insurance drives less carefully, raising the probability of claims.	Q5, Q7; MQ 1.5: Q2	PYQ 2025-Sep; MTP 2025-Dec S1; Model Q	2.5.1, p. 7.31
2.5.8	*See Topic 2.9: production and consumption of demerit goods are likely to be more than optimal under free markets, as firms find them profitable.*	MQ 1.9: Q1	Model Q	2.9, p. 7.38

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.9	*See Topic 2.12: mandatory disclosure and labelling (e.g. the mutual-fund risk disclaimer, SEBI disclosure) are government intervention to correct information failure.*	Q4; MQ 1.12: Q2	PYQ 2025-May; Model Q	2.12, p. 7.40
2.5.10	*See Topic 2.8: making insurance compulsory is regulation to promote a merit good.*	Q8	MTP 2026-Apr S1	2.8, p. 7.37

Topic 2.6 Government Intervention to Minimize Market Power

1 Scanner question · frequency PYQ – · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.6.1	To minimise market power, governments enact competition laws (Competition Act, 2002; US antitrust laws) and use market liberalisation, merger controls, price capping, rate-of-return regulation, anti-cartel investigation, reduced import controls and nationalisation — not income-tax cuts.	Q1 (+ 2.4 MQ 1.6 Q1)	MTP 2025-Jan S2; Model Q	2.6, pp. 7.32 – 7.33
2.6.2	A natural monopoly can produce the entire output of the market at a lower cost than several firms could (electricity, gas, water supply); governments regulate its prices.	(+ 2.4 MQ 1.6 Q2)	Model Q	2.6, p. 7.33

Topic 2.7 Government Intervention to Correct Externalities

6 Scanner questions · frequency PYQ – · RTP – · MTP 7

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.7.1	Negative externalities are tackled by direct controls (command solutions — e.g. emission standards, a complete smoking ban in public places) or market-based policies that alter prices through taxes and subsidies (market correction).	Q6 (+ 2.3 Q1)	PYQ 2024-Jun; MTP 2026-Apr S2	2.7, p. 7.34
2.7.2	Pollution taxes, named Pigouvian taxes after A.C. Pigou, internalise negative externalities by 'making the polluter pay'.	Q2, Q5	MTP 2025-May S2, 2026-Apr S2	2.7, p. 7.35
2.7.3	Tax burden and elasticity: with inelastic demand producers easily shift the tax to buyers as higher prices; with relatively elastic demand, more of the burden falls on the seller.	Q3	MTP 2025-May S2	2.7, p. 7.35 (elastic case by inference)
2.7.4	Cap and trade (tradable emission permits): the government caps total pollution and firms trade permits — administratively cheap and simple, minimising pollution in the most cost-effective way.	(+ 2.3 Q2)	PYQ 2025-Jan	2.7, pp. 7.35 – 7.36
2.7.5	For positive externalities, governments give corrective subsidies to producers (raising supply) or consumers (raising demand); a producer subsidy lowers the cost of production and hence the price.	Q1, Q4	MTP 2025-Jan S2, 2025-Aug S2, 2025-Dec S1	2.7, pp. 7.36 – 7.37

Topic 2.8 Government Intervention in The Case of Merit Goods

3 Scanner questions · frequency PYQ – · RTP – · MTP 2 · Model Q 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.8.1	Merit goods have substantial positive (not negative) externalities and are socially desirable, but are under-produced and under-consumed by the market; examples: education, health care, welfare services, housing, public libraries, public parks.	Q1, Q2 (+ 2.2 Q2)	MTP 2024-Dec S1, 2025-Dec S1, 2026-Apr S2	2.8, p. 7.37
2.8.2	Responses to under-provision of merit goods: regulation, subsidies, direct provision, or a mix; mandates such as compulsory insurance, compulsory immunisation and the Right of Children to Free and Compulsory Education Act, 2009.	(+ 2.3 Q4, 2.5 Q8)	PYQ 2025-Sep; MTP 2026-Apr S1	2.8, p. 7.37
2.8.3	A government building a public park for the community is direct provision of a good enjoyed in common; parks are excludable public goods that may be financed through entry fees.	MQ 1.2: Q1	Model Q	2.8, p. 7.37; 2.10, p. 7.39

Topic 2.12 Government Intervention for Correcting Information Failure

1 Scanner question · frequency PYQ – · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.12.1	To correct information failure, governments mandate accurate labelling and content disclosure (cigarette packets, nutritional information), mandatory disclosure (SEBI), public dissemination of information and regulation of advertising.	Q1 (+ 2.5 Q4)	PYQ 2025-May; MTP 2026-Apr S1	2.12, p. 7.40

Unit 3: The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public Debt

SM Chapter 7, Unit 3, pages 7.51 – 7.71

Topic 3.1 Introduction

20 Scanner questions · frequency PYQ 4 · RTP – · MTP 1 · Model Q 15

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.1	A budget is a statement of 'where the money comes from' and 'where the money goes to' — a schedule of the entire revenues and expenditures the government expects to receive and plans to spend during the following year (the budgeted estimates); it is the most comprehensive report of the government's finances.	MQ 1.1: Q1; MQ 1.5: Q1	Model Q ×2	3.1, p. 7.52
3.1.2	Budget is a powerful policy instrument in the hands of government to regulate and restructure a country's economic priorities. Need: efficient allocation of limited resources for maximum social welfare; other objectives: reallocation as per declared priorities, redistribution of income and wealth, reduction of economic fluctuations (stability), sustainable increase in real GDP and reduction in regional disparities.	Q5; MQ 1.1: Q1	PYQ 2026-Sep; Model Q	3.1, pp. 7.51 – 7.52

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.3	A consolidated budget presents the receipts and expenditures of the Central and State Governments together. The SM covers only the union budget — states and local bodies have their own budgetary processes.	MQ 1.1: Q1	Model Q	Not in SM (Model Q only); cf. 3.1, p. 7.52
3.1.4	A cash budget is a tool for managing short-term cash flow and liquidity (a business-finance concept, not a government-budget term in the SM).	MQ 1.5: Q2	Model Q	Not in SM (Model Q only)
3.1.5	In India the budget is prepared by the Ministry of Finance in consultation with NITI Aayog and other relevant ministries, and must be presented and approved by both Houses of Parliament before the fiscal year begins (1 April to 31 March).	MQ 1.2: Q1, Q2	Model Q ×2	3.2, p. 7.52
3.1.6	The budgetary procedures are (i) Preparation of the budget, (ii) Presentation and enactment of the budget and (iii) Execution of the budget — i.e. drafting → presentation → approval → execution.	Q1; MQ 1.1: Q2 (+ 3.2 Q9)	MTP 2025-Jan S2, 2026-Apr S1; Model Q	3.2, p. 7.52
3.1.7	Article 112: the President shall cause to be laid before both Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for every financial year — the 'Annual Financial Statement' (the word 'budget' is not used in the Constitution).	Q2	PYQ 2025-May	3.2, p. 7.52
3.1.8	Budget documents show receipts and expenditure as: Budget Estimates (BE) for the current and ensuing financial year; Revised Estimates (RE) for the current year only; and Actuals of the year preceding the current year — not actuals of the current year.	Q4	PYQ 2025-May	3.2, p. 7.53
3.1.9	Finance Bill: introduced in Lok Sabha immediately after the presentation of the budget, it details the imposition, abolition, alteration or regulation of taxes proposed in the budget (the taxation proposals). Parliament must pass it within 75 days; as a money bill the Rajya Sabha must return it within 14 days; it becomes an Act on passage by both Houses and the President's assent.	MQ Finance Bill: Q1, Q2 (+ 3.2 Q8)	MTP 2025-Aug S2; Model Q ×2	3.2, p. 7.55; 3.5 (Budget concepts), p. 7.64
3.1.10	Outcome budget establishes a direct link between budgetary allocations of schemes and their annual performance targets measured through output and outcome indicators — a progress card on what ministries have done with the previous year's outlays and whether money was spent for the purpose sanctioned.	MQ Outcome budget: Q1, Q2 (+ 3.5 Q14)	MTP 2025-Aug S2; Model Q ×2	3.5 (Budget concepts), p. 7.64

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.11	Guillotine: once the prescribed period (last allotted day) for discussion on demands for grants is over, the Speaker of Lok Sabha puts all outstanding demands for grants, whether discussed or not, to the vote of the House — a device for ending the debate on financial proposals within a specified time.	Q3; MQ Guillotine: Q1, Q2 (+ 3.5 Q12)	PYQ 2025-May; MTP 2025-Aug S2; Model Q ×2	3.2, p. 7.55; 3.5 (Budget concepts), p. 7.64
3.1.12	Cut motions are motions to reduce the sums sought by government in demands for grants — on grounds of economy, difference of opinion on policy, or to voice a grievance; the Lok Sabha may concur, refuse or reduce any demand.	MQ Cut Motions: Q1, Q2	Model Q ×2	3.2, p. 7.55; 3.5 (Budget concepts), p. 7.64

Topic 3.2 The Process of Budget Making

9 Scanner questions · frequency PYQ 3 · RTP 1 · MTP 7

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.2.1	*See Topic 3.1: the three budgetary procedures — Preparation; Presentation and enactment; Execution.*	Q9	MTP 2026-Apr S1	3.2, p. 7.52
3.2.2	The Finance Minister presents the budget (Annual Financial Statement) with the budget speech before the Lok Sabha first; it is laid on the table of the Rajya Sabha soon after. The Rajya Sabha does not vote on demands for grants — it holds only a general discussion.	Q5	RTP 2025-May; MTP 2025-Apr S1	3.2, pp. 7.53 – 7.55
3.2.3	Budget documents presented besides the budget speech: Annual Financial Statement (AFS); Demands for Grants (DG); Finance Bill; and the two statements mandated under the FRBM Act — the Macro-Economic Framework Statement and the Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement (plus nine explanatory documents).	Q6 (+ 3.5 Q1)	MTP 2024-Aug, 2025-May S2, 2025-Aug S1	3.2, p. 7.54
3.2.4	*See Topic 3.1: the Finance Bill gives effect to the government's taxation proposals and is introduced in Lok Sabha.*	Q8	MTP 2025-Aug S2	3.2, p. 7.55; 3.5 (Budget concepts), p. 7.64
3.2.5	Capital expenditure results in the creation of physical or financial assets or reduction in financial liabilities — land, buildings, machinery and equipment, investment in shares, and loans and advances — so a capital budget finances long-term investments and projects.	Q7	MTP 2025-Apr S1	3.5 (Budget concepts), pp. 7.62 – 7.63
3.2.6	*See Topic 3.3: the SM's broad sources of tax revenue are corporation tax, taxes on income, wealth tax, customs duties, union excise duties, GST (incl. compensation cess) and taxes on union territories — stamp duty is not on the list.*	Q1	MTP 2024-Dec S1	3.3, p. 7.56

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.2.7	*See Topic 3.3: revenue receipts neither create any liability nor cause any reduction in assets; non-debt capital receipts are recoveries of loans and advances and miscellaneous capital receipts (disinvestment).*	Q2, Q3	PYQ 2025-Jan (×2)	3.3, pp. 7.56 – 7.57; 3.5 (Budget concepts), p. 7.62
3.2.8	*See Topic 3.5: the Public Account (Article 266) is used for all fund flows where the government acts as a banker.*	Q4	PYQ 2025-Sep	3.5 (Budget concepts), p. 7.65

Topic 3.3 Sources of Revenue

6 Scanner questions · frequency PYQ 5 · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.1	Government receipts are of two kinds: Revenue receipts (tax revenue + non-tax revenue), which neither create any liability nor cause any reduction in the assets of government; and Capital receipts (debt receipts + non-debt capital receipts), which reduce assets or increase liabilities.	(+ 3.2 Q3)	PYQ 2025-Jan	3.3, p. 7.56; 3.5 (Budget concepts), p. 7.62
3.3.2	Broad sources of (tax) revenue: corporation tax; taxes on income; wealth tax; customs duties; union excise duties; goods and services tax including GST compensation cess; taxes on union territories. GST compensation cess is therefore tax revenue.	Q4, Q6 (+ 3.2 Q1)	PYQ 2026-May, 2026-Sep; MTP 2024-Dec S1	3.3, p. 7.56
3.3.3	Non-tax revenues: interest receipts; dividends and profits from public sector enterprises and surplus transfers from RBI; other non-tax revenues; and receipts of union territories.	Q4, Q5, Q6	PYQ 2026-May, 2026-Sep; MTP 2026-Apr S1	3.3, pp. 7.56 – 7.57
3.3.4	Capital receipts: Non-debt — recoveries of loans and advances, miscellaneous capital receipts (disinvestment etc.); Debt — market loans, short-term/Treasury bill borrowings, securities issued against small savings, State provident fund (net), net external debts, other receipts (net).	Q6 (+ 3.2 Q2)	PYQ 2025-Jan, 2026-Sep	3.3, p. 7.57
3.3.5	GST (from 1 July 2017) replaced the production-based system with a consumption-based one and subsumed most indirect taxes — excise, service tax, sales tax/VAT, octroi — but not income tax; IGST is applied on inter-state movement of goods and services and on imports and exports (SGST by states, CGST by the union).	Q1, Q2, Q3	PYQ 2025-Jan, 2026-Jan (×2)	Unit 1, 1.5 (Centre and State Finance), p. 7.14

Topic 3.4 Public Expenditure Management

39 Scanner questions · frequency PYQ 9 · RTP 2 · MTP 17 · Model Q 11

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.4.1	Economic costs of unproductive public expenditure: larger deficits, higher levels of taxation, lower economic growth, fewer resources available for use elsewhere and greater debt burden in the future — excessive or unplanned spending leads to fiscal crisis and debt burden.	Q17, Q22	RTP 2026-Jan; MTP 2025-May S2	3.4, p. 7.58
3.4.2	Expenditure classifications in the SM: Centre's expenditure (establishment expenditure, central sector schemes, other central expenditure incl. CPSEs and autonomous bodies) vs. centrally sponsored schemes and other transfers (CSS, Finance Commission transfers, other transfers to states); revenue vs. capital; and 'charged' vs. voted. The Plan / non-Plan distinction has been abolished.	Q16	MTP 2024-Dec S1	3.4, p. 7.59; 3.2, p. 7.54; Unit 1, p. 7.13
3.4.3	Under the old (pre-2017-18) classification, Non-Plan expenditure covered defence, interest payments, salaries and pensions, and subsidies.	Q23	MTP 2026-Apr S2	Not in SM (MTP-only)
3.4.4	Elements of effective government budgeting: aggregate fiscal discipline, allocative efficiency and operational efficiency (not revenue maximisation). Allocative efficiency is improved by strategic planning with a medium-term fiscal framework and by programme budgeting and evaluation; operational efficiency suffers from information asymmetry — service providers know more about outputs and costs than those who allocate resources.	Q18, Q19, Q20	MTP 2025-Aug S2 (×3)	Not in SM (MTP-only)
3.4.5	Elements of good public expenditure management include economy, productivity and elasticity — 'deficit' is not one.	Q21	MTP 2025-Dec S1	Not in SM (MTP-only)
3.4.6	Balanced budget: revenue = expenditure. Unbalanced budget: surplus (receipts > expenditure) or deficit (estimated receipts < expenditure); planned expenditure exceeding expected revenue is a budget deficit, which increases liabilities or reduces reserves.	Q8	MTP 2025-Jan S2	3.5 (Budget concepts), p. 7.62
3.4.7	Budgetary (overall) deficit = excess of total estimated expenditure over total estimated revenue — the difference between all receipts and expenditure, both revenue and capital (e.g. 60,000 − 54,000 = 6,000).	Q13, Q14; MQ Budgetary Deficit or: Q1	PYQ 2025-Sep, 2026-Jan; Model Q	3.5 (Budget concepts), p. 7.63
3.4.8	Revenue deficit = Revenue expenditure − Revenue receipts (revenue account only); it shows that current receipts fall short of current expenditure on the normal functioning of government.	Q15, Q27; MQ Revenue Deficit: Q1, Q2	PYQ 2026-Jan, 2026-Sep; Model Q ×2	3.5 (Budget concepts), p. 7.63

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.4.9	Fiscal deficit = Total expenditure − Total receipts excluding borrowing = (Revenue exp. + Capital exp.) − (Revenue receipts + Capital receipts excluding borrowing) = Revenue deficit + (Capital exp. − Capital receipts excluding borrowing). It covers both revenue and capital accounts and is often stated as a % of GDP.	Q7, Q28; MQ Budgetary Deficit or: Q2; MQ Revenue Deficit: Q2; MQ Fiscal Deficit: Q1, Q2	PYQ 2025-Jan, 2026-Sep; Model Q ×4	3.5 (Budget concepts), p. 7.63
3.4.10	Fiscal deficit must be financed by borrowing, so it points to the total borrowing requirement of government from all sources; if revenue deficit is a large share of it, borrowing is being used for consumption rather than investment (so a revenue surplus is needed for capital formation).	Q6, Q24	MTP 2024-Dec S1, 2026-Apr S2	3.5 (Budget concepts), p. 7.64
3.4.11	Primary deficit = Fiscal deficit − Net interest liabilities (interest payments − interest receipts): borrowing requirement exclusive of interest. Hence Fiscal deficit = Primary deficit + Net interest liabilities (20,500 + 3,500 = 24,000).	Q2, Q12, Q25, Q26; MQ Primary Deficit: Q1, Q2	PYQ 2024-Sep, 2026-Sep; MTP 2025-May S2, 2026-Apr S2; Model Q ×2	3.5 (Budget concepts), p. 7.64
3.4.12	Deficit financing raises people's purchasing power ahead of output, so prices spiral (inflation); heavy government borrowing raises interest rates and burdens future generations.	Q9	MTP 2025-Jan S2	4.4.7, p. 7.82 (Unit 4)
3.4.13	*See Topic 3.5: treasury bills are issued to meet the short-term cash requirements of government; dated securities raise longer-term resources to finance the fiscal deficit.*	Q10	RTP 2025-Jan	3.5, p. 7.60
3.4.14	*See Topic 3.5: public debt is debt incurred by government in mobilising savings of the people as loans repayable with interest; public debt management means managing its size, composition, maturity, interest and redemption at the lowest long-term cost while keeping debt sustainable.*	Q11; MQ 1.1: Q1; MQ 1.5: Q1	MTP 2025-Apr S1; Model Q ×2	3.5, pp. 7.59 – 7.60
3.4.15	*See Topic 3.5: external debt is managed by the Department of Economic Affairs (Ministry of Finance); the Public Debt Management Cell was created in 2016 under DEA.*	Q1, Q4	PYQ 2024-Sep; MTP 2024-Dec S1	3.5, pp. 7.60 – 7.61
3.4.16	Debt-to-GDP ratio measures the proportion of debt relative to the country's economic output — an indicator of debt sustainability, which depends on the level of debt and the government's capacity to service it.	Q3; MQ 1.5: Q2	MTP 2024-Dec S1; Model Q	3.5, p. 7.59 (the ratio is not named in the SM)
3.4.17	External debt is shown at the (historical) exchange rate applicable at the time of contracting the debt.	Q5	MTP 2024-Dec S1	Not in SM (MTP-only)

Topic 3.5 Public Debt Management

25 Scanner questions · frequency PYQ 6 · RTP – · MTP 14 · Model Q 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.1	Public debt is government debt from internal and external sources contracted in the Consolidated Fund of India — debt incurred in mobilising savings of the people as loans repayable with interest. Public debt management is determining the size and composition of debt, its maturity pattern, interest rates and redemption (repayment) — raising the required funding at the desired risk and cost levels.	Q10, Q18 (+ 3.4 MQ 1.5 Q1, 3.4 Q11)	MTP 2025-Apr S1, 2025-May S2, 2025-Aug S1, 2026-Apr S2; Model Q	3.5, pp. 7.59 – 7.60
3.5.2	Objective of debt management: meet the central government's financing needs at the lowest possible long-term borrowing cost, keep total debt within sustainable levels and develop the domestic bond market; strategy rests on three pillars — low cost of borrowing, risk mitigation and market development.	Q15 (+ 3.4 MQ 1.1 Q1)	MTP 2026-Apr S1; Model Q	3.5, p. 7.60
3.5.3	Institutions for public debt management: RBI — domestic marketable debt (dated securities, treasury bills, cash management bills) through its Internal Debt Management Department; Ministry of Finance / Department of Economic Affairs — external debt; MoF Budget Division and RBI — other liabilities (small savings, deposits, reserve funds). SEBI has no role. The Public Debt Management Cell (PDMC) was created in 2016 under DEA.	Q9, Q13 (+ 3.4 Q1, 3.4 Q4)	PYQ 2024-Sep, 2026-May; MTP 2024-Dec S1, 2025-Aug S2	3.5, pp. 7.60 – 7.61
3.5.4	T-bills meet short-term cash requirements; dated securities finance the fiscal deficit. Since 1997 RBI gives short-term credit of up to three months to state governments as Ways and Means Advances (WMA) to bridge temporary mismatches in cash flows.	Q17 (+ 3.4 Q10)	RTP 2025-Jan; MTP 2026-Apr S2	3.5, p. 7.60
3.5.5	FRBM Act, 2003 provides a legislative framework for reduction of deficit, and thereby debt, to a sustainable level. Objectives: inter-generational equity in fiscal management; long-run macroeconomic stability; better coordination between fiscal and monetary policy; transparency in fiscal operations.	Q5, Q19	PYQ 2026-Sep; MTP 2025-Jan S2	3.5, p. 7.61
3.5.6	*See Topic 3.2: the only budget documents mandated under the FRBM Act are the Macro-Economic Framework Statement and the Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement.*	Q1	MTP 2024-Aug	3.2, p. 7.54
3.5.7	Fiscal deficit is the key operational target of the fiscal framework (with debt as the anchor).	Q4	MTP 2024-Dec S1	Not in SM (MTP-only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.8	The Department of Expenditure (Ministry of Finance) is the nodal department for overseeing the public financial management system in the central government and matters connected with state finances (Finance Commission and Pay Commission recommendations, audit observations, central government accounts).	Q3, Q6	PYQ 2025-May; MTP 2024-Dec S1	3.4, p. 7.58
3.5.9	Consolidated Fund of India (Article 266): all revenues received, loans raised and moneys received in repayment of loans are credited to it and all government expenditure is incurred from it — only if appropriated by Parliament; it has revenue and capital divisions.	Q2; MQ Consolidated Fund of: Q1	PYQ 2024-Sep; Model Q	3.5 (Budget concepts), p. 7.65
3.5.10	'Charged' expenditure — e.g. emoluments and allowances of the President and his/her office, Judges of the Supreme Court and high-ranking constitutional personnel (and interest on public debt) — is charged on the Consolidated Fund of India and not subject to the vote of Parliament.	Q16; MQ Consolidated Fund of: Q2	MTP 2026-Apr S1; Model Q	3.2, p. 7.54
3.5.11	Contingency Fund of India: placed at the disposal of the President to make advances to meet urgent unforeseen expenditure without prior legislative approval; the advances are later reported to Parliament for recoupment from the Consolidated Fund. (Its corpus is fixed by Parliament.)	MQ Contingency Fund of: Q1, Q2	Model Q ×2	3.5 (Budget concepts), p. 7.65
3.5.12	Public Account (Article 266; the SM says 266(1)): used for all fund flows where government acts as a banker — e.g. provident funds and small savings; the money belongs to depositors and its expenditure needs no Parliamentary approval.	MQ Public Account: Q1, Q2 (+ 3.2 Q4)	PYQ 2025-Sep; Model Q ×2	3.5 (Budget concepts), p. 7.65
3.5.13	*See Topic 3.4: Fiscal deficit = Total expenditure − (Revenue receipts + Capital receipts excluding borrowing) = Revenue deficit + Capital expenditure − Capital receipts excluding borrowing (17,000 − 12,000 = 5,000; 5,000 + 45,000 − 42,500 = 7,500).*	Q7, Q8	PYQ 2025-Sep, 2026-May	3.5 (Budget concepts), p. 7.63
3.5.14	Effective revenue deficit = Revenue deficit − Grants for creation of capital assets.	Q11	MTP 2025-Aug S2	Not in SM (MTP-only)
3.5.15	*See Topic 3.1: Guillotine — all outstanding demands for grants are put to vote at once.*	Q12	MTP 2025-Aug S2	3.2, p. 7.55
3.5.16	*See Topic 3.1: outcome budget links budgetary allocations with performance (output and outcome) targets.*	Q14	MTP 2025-Aug S2	3.5 (Budget concepts), p. 7.64

Unit 4: Fiscal Policy

SM Chapter 7, Unit 4, pages 7.72 – 7.85

Topic 4.1 Introduction

15 Scanner questions · frequency PYQ 7 · RTP – · MTP 9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.1.1	Fiscal policy is the deliberate policy of the government (Finance Ministry, not RBI) under which it uses taxation, public expenditure and public borrowing to influence the pattern of economic activity and the level of aggregate demand, output and employment; government taxation and expenditure policies together are its fiscal policy.	Q1, Q5, Q6, Q9, Q15 (+ 4.4 Q12)	PYQ 2020-Nov, 2023-Dec, 2026-Sep; MTP 2024-Dec S1 (×2), 2025-Jan S2, 2025-Aug S1	4.1, p. 7.72
4.1.2	Tools of fiscal policy: taxes, government expenditure, public debt and the government budget (budgetary tools: public revenue incl. taxation, public expenditure, public debt and deficit financing). Interest rates, money supply and inflation targeting are monetary tools.	Q3, Q4	PYQ 2024-Sep; MTP 2024-Aug	4.1, p. 7.72; 4.4, p. 7.76
4.1.3	Fiscal policy is a demand-side policy; an economy producing at full employment does not require government action in the form of fiscal policy.	Q11	PYQ 2025-May	4.1, p. 7.72
4.1.4	*See Topic 4.2: common objectives — full employment, price stability, accelerated economic development, equitable distribution of income and wealth (not export/import promotion).*	Q14	PYQ 2026-Jan	4.2, p. 7.73
4.1.5	*See Topic 4.4: fiscal policy reduces inequality through progressive taxation and targeted welfare spending.*	Q12	MTP 2025-Aug S2	4.4.6, p. 7.80
4.1.6	*See Topic 3.4: a substantial rise in revenue or capital expenditure (total expenditure exceeding non-borrowed receipts) widens the fiscal deficit.*	Q7	MTP 2024-Dec S1	3.5 (Budget concepts), p. 7.63 (Unit 3)
4.1.7	A deficit budget may be financed by borrowing or by monetisation (creation of additional money); only monetisation (deficit financing) adds to money supply — borrowing from the public curtails aggregate demand.	Q8	MTP 2024-Dec S1	4.4.1, p. 7.77; 4.4.3, p. 7.78
4.1.8	Increased government borrowing creates a perpetual burden on future generations because debts must be repaid (higher taxes and debt-servicing); if borrowed money is not used productively, surpluses will not suffice to service the debt.	Q10	MTP 2025-Apr S1	4.4.7, p. 7.82
4.1.9	Fiscal federalism in India is maintained by the Finance Commission (Article 280), the constitutional body at the centre of fiscal federalism.	Q2	PYQ 2024-Jun	Unit 1, 1.5 (Centre and State Finance), pp. 7.12 – 7.13

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.1.10	Fiscal reforms (1991) included a stable and transparent tax structure, better tax compliance, curbing government expenditure, reduction of subsidies, disinvestment and encouraging private sector participation.	Q13	PYQ 2025-Sep	SM Chapter 10, 10.4.1, pp. 10.10 – 10.11

Topic 4.2 Objectives of Fiscal Policy

9 Scanner questions · frequency PYQ 3 · RTP 1 · MTP 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.2.1	Most common objectives of fiscal policy: achievement and maintenance of full employment; maintenance of price stability; acceleration of the rate of economic development; equitable distribution of income and wealth (priorities differ — stability and equality in developed nations; growth, employment and equity in developing ones).	Q8 (+ 4.1 Q14)	PYQ 2026-Jan; MTP 2025-Dec S1	4.2, p. 7.73
4.2.2	GDP = C + I + G + NX: government controls G directly and influences C, I and NX indirectly through taxes, transfers and expenditure — so higher government spending, or a tax cut with higher spending, shifts aggregate demand right; a tax increase shifts it left.	Q3	MTP 2024-Dec S1	4.2, p. 7.74
4.2.3	*See Topic 4.3: counter-cyclical (expansionary) policy in recession — cut taxes and/or increase government expenditure to stimulate demand.*	Q5, Q6	RTP 2026-Jan; MTP 2025-Jan S2 (×2)	4.3, pp. 7.74 – 7.75
4.2.4	*See Topic 4.3: contractionary fiscal policy restrains economic activity during an inflationary phase — cut government spending and/or raise taxes.*	Q1, Q7	PYQ 2024-Jun, 2025-Sep	4.3, p. 7.75
4.2.5	*See Topic 4.3: in deflation or sluggish activity (low utilisation of resources), fiscal policy compensates the deficiency in effective demand by boosting aggregate spending.*	Q2	PYQ 2024-Jun	4.3, pp. 7.75 – 7.76
4.2.6	*See Topic 4.3: pump priming — a one-shot injection of government expenditure into a depressed economy — is a fiscal policy measure.*	Q4, Q9	MTP 2024-Dec S1, 2026-Apr S2	Not in SM (MTP-only)

Topic 4.3 Types of Fiscal Policy

7 Scanner questions · frequency PYQ 2 · RTP 1 · MTP 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.3.1	Expansionary fiscal policy stimulates the economy in the contractionary phase (recession) — closing the 'recessionary gap' — by cutting taxes (direct and indirect), increasing government expenditure, or a combination of both; it may lead to budget deficits.	Q6, Q7 (+ 4.2 Q5, 4.2 Q6)	RTP 2026-Jan; MTP 2025-Jan S2 (×2), 2025-Aug S1, 2026-Apr S2	4.3 (a), pp. 7.74 – 7.75

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.3.2	Contractionary fiscal policy restrains economic activity during an inflationary phase — eliminating the 'inflationary gap' — through decrease in government spending, increase in personal income and/or business taxes, or both; it should lead to a smaller budget deficit or a larger surplus.	Q4 (+ 4.2 Q1, 4.2 Q7)	PYQ 2024-Jun, 2025-Sep; MTP 2025-Jan S2	4.3 (b), p. 7.75
4.3.3	During inflation, government reduces its expenditure, levies new taxes and raises the rates of existing taxes to reduce disposable incomes and wipe off surplus purchasing power.	Q1	PYQ 2024-Sep	4.4.1 and 4.4.2, p. 7.77
4.3.4	To sum up: in inflation fiscal policy controls excessive aggregate spending; in deflation it compensates the deficiency in effective demand by boosting aggregate spending. During recession government raises expenditure or cuts taxes; deficit budgets stimulate economic activity, surplus budgets slow it down.	Q3 (+ 4.2 Q2)	PYQ 2024-Jun, 2026-Jan	4.3, pp. 7.75 – 7.76; Unit 1, 1.5, p. 7.11
4.3.5	Pump priming: when private spending becomes deficient, a one-shot injection of public spending into a depressed (deflationary) economy revives business confidence and encourages larger private investment — a fiscal policy measure.	Q5 (+ 4.2 Q4, 4.2 Q9)	MTP 2024-Dec S1, 2025-Aug S1, 2026-Apr S2	Not in SM (MTP-only); Glossary defines the term
4.3.6	Automatic (built-in) stabilisers — e.g. unemployment benefits and progressive income taxes — automatically adjust government spending and taxation with economic fluctuations, without fresh policy decisions.	Q2 (+ 4.4 MQ 1.4.9 Q2)	RTP 2025-Jan; Model Q	Not in SM (RTP-only)

Topic 4.4 The Instruments of Fiscal Policy

19 Scanner questions · frequency PYQ 2 · RTP – · MTP 10 · Model Q 7

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.4.1	Government expenditure (current, capital and transfer payments) is income-generating: in recession public works directly create incomes and, through the multiplier, raise output and employment (primary employment induces secondary and tertiary employment); cutting it reduces inflationary excess demand.	Q4	MTP 2025-Aug S1	4.4.1, pp. 7.76 – 7.77
4.4.2	Extra spending is financed through a deficit budget — by borrowing or monetisation (printing money) — not by raising taxes, which would be self-defeating; borrowing risks crowding out private spending.	Q3 (+ 4.1 Q8)	MTP 2024-Dec S1, 2025-Aug S1	4.4.1, p. 7.77
4.4.3	Taxes are the most important source of revenue for governments; they determine disposable income and hence aggregate demand — reduced in recession, raised (and new taxes levied) in inflation.	Q8	MTP 2025-Dec S1	4.4.2, p. 7.77

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.4.4	Budget as an instrument: a balanced budget (expenditure = tax revenue) has no net effect on aggregate demand; a surplus has a negative and a deficit a positive net effect. A surplus reduces national debt; a deficit adds to it.	Q6 (+ 4.3 Q3)	PYQ 2026-Jan; MTP 2025-Aug S1	4.4.4, p. 7.78
4.4.5	Fiscal policy (taxation and public spending) is the chief instrument for redistribution and reducing inequality: progressive direct taxes; differential indirect taxes (luxuries heavily, necessities lightly or not at all); welfare spending — poverty alleviation, subsidised health, education and housing, social security, etc.	MQ 1: Q1; MQ 1.2: Q1; MQ 1.4: Q1 (+ 4.1 Q12)	MTP 2025-Aug S2; Model Q ×3	4.4.6, pp. 7.79 – 7.80
4.4.6	Lags limit fiscal policy: recognition lag, decision lag, implementation lag and impact lag (outcomes of a policy not visible for some time); because of lags, policy may be badly timed — an expansion may start when recovery is already under way.	Q1, Q2, Q10; MQ 1.4.7: Q2	PYQ 2025-Jan; MTP 2025-Apr S1, 2026-Apr S1; Model Q	4.4.7, p. 7.81
4.4.7	Other limitations: difficulty in instantly changing spending and taxes; spending on defence, social security and half-built projects is hard to cut; long gestation of public works; disincentives (supply-side view); deficit financing makes prices spiral; borrowing burdens future generations; government borrowing pushes up interest rates.	Q2, Q5; MQ 1.4.7: Q1	MTP 2025-Apr S1, 2025-Aug S1; Model Q	4.4.7, pp. 7.81 – 7.82
4.4.8	Crowding out: a deficit from higher spending and/or tax cuts is financed by government borrowing, which reduces loanable funds and pushes interest rates up, so interest-sensitive private investment and consumption fall — private spending is 'crowded out'; less likely in a deep recession.	Q5, Q7, Q9	MTP 2025-Aug S1 (×2), 2025-Dec S1	4.4.8, p. 7.82
4.4.9	Implications of fiscal deficit in the SM: crowding out of private spending (higher interest rates), inflationary price spiral from deficit financing, and a debt burden on future generations.	Q9	MTP 2025-Dec S1	4.4.7 and 4.4.8, p. 7.82
4.4.10	*See Topic 4.1: fiscal policy = public expenditure, taxation and public borrowing (subsidies and bonds included; population control is not); monetary policy = money supply and interest rates (bank rate, OMO, CRR).*	Q11, Q12; MQ 1.4.9: Q1	PYQ 2026-Sep; MTP 2026-Apr S2; Model Q	4.1, p. 7.72
4.4.11	*See Topic 4.3: automatic stabilisers adjust government spending and taxation automatically with economic fluctuations.*	MQ 1.4.9: Q2	Model Q	Not in SM (Model Q only)

Part B — Chapter 7 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 17% of ICAI appearances in this chapter.

Unit 1 — Fiscal Functions: An Overview, Centre and State Finance

#	One-liner	Weight	Part A ref
1	Three macro goals: economic growth, high employment, stable prices.	★	1.5.7
2	**Musgrave, 'The Theory of Public Finance' (1959): allocation (efficiency), redistribution (fairness), stabilisation (price stability).**	★★★	1.2.1
3	Allocation and distribution = micro; stabilisation = macro.	★	1.2.2
4	Allocation: market via price mechanism (consumer sovereignty, profit motive); State via budget; in reality both.	★★	1.3.1, 1.3.2
5	Market failures = rationale for the allocation function.	★	1.3.3
6	Allocation instruments: direct production (electricity, public transport), taxes/subsidies, legislation, competition policy, regulation.	★	1.3.4
7	Redistribution answers 'for whom'; expenditure side (subsidised services) + revenue side (progressive tax); BPL food grains.	★★	1.4.1, 1.4.2, 1.4.3, 1.4.5
8	Aims: equality of income, wealth and opportunities; minimum standard of living.	★	1.4.4
9	Equity v. efficiency: high taxes on the rich = disincentive to work and enterprise → deadweight loss. Modern state = welfare state.	★	1.4.6, 1.4.7
10	Stabilisation: Keynesian rationale; a key function of fiscal policy; stagflation = inflation + unemployment.	★	1.5.1, 1.5.2, 1.5.3
11	Tools: monetary (money supply, interest rate) + fiscal (spending, taxes). Inflation → cut spending, raise taxes, reduce money supply.	★	1.5.4, 1.5.5
12	Fiscal federalism (Musgrave): division of functions and finances among levels; Centre → stabilisation and redistribution, states → allocation.	★★	1.5.8, 1.5.9
13	Art. 246: union, state and concurrent lists. Agricultural income and vehicles → states.	★★	1.5.10, 1.5.11
14	Arts. 268–281: distribution of finances; 271 surcharge; 275 statutory grants; divisible pool = all union taxes since 2000.	★★	1.5.12, 1.5.13
15	**Art. 280: Finance Commission — tax sharing, grants-in-aid, vertical and horizontal equity; NDP = gross tax revenue minus cesses, surcharges, non-tax revenue.**	★★★	1.5.14, 1.5.15, 1.5.16
16	15th FC (2021-26): states 41%; criteria — income distance, area, population (2011), demographic performance, forest and ecology, tax and fiscal efforts.	★	1.5.17
17	GST (1 July 2017): subsumes most indirect taxes; 35% of union gross tax revenue.	★	1.5.18, 1.5.19
18	Centre: defence, foreign affairs, money and banking; states: police, health, education; local bodies: water, sanitation.	★	1.5.21
19	Outside the SM: Adam Smith's canons (equity), Economic Survey (Finance Ministry), automatic stabilisers, cascading effect.	★★	1.2.3, 1.2.4, 1.5.6, 1.5.20

Unit 2 — Market Failure/Government Intervention to Correct Market Failure

#	One-liner	Weight	Part A ref
1	Market failure = over- or under-production; complete (missing markets) v. partial.	★	2.2.1, 2.2.2
2	Four reasons: market power, externalities, public goods, incomplete information.	★★	2.3.1
3	Market power = ability to raise price over marginal cost.	MQ	2.4.5
4	Externalities = third-party costs/benefits not reflected in prices; disruptive students = negative consumption externality.	★★	2.3.2, 2.2.3, 2.3.3
5	Social Cost = Private Cost + External Cost; negative externality → output above social optimum.	★	2.3.4, 2.2.4
6	Samuelson (1954): collective consumption goods.	★	2.4.1, 2.1.3
7	Public goods: non-rival, non-excludable, indivisible → free-rider problem → under-provision.	★★	2.4.2, 2.4.3, 2.1.2, 2.1.1
8	Information failure → market failure; asymmetric information can run either way.	MQ	2.5.1, 2.5.2
9	Adverse selection (before the deal): high-risk buyers seek insurance more.	★	2.5.3
10	**Akerlof's lemons = poor-quality used cars; good cars driven out; buyers end up with sub-standard goods.**	★★★	2.5.5, 2.5.6
11	Moral hazard (after the deal): insured driver drives carelessly.	★	2.5.7
12	Market power: competition laws, liberalisation, price regulation; natural monopoly = lowest cost with one firm.	★	2.6.1, 2.6.2
13	Negative externalities: direct controls (command solutions, smoking ban) or market-based tools (Pigouvian tax, cap and trade).	★★	2.7.1, 2.7.2, 2.7.4
14	Inelastic demand → tax shifted to buyers; elastic → burden more on sellers.	★	2.7.3
15	Positive externalities: producer or consumer subsidies → lower cost and price.	★★	2.7.5
16	Merit goods: positive externalities, under-consumed; regulation, compulsory insurance, RTE Act 2009.	★★	2.8.1, 2.8.2, 2.3.7
17	Demerit goods: over-produced under free markets.	MQ	2.5.8
18	Information failure: labelling, mandatory disclosure (SEBI, mutual-fund disclaimer), advertising rules.	★	2.12.1, 2.5.9

Unit 3 — The Process of Budget Making, Revenue, Expenditure and Public Debt

#	One-liner	Weight	Part A ref
1	Budget = where money comes from / goes to; schedule of next year's revenues and expenditures; most comprehensive report of govt finances.	MQ	3.1.1
2	Budget = policy instrument to regulate and restructure economic priorities; aims: allocation, redistribution, stability, real GDP growth, regional balance.	★	3.1.2
3	Prepared by Ministry of Finance with NITI Aayog; fiscal year 1 April – 31 March.	MQ	3.1.5

#	One-liner	Weight	Part A ref
4	Art. 112 → 'Annual Financial Statement' (Constitution never says 'budget').	★	3.1.7
5	Procedures: Preparation → Presentation & enactment → Execution.	★	3.1.6, 3.2.1
6	Documents show BE (current + ensuing year), RE (current year), Actuals (preceding year).	★	3.1.8
7	Budget speech in Lok Sabha first; Rajya Sabha only discusses, does not vote on demands.	★	3.2.2
8	Documents: AFS · Demands for Grants · Finance Bill · FRBM statements (Macro-Economic Framework; Medium-Term Fiscal Policy cum Fiscal Policy Strategy).	★★	3.2.3, 3.5.6
9	Charged on CFI, not voted: President, SC Judges, constitutional authorities (and interest on debt).	★	3.5.10
10	Cut motions reduce demands for grants (economy / policy / grievance).	MQ	3.1.12
11	Finance Bill = tax proposals; introduced in Lok Sabha after the budget; pass in 75 days; Rajya Sabha returns in 14 days.	★	3.1.9, 3.2.4
12	Guillotine: Speaker puts all outstanding demands to vote once time is over.	★	3.1.11, 3.5.15
13	Receipts: revenue (tax + non-tax; no liability, no asset reduction) vs capital (debt + non-debt).	★	3.3.1, 3.2.7
14	Tax sources: corporation tax, income tax, wealth tax, customs, union excise, GST + compensation cess, UT taxes.	★★	3.3.2, 3.2.6
15	Non-tax: interest, dividends/profits of PSEs + RBI surplus, other, UT receipts.	★★	3.3.3
16	Non-debt capital = loan recoveries + disinvestment; debt capital = market loans, T-bills, small savings, State PF, external debt.	★	3.3.4
17	GST: consumption-based; subsumed excise, service tax, VAT (not income tax); IGST on inter-state and imports/exports.	★★	3.3.5
18	Unproductive spending → larger deficits, higher taxes, lower growth, bigger future debt.	★	3.4.1
19	Dept of Expenditure = nodal department for public financial management.	★	3.5.8
20	Expenditure classes: Centre's expenditure vs CSS & transfers; revenue vs capital; charged vs voted (Plan/non-Plan abolished).	★	3.4.2, 3.4.3
21	Public debt = debt contracted in CFI; PDM = size, composition, maturity, interest, redemption.	★★	3.5.1, 3.4.14
22	PDM aims: lowest long-term cost, sustainable debt; pillars — low cost, risk mitigation, market development.	★	3.5.2, 3.4.16
23	RBI (IDMD) → internal marketable debt; DEA (MoF) → external debt; PDMC 2016.	★★	3.5.3, 3.4.15
24	T-bills = short-term cash needs; WMA = RBI credit to states up to 3 months.	★	3.5.4, 3.4.13
25	FRBM 2003: reduce deficit and debt; inter-generational equity, LONG-run stability, fiscal–monetary coordination, transparency.	★	3.5.5

#	One-liner	Weight	Part A ref
26	Balanced R = E; surplus R > E; deficit R < E.	★	3.4.6
27	Budgetary deficit = total expenditure − total receipts (revenue + capital).	★	3.4.7
28	Revenue deficit = revenue expenditure − revenue receipts.	★	3.4.8
29	**Fiscal deficit = total expenditure − receipts excl. borrowing = RD + (CE − non-debt capital receipts) = borrowing requirement.**	★★★	3.4.9, 3.4.10, 3.5.13
30	Primary deficit = fiscal deficit − net interest liabilities.	★★	3.4.11
31	Outcome budget links allocations to output/outcome targets.	★	3.1.10, 3.5.16
32	CFI: all revenues, loans, repayments; spend only if appropriated by Parliament.	★	3.5.9
33	Contingency Fund: with President, for urgent unforeseen spending, later recouped from CFI.	MQ	3.5.11
34	Public Account: govt as banker (PF, small savings); no Parliamentary approval.	★	3.5.12, 3.2.8

Unit 4 — Fiscal Policy

#	One-liner	Weight	Part A ref
1	**Fiscal policy = deliberate govt use of taxation, public expenditure and borrowing to influence AD, output, employment.**	★★★	4.1.1, 4.4.10
2	Fiscal policy is demand-side; not needed at full employment.	★	4.1.3
3	Tools: taxes, govt expenditure, public debt, budget (interest rate is monetary).	★	4.1.2
4	Objectives: full employment, price stability, faster development, equitable distribution.	★	4.2.1, 4.1.4
5	GDP = C + I + G + NX: G directly; C, I, NX indirectly via taxes, transfers, spending.	★	4.2.2
6	Expansionary (recession, recessionary gap): cut taxes and/or raise spending.	★★	4.3.1, 4.2.3
7	Contractionary (inflation, inflationary gap): cut spending and/or raise taxes → smaller deficit.	★★	4.3.2, 4.2.4, 4.3.3
8	Deficit budget stimulates, surplus slows; balanced has no net effect on AD.	★★	4.3.4, 4.4.4
9	Pump priming = one-shot public spending to revive a depressed economy.	★★	4.3.5, 4.2.6
10	Govt spending → incomes + multiplier → output and employment; financed by borrowing or monetisation.	★★	4.4.1, 4.4.2, 4.1.7
11	Taxes: main revenue source; cut in recession, raised in inflation.	★	4.4.3
12	Redistribution: progressive direct taxes, differential indirect taxes, welfare spending.	★	4.4.5, 4.1.5
13	Lags: recognition, decision, implementation, impact (results not yet visible).	★★	4.4.6
14	Limits: rigid spending, long gestation, disincentives, price spiral, debt burden on future generations.	★★	4.4.7, 4.1.8

#	One-liner	Weight	Part A ref
15	Crowding out: govt borrowing → higher interest → less private investment; unlikely in deep recession.	★★	**4.4.8, 4.4.9**

CHAPTER 8

Money Market

201 Scanner questions · 101 one-liners · 53 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: The Concept of Money Demand: Important Theories

SM Chapter 8, Unit 1, pages 8.1 – 8.18

Topic 1.1 Introduction

5 Scanner questions · frequency PYQ 3 · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.1	Money is anything that serves as a store of value (people save it and use it later), a unit of account (a common base for prices) and a medium of exchange; the Summary adds the 'common measure of value' and 'standard of deferred payments'. Being easily reproducible is NOT a function.	Q1, Q4	PYQ 2024-Sep; MTP 2025-Aug S2	1.1, p. 8.2; Summary, p. 8.16
1.1.2	Money should be generally acceptable; durable or long-lasting; effortlessly recognisable; difficult to counterfeit, i.e. NOT easily reproducible by people; relatively scarce but with elasticity of supply; portable or easily transported; possessing uniformity; and divisible without losing value. 'Perishable' and 'easily reproducible' are NOT characteristics.	Q1, Q2, Q3	PYQ 2024-Sep, 2025-Jan, 2026-May	1.1, pp. 8.3 – 8.4
1.1.3	Fiat money is materially worthless but has value simply because a nation collectively agrees to ascribe a value to it (money works because people believe it will); its source has moved from individuals (barter) to governments.	Q5	MTP 2026-Apr S1	1.1, p. 8.3

Topic 1.2 The Demand for Money

4 Scanner questions · frequency PYQ 2 · RTP 1 · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	The demand for money is a derived demand and a demand for real balances, i.e. nominal money adjusted to the price level, because people want command over real goods and services.	Q1	PYQ 2024-Sep	1.2, pp. 8.4 – 8.5
1.2.2	Nominal money demand depends on income, the general price level, the rate of interest, real GDP and the degree of financial innovation. Higher income and higher prices raise it; a higher interest rate (the opportunity cost of holding money) lowers it, so money demand rises as the interest rate falls. The fiscal deficit is NOT a direct determinant.	Q2, Q3	RTP 2025-May; MTP 2025-Jan S2, 2025-Apr S1	1.2, p. 8.5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.3	See Unit 8.3, Topic 3.3: in the saving and investment channel, lower interest rates on bank deposits reduce households' incentive to save and increase their incentive to spend.	Q4	PYQ 2026-Sep	3.3.2, p. 8.46 (Unit 3)

Topic 1.3 Theories of Demand for Money

43 Scanner questions · frequency PYQ 11 · RTP 1 · MTP 18 · Model Q 20

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.1	Quantity Theory of Money (Irving Fisher, 'The Purchasing Power of Money', 1911): the quantity of money is the main determinant of the price level or the value of money. More money raises the price level (inflation); with V and T constant, P rises in proportion to M. The value of money is inversely related to the price level.	Q7, Q16; MQ 1.1: Q1	PYQ 2026-Jan; RTP 2026-Jan; MTP 2025-Jan S2, 2025-Apr S1, 2025-May S2; Model Q	1.3.1, p. 8.5
1.3.2	Fisher's equation of exchange (transaction approach): MV = PT, where M = money in circulation, V = transactions velocity of circulation, P = average price level (P = MV/T) and T = total number of transactions; the extended form is MV + M'V' = PT. It becomes the quantity theory by taking V (and V') as constant and T as fixed in the short run (full employment), so it relates money supply to the price level.	Q22; MQ 1.2.1: Q1, Q2	MTP 2026-Apr S2; Model Q ×2	1.3.1, pp. 8.5 – 8.6
1.3.3	Fisher numericals: rearrange MV = PT, so V = PT/M, P = MV/T and M = PT/V. Keep the units consistent (₹ crore ÷ number of transactions gives ₹ crore; ₹0.25 crore = ₹25 lakh).	Q23 (+ 2.1 Q1)	PYQ 2024-Jun, 2024-Sep, 2026-Sep	1.3.1, p. 8.6
1.3.4	In Fisher's version the total volume of transactions multiplied by the price level (PT) is the demand for money, and the more transactions people want, the greater the demand for money. Demand (PT) equals supply (MV + M'V'), but Fisher focused on the supply (quantity) of money as determining prices.	Q15, Q19; MQ 1.2.3: Q2	MTP 2025-May S2, 2026-Apr S1; Model Q	1.3.1, p. 8.6; 1.5, p. 8.15
1.3.5	Cambridge cash-balance approach (Marshall, Pigou, Robertson, Keynes): Md = kPY, where Md = demand for money balances, Y = real national income, P = average price level, PY = nominal income and k ('Cambridge k') = the proportion of nominal income people want to hold as cash balances. Demand for money is k times total money income, so it is proportional to income.	Q3, Q9; MQ 1.1: Q2; MQ 1.2.2: Q1, Q2	PYQ 2025-May; MTP 2024-Dec S1; Model Q ×3	1.3.2, p. 8.7
1.3.6	The Cambridge version shifted the focus of the quantity theory to money demand: money is demanded for itself, both for transactions and as a temporary store of wealth (precautionary). So under the Cambridge approach the value of money depends on the demand for money, whereas Fisher stressed its supply.	Q4	MTP 2024-Dec S1	1.3.2, pp. 8.6 – 8.7; 1.5, p. 8.15

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.7	Cambridge: how much money is demanded depends partly on income and partly on other factors, chiefly wealth and interest rates, but the neoclassical theory hypothesised money demand as a function of money income only. It was Keynes who formally introduced the interest rate.	MQ 1.2: Q2	Model Q	1.3.2, p. 8.7; 1.5, p. 8.15
1.3.8	Keynes's 'Liquidity Preference Theory' ('The General Theory', 1936): people hold money for three motives, namely transactions, precautionary and speculative. An 'investment motive' is not one of them. Money demand rises with income (transactions and precautionary motives) and is inversely related to the interest rate (speculative motive).	MQ 1.1: Q1; MQ 1.2: Q1; MQ 1.2.3: Q1, Q2, Q3	Model Q ×5	1.3.3, p. 8.8
1.3.9	Transactions motive: 'the need for cash for current transactions for personal and business exchange', which arises from the lack of synchronisation between receipts and expenditure (income motive and business motive). It is not affected by interest rates and is a directly proportional, positive function of income: Lr = kY (k = ratio of earnings kept for transactions, Y = earnings).	Q1, Q6, Q14; MQ 1.2.3: Q1	PYQ 2024-Jun, 2026-May; MTP 2025-Jan S2, 2025-Apr S1; Model Q	1.3.3 (a), p. 8.8
1.3.10	Precautionary motive: money is held to meet unforeseen and unpredictable contingencies. The amount depends on the size of income, prevailing economic and political conditions, and personal traits such as optimism or pessimism and farsightedness. It is income elastic and not very sensitive to the interest rate, so higher income or greater uncertainty raises it.	MQ 1.2.3: Q1, Q2	Model Q ×2	1.3.3 (b), pp. 8.8 – 8.9
1.3.11	Speculative motive: the desire to hold cash so as to exploit any attractive investment opportunity requiring cash, i.e. to take advantage of future changes in the interest rate (bond prices). When people expect interest rates to rise (bond prices to fall), they hold cash, so speculative demand rises. Speculative demand and the interest rate are inversely related.	Q2, Q12; MQ 1.2.3: Q1, Q2	PYQ 2024-Jun, 2026-Jan; Model Q ×2	1.3.3 (c), pp. 8.9 – 8.11
1.3.12	Liquidity trap is the extreme effect of monetary policy. At a near-zero short-term interest rate the public will hold whatever money is supplied rather than bonds, and speculative demand becomes perfectly elastic (the curve is parallel to the X-axis). A rise in money supply then changes neither the interest rate nor income, so monetary policy is ineffective.	Q5, Q10, Q11, Q17, Q18, Q21	PYQ 2024-Jun, 2025-May, 2025-Sep; MTP 2024-Dec S1, 2025-Aug S1, 2025-Aug S2, 2025-Dec S1 (×2), 2026-Apr S2	1.3.3, p. 8.11; Summary, p. 8.17
1.3.13	Keynes treats the 'rate of interest' as the return on bonds; the SM does not distinguish nominal from real interest rates.	MQ 1.3: Q1	Model Q	Not in SM (Model Q only); cf. 1.3.3, p. 8.9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.3.14	The view that inflation is caused mainly by excessive growth in money supply is the monetarist (Friedman) position. The nearest SM statement is the QTM's: the quantity of money is the main determinant of the price level.	MQ 1.3.2: Q1	Model Q	Not in SM (Model Q only); cf. 1.3.1, p. 8.5
1.3.15	See Unit 8.2, Topic 2.7: when the required reserve ratio falls, the same reserves support more deposits, so money supply increases.	Q8	MTP 2025-Jan S2	2.7 (b), pp. 8.29 – 8.30 (Unit 2)
1.3.16	*See Topic 1.4: the Baumol–Tobin inventory-theoretic approach assumes two media for storing value (money and an interest-bearing financial asset) and holds money so as to minimise the cost of transfers and interest forgone.*	Q13, Q20	PYQ 2026-May; MTP 2026-Apr S1	1.4.1, pp. 8.12 – 8.13

Topic 1.4 Post-Keynesian Developments in the Theory of Demand for Money

19 Scanner questions · frequency PYQ 6 · RTP – · MTP 5 · Model Q 9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.1	Money demand depends on income, the price level, the interest rate, real GDP and financial innovation. All the theories relate it positively to real income and inversely to the interest rate; real income, interest rates and inflation expectations are its significant predictors. Money supply does not determine money demand.	MQ 1.2: Q1	Model Q	1.2, p. 8.5; 1.5, p. 8.16
1.4.2	Post-Keynesian theories emphasise the store-of-value (asset) function of money. The SM covers three of them: the Baumol–Tobin inventory approach, Friedman's restatement of the quantity theory, and Tobin's demand for money as behaviour toward risk.	MQ 1.3: Q1	Model Q	1.4, p. 8.12
1.4.3	Inventory Theoretic Approach (Baumol 1952, Tobin 1956): real cash balance is an inventory held for transactions. There are two media for storing value, money and an interest-bearing financial asset, with a fixed cost (e.g. brokerage) of switching between them. The cost of holding money is its opportunity cost, the interest forgone, so keeping savings in deposits and withdrawing small amounts of cash as needed is Baumol's inventory approach.	Q10; MQ 1.3.1: Q1, Q2 (+ 1.3 Q13)	PYQ 2026-May, 2026-Sep; Model Q ×2	1.4.1, pp. 8.12 – 8.13
1.4.4	Baumol: the cost-minimising average cash withdrawal is C = √(2bY/r) (Square Root Rule), and people combine cash and bonds so as to minimise total cost. The optimal average money holding is a positive function of income Y, the price level P and transaction costs c, and a negative function of the nominal interest rate i.	Q5, Q8 (+ 1.3 Q20)	PYQ 2026-Jan; MTP 2025-Aug S1, 2026-Apr S1	1.4.1, p. 8.13; Summary, p. 8.17

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.4.5	Friedman (1956) treats the demand for money as an application of a more general theory of demand for capital assets. It depends on permanent income (not current income) and the relative returns on assets. Nominal money demand is a function of total wealth, is positively related to the price level, rises when returns on bonds and stocks fall, and is reduced by inflation.	Q2, Q3, Q7	PYQ 2025-Sep; MTP 2024-Aug S2, 2024-Dec S1, 2025-Aug S1	1.4.2, p. 8.14
1.4.6	Model questions on Friedman's views on inflation and velocity are not in the SM, whose Friedman section covers only the money-demand function (above). Keyed answers: (b) inflation is mainly determined by changes in money supply; (c) velocity — doubtful, see the editorial note.	MQ 1.3.2: Q1, Q2	Model Q ×2	Not in SM (Model Q only)
1.4.7	Tobin, demand for money as behaviour toward risk ('aversion to risk'): people prefer less risk to more at a given return, so they diversify between safe money (cash and demand deposits: almost zero risk, no return) and risky bonds and shares. A larger share of bonds and shares brings a higher return and higher risk; money is the safe, liquid asset, so greater uncertainty raises a risk-averter's money holding.	Q1, Q9; MQ 1.3.3: Q1, Q2, Q3	PYQ 2024-Sep, 2026-Sep; Model Q ×3	1.4.3, pp. 8.14 – 8.15; Summary, p. 8.18
1.4.8	Tobin's liquidity preference function relates the rate of interest to the demand for money. At a higher interest rate people hold more bonds and less money, so the asset-demand curve slopes downwards.	Q4	PYQ 2026-Jan	1.4.3, p. 8.15
1.4.9	The SM's real-life example of a liquidity trap is the Bank of Japan, where money printed was hoarded in anticipation of further deflation (10-year yield 0.2 per cent). The MTP keys the Global Financial Crisis, which is not in the SM.	Q6	MTP 2025-Aug S1	Not in SM (MTP-only); cf. 1.3.3, p. 8.12

Topic 1.5 Conclusion

2 Scanner questions · frequency PYQ – · RTP – · MTP 2 · Model Q 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.5.1	Fisher focused on the supply of money as determining prices and the Cambridge approach on demand for real money against real income. Keynes formally introduced the interest rate as an explanatory variable of the demand for real balances.	Q1 (+ 1.3 MQ 1.2 Q2)	MTP 2025-Aug S2, 2025-Dec S1; Model Q	1.5, p. 8.15
1.5.2	Post-Keynesian models relate real money balances to real income and interest rates. All the theories give a positive relation to real income and an inverse relation to the interest rate, and real income, interest rates and inflation expectations are significant predictors.	MQ 1.3: Q1 (+ 1.4 MQ 1.2 Q1)	Model Q ×2	1.5, pp. 8.15 – 8.16

Unit 2: The Concept of Money Supply

SM Chapter 8, Unit 2, pages 8.22 – 8.39

Topic 2.1 Introduction

5 Scanner questions · frequency PYQ 2 · RTP – · MTP 3 · Model Q 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	Money supply is a stock: the total amount of money available to the 'public' as a means of payment and store of value at a particular point of time. It excludes inter-bank deposits.	MQ 1.1: Q1 (+ 2.4 Q10)	RTP 2025-May; Model Q	Summary, p. 8.37
2.1.2	Economic stability requires money supply to be kept at an optimum level, so its stock must be estimated accurately and regularly and regulated to the country's monetary requirements. This makes it the indicator of funds available for spending.	MQ 1.2: Q1	Model Q	2.1, p. 8.23; 2.2, pp. 8.24 – 8.25
2.1.3	Broad money is M3 = M1 + time deposits with the banking system.	Q3	MTP 2025-Aug S1, 2025-Dec S1	2.1, p. 8.24
2.1.4	See Unit 8.1, Topic 1.3: P = MV/T = ₹500 crore × 5 ÷ 10,000 = ₹0.25 crore = ₹25 lakh.	Q1	PYQ 2024-Jun, 2024-Sep	1.3.1, p. 8.6 (Unit 1)
2.1.5	Call money, certificates of deposit, trade bills and commercial paper are all money-market instruments. The SM mentions certificates of deposit and commercial paper only as broad-money securities.	Q2	MTP 2025-Aug S1	Not in SM (MTP-only); cf. 1.1, p. 8.4

Topic 2.2 Rationale of Measuring Money Supply

5 Scanner questions · frequency PYQ 1 · RTP 1 · MTP 1 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	Measuring money supply matters from a monetary-policy perspective: it shows whether the stock of money is consistent with price stability. Central banks adopt monetary policy to stabilise the price level and GDP growth by directly controlling the supply of money, mainly by managing the monetary base.	MQ 1.2: Q1; MQ 1.4: Q1; MQ 1.8: Q1	Model Q ×3	2.2, pp. 8.24 – 8.25
2.2.2	'Public' means all economic units (households, firms, institutions) except the producers of money, i.e. the government and the banking system. Money held by the government and the banking system (including currency held by the central bank) and inter-bank deposits are not part of money supply.	Q1, Q2	PYQ 2025-Jan; RTP 2026-Jan; MTP 2025-Jan S2	2.1, p. 8.24

Topic 2.3 The Sources of Money Supply

8 Scanner questions · frequency PYQ 4 · RTP 3 · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	Currency issued by the central bank is 'fiat money': legal tender issued exclusively by the sovereign (or the central bank as its representative), backed by supporting reserves, with its value guaranteed by the government. Currency notes, not gold or silver coins, are fiat money.	Q1, Q2, Q3	PYQ 2024-Jun, 2024-Sep, 2025-Jan	2.3, p. 8.25
2.3.2	The central bank (RBI in India) is the primary source of money supply. Its high-powered money (currency plus bank reserves) is the source of all other forms of money. Paper currency is representative money, a debt instrument issued under a 'minimum reserve system'.	Q5, Q6, Q8	RTP 2025-Jan, 2025-May; MTP 2026-Apr S1	2.3, p. 8.25; 2.5, p. 8.27
2.3.3	The second major source is the banking system. Banks create money through borrowing and lending with the public; this 'credit money' rests on deposits under fractional-reserve banking.	Q4, Q7 (+ 3.3 Q42)	PYQ 2025-Jan; RTP 2025-May; MTP 2026-Apr S2	2.3, p. 8.25; 2.9, p. 8.34
2.3.4	Crypto currencies face significant legislative uncertainties, are not legally recognised in India as currency, and so are not categorised as money.	(+ 2.5 Q15)	PYQ 2025-Sep	2.3, p. 8.26

Topic 2.4 Measurement of Money Supply

14 Scanner questions · frequency PYQ 10 · RTP 4 · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.1	The RBI's four measures (since April 1977, on the Second Working Group's recommendation): • M1 = currency notes and coins with the people + demand deposits with the banking system (current and savings) + other deposits with the RBI • M2 = M1 + savings deposits with post office savings banks • M3 = M1 + (net) time deposits with the banking system (broad money) • M4 = M3 + total post office deposits (excluding NSCs) Time deposits are NOT in M1.	Q1, Q3, Q6, Q9	PYQ 2024-Jun, 2025-May; RTP 2024-Sep, 2025-Jan, 2025-Sep; MTP 2024-Dec S1	2.4, p. 8.27; Summary, p. 8.38
2.4.2	Money-aggregate numericals: add only the listed components. • M1 = currency and coins with the public + demand deposits + other deposits with the RBI • M3 = M1 + time deposits (post office deposits are excluded) • M4 = M3 + total post office deposits (excluding NSCs)	Q4, Q12, Q13, Q14	PYQ 2025-Sep, 2026-Sep (×3)	2.4, p. 8.27; Illustration 1, pp. 8.35 – 8.36
2.4.3	Currency with the public = notes in circulation + circulation of rupee coins + circulation of small coins − cash (notes and coins) on hand with banks.	Q2, Q5, Q7 (+ 2.9 Q1)	PYQ 2024-Jun, 2025-Jan, 2025-May, 2026-May; RTP 2025-Sep; MTP 2025-Apr S1	Illustration 3, p. 8.36
2.4.4	Broad money (M3) includes currency, deposits with an agreed maturity of up to two years, deposits redeemable at notice of up to three months, repurchase agreements, money market fund shares/units and debt securities up to two years.	Q8	PYQ 2025-May	2.1, p. 8.24

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.5	Money supply is the total volume of money held by the public at a particular point of time, i.e. a stock rather than a flow over a period.	Q10	RTP 2025-May	Summary, p. 8.37
2.4.6	*See Topic 2.7: when the public holds more currency relative to deposits, the money multiplier and the money supply fall.*	Q11	MTP 2026-Apr S1	2.7 (c), p. 8.31

Topic 2.5 Determinants of Money Supply

21 Scanner questions · frequency PYQ 13 · RTP – · MTP 9

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.1	The money multiplier depends on three ratios: the currency ratio c (set by the public), the excess-reserves ratio e (set by banks) and the required reserve ratio r (set by the central bank). The reserve ratio therefore carries the central bank's policy influence.	Q20	MTP 2026-Apr S2	2.7, p. 8.32
2.5.2	Money multiplier m = money supply ÷ monetary base: the ratio that relates a change in money supply to a given change in the monetary base (high-powered money). So M = m × MB.	Q1, Q7	PYQ 2024-Jun; MTP 2024-Dec S1	2.6, p. 8.28
2.5.3	Multiplier numericals: m = M ÷ MB (or ΔM ÷ ΔMB) and MB = M ÷ m. For example, a ₹100 crore OMO injection that raises money supply by ₹500 crore gives m = 5.	Q4, Q11, Q16, Q19	PYQ 2024-Sep, 2025-Jan, 2025-Sep, 2026-May	2.6, p. 8.28
2.5.4	Credit (deposit) multiplier = 1 ÷ required reserve ratio. So credit created = initial deposit × 1/RRR, RRR = initial deposit ÷ credit created, and ΔMoney supply = (1/R) × ΔReserves.	Q5, Q8, Q12, Q14, Q17	PYQ 2024-Sep, 2025-Jan, 2025-Sep, 2026-Jan; MTP 2024-Dec S1	2.9, p. 8.34; Illustration 2, p. 8.36; 2.8, p. 8.33
2.5.5	The monetary base is also called high-powered money, reserve money, base money or central bank money; it equals currency in circulation + bank reserves. Narrow money (M1) is a different aggregate. Money supply varies directly with the monetary base (M = m × H) and inversely with the currency and reserve ratios.	Q6, Q21	MTP 2024-Dec S1, 2026-Apr S2	2.5, p. 8.27; 2.7, p. 8.31; Summary, p. 8.38
2.5.6	Excess reserves = total reserves − required reserves (ER = TR − RR). Excess reserves create no deposits, so when banks hold fewer excess reserves the multiplier and the money supply rise.	Q2, Q3, Q10	PYQ 2024-Sep; MTP 2024-Aug, 2024-Dec S1, 2025-Aug S2	2.7 (b), p. 8.30; Summary, p. 8.39
2.5.7	With currency and excess reserves, m = (1 + c)/(r + e + c), where c = C/D and e = ER/D. For example, with r = 0.10, c = 0.5 and e = 0.001, m = 1.5/0.601 = 2.5.	Q9	MTP 2024-Dec S1	2.7, pp. 8.32 – 8.33; Illustration 4, p. 8.37
2.5.8	The smaller the currency–deposit ratio, the larger the money multiplier. A rise in the time deposit–demand deposit (TD/DD) ratio frees more reserves and enlarges multiple deposit expansion and monetary expansion.	Q13, Q18	PYQ 2025-May, 2026-Jan	2.7 (c), p. 8.31

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.5.9	*See Topic 2.3: crypto currencies are not legally recognised in India as currency and are not categorised as money.*	Q15	PYQ 2025-Sep	2.3, p. 8.26

Topic 2.6 The Concept of Money Multiplier

4 Scanner questions · frequency PYQ – · RTP – · MTP 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.6.1	Money supply = money multiplier × monetary base (M = m × MB), and money is either currency held by the public or bank deposits (M = C + D).	Q1	MTP 2025-Aug S2	2.6, p. 8.28
2.6.2	The simple money multiplier = 1/R (e.g. R = 10% gives 10; R = 20% gives 5). A higher reserve ratio means a smaller multiplier, and money held as currency is not multiplied, so more currency holding by the public reduces m.	Q3, Q4	MTP 2026-Apr S1, 2026-Apr S2	2.6, pp. 8.28 – 8.29
2.6.3	A high money multiplier turns each unit of base money into more money supply and so raises inflation risk. The SM says only that reserve money determines liquidity and the price level.	Q2	MTP 2025-Aug S2	Not in SM (MTP-only); cf. Summary, p. 8.38

Topic 2.7 The Money Multiplier Approach to Supply of Money

7 Scanner questions · frequency PYQ 2 · RTP 3 · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.7.1	Reserve ratio: a higher required reserve ratio forces banks to contract loans, so deposits and money supply fall (the tool for reducing money supply). A lower ratio, such as a CRR cut, lets the same reserves support more deposits, so lending capacity and money supply rise.	Q1, Q2, Q3 (+ 1.3 Q8)	RTP 2025-Jan, 2025-Sep; MTP 2025-Jan S2 (×3), 2025-Apr S1	2.7 (b), pp. 8.29 – 8.30
2.7.2	The currency–deposit ratio c = C/D (currency held by the public ÷ bank deposits) measures how far people have adopted banking habits. The money multiplier and money supply are negatively related to c.	Q4, Q5 (+ 2.4 Q11)	PYQ 2026-May; RTP 2025-May; MTP 2025-May S2, 2026-Apr S1	2.7 (c), p. 8.31
2.7.3	With excess reserves the money multiplier is m = (1 + c)/(r + e + c), and M = [(1 + c)/(r + e + c)] × H.	Q6	MTP 2025-Aug S1	2.7, p. 8.32
2.7.4	M = m × MB shows the relationship between reserve money and the total money stock.	Q7	PYQ 2026-Sep	Summary, p. 8.38

Topic 2.8 Monetary Policy and Money Supply

2 Scanner questions · frequency PYQ 1 · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.8.1	Open market operations: a central-bank purchase of government securities injects high-powered money, and credit creation then gives ΔMoney supply = (1/R) × ΔReserves. An open market sale works in the opposite direction, reducing reserves and money supply.	Q1, Q2	PYQ 2026-Jan; MTP 2026-Apr S1	2.8, p. 8.33

Topic 2.9 Effect of Government Expenditure on Money Supply

2 Scanner questions · frequency PYQ 2 · RTP 1 · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.9.1	Credit multiplier = 1/RRR, so RRR = 1 ÷ credit multiplier (a multiplier of 4 gives 25%).	Q2	PYQ 2026-May	2.9, p. 8.34
2.9.2	*See Topic 2.4: currency with the public = notes in circulation + rupee coins + small coins − cash on hand with banks.*	Q1	PYQ 2026-May; RTP 2025-Sep; MTP 2025-Apr S1	Illustration 3, p. 8.36

Unit 3: Monetary Policy

SM Chapter 8, Unit 3, pages 8.44 – 8.53

Topic 3.1 Introduction

2 Scanner questions · frequency PYQ – · RTP – · MTP 3 · Model Q 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.1	RBI uses monetary policy to manage economic fluctuations and achieve price stability (low and stable inflation) by adjusting the supply of money. Its primary objective is a judicious balance between price stability and economic growth.	MQ 1.1: Q1 (+ 2.2 MQ 1.8 Q1)	Model Q ×2	3.2, p. 8.45; 3.3.1, p. 8.45
3.1.2	Hawtrey: the trade cycle is a (purely) monetary phenomenon.	Q1	MTP 2024-Aug, 2025-Jan S2, 2025-Aug S2	Not in SM Chapter 8 (MTP-only)

Topic 3.2 Monetary Policy Defined

3 Scanner questions · frequency PYQ 1 · RTP 2 · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.2.1	In India monetary policy is implemented by the RBI, which uses it to manage economic fluctuations (the business cycle) and to achieve price stability.	Q1, Q2	PYQ 2021-Dec; MTP 2024-Aug	3.2, p. 8.45
3.2.2	RBI conducts monetary policy by adjusting money supply, usually through OMOs. These affect short-term interest rates, which in turn affect longer-term rates and economic activity, so monetary policy works by directly influencing the interest rate. Lowering rates is easing; raising them is tightening.	Q3 (+ 3.3 Q33)	RTP 2024-Sep, 2025-Jan; MTP 2025-Dec S1	3.2, p. 8.45; 3.3.2, p. 8.46

Topic 3.3 The Monetary Policy Framework

44 Scanner questions · frequency PYQ 19 · RTP 2 · MTP 29

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.1	Objectives: the RBI Act, 1934 preamble aims at securing monetary stability. The primary objective is a judicious balance between price stability and economic growth, the most common goals being controlling inflation and growth. Developing countries add growth, adequate credit flow to productive sectors, a moderate interest-rate structure and an efficient government-securities market.	Q9, Q11, Q16	PYQ 2025-Sep; RTP 2025-Sep; MTP 2025-Jan S2 (×2)	3.3.1, pp. 8.45 – 8.46; Summary, p. 8.51
3.3.2	MTP label: the 'stabilisation objective' is the one focused on employment and growth. The SM says only that monetary policy promotes growth, price stability, optimum output and employment.	Q38	MTP 2026-Apr S1	Not in SM (MTP-only); cf. Summary, p. 8.51
3.3.3	Channels of monetary policy transmission in the SM are the saving and investment channel, the cash-flow channel, the asset prices and wealth channel, and the exchange rate channel; the Summary adds the interest rate, quantum and credit channels. 'International trade channel' and 'open market channel' are NOT channels.	Q1, Q20	PYQ 2024-Jun, 2026-Jan	3.3.2, pp. 8.46 – 8.48; Summary, p. 8.51
3.3.4	Saving and investment channel: lower deposit rates reduce households' incentive to save and increase their incentive to spend. Lower lending rates encourage borrowing and business investment.	(+ 1.2 Q4)	PYQ 2026-Sep	3.3.2, pp. 8.46 – 8.47
3.3.5	Monetary-policy instruments are RBI tools: CRR, SLR, OMO, bank rate, LAF (repo and reverse repo), MSF and the qualitative tools. Tax rates and public expenditure are fiscal, not monetary, instruments.	Q8, Q25	RTP 2026-Jan; MTP 2025-Jan S2, 2025-Aug S1	3.3.3, pp. 8.48 – 8.49
3.3.6	Quantitative tools act on money supply in the whole economy: the reserve ratios (CRR, SLR) and OMO. Qualitative (selective) tools act on specific sectors: margin requirements, moral suasion, selective credit control and MSS. The SM lists bank rate, LAF and MSF separately as 'policy rates'.	Q14, Q17, Q28	PYQ 2025-May, 2025-Sep; MTP 2025-May S2, 2025-Aug S1	3.3.3, pp. 8.48 – 8.49
3.3.7	CRR is the portion of NDTL a bank must keep as cash with the RBI, which it can neither lend nor earn interest on. SLR is the portion kept in liquid assets (gold or RBI-approved government securities), which earns low interest. Raising reserve ratios curbs lending and inflation, and CRR, SLR and repo all affect bank lending capacity.	Q10, Q31, Q37	MTP 2025-Jan S2, 2025-May S2, 2025-Aug S2, 2026-Apr S2, 2026-Apr S1	3.3.3, p. 8.48; Summary, p. 8.52
3.3.8	CRR numerical: additional cash to be kept with the RBI = NDTL × rise in CRR. For example, ₹1,800 crore × (4.5% − 3%) = ₹27 crore.	Q43	PYQ 2026-Sep	Summary, p. 8.52; 3.3.3, p. 8.48

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.9	OMO: the RBI buys and sells government securities in the open market to control money supply. Sales absorb liquidity; purchases inject it and raise bank reserves. The objective is to check temporary liquidity mismatches arising from foreign capital flows, adjusting rupee liquidity regularly.	Q2, Q12, Q19, Q30	PYQ 2024-Jun, 2025-Sep; MTP 2025-Jan S2, 2025-Aug S2	3.3.3, pp. 8.48 – 8.49; Summary, p. 8.53
3.3.10	Margin requirements: the RBI prescribes a margin against collateral, so a higher margin means less borrowing. Moral suasion: the RBI persuades banks to keep money in government securities rather than lend to certain sectors. Selective credit control: credit is controlled by not lending to selective industries or speculative businesses.	Q21, Q23, Q28	PYQ 2026-Jan, 2026-May; MTP 2025-Aug S1	3.3.3, p. 8.49
3.3.11	Bank rate is the rate at which the RBI lends long-term funds to banks and the standard rate at which it buys or rediscounts bills of exchange. It is also used as a penalty for failing to maintain CRR or SLR. A higher bank rate makes borrowing dearer and discourages borrowing and spending, and a lower bank rate can offset a CRR increase.	Q3, Q24, Q41 (+ 3.4 Q5)	PYQ 2024-Jun; MTP 2025-May S2, 2025-Aug S1, 2025-Aug S2, 2026-Apr S2	3.3.3, p. 8.49; Summary, p. 8.53
3.3.12	The Liquidity Adjustment Facility (LAF), introduced on the Narasimham Committee's recommendations, adjusts liquidity and money supply through repo and reverse repo.	Q7, Q29	PYQ 2025-Jan; MTP 2025-Aug S1	3.3.3, p. 8.49; Summary, p. 8.52
3.3.13	Repo rate: the rate at which banks borrow short-term from the RBI against government securities under a repurchase agreement. Reverse repo rate: the rate the RBI pays banks to keep surplus funds with it (banks lend to the RBI), which absorbs liquidity and earns banks interest income. Reverse Repo Rate = Repo Rate − 1.	Q4, Q5, Q15, Q34, Q35	PYQ 2024-Sep, 2025-May; MTP 2024-Dec S1, 2025-Dec S1 (×2)	3.3.3, p. 8.49; Summary, pp. 8.52 – 8.53
3.3.14	MSF rate: the penal rate at which the RBI lends overnight to banks over and above the repo (LAF) window. Banks borrow by dipping into their SLR securities, up to 1% of them. MSF Rate = Repo Rate + 1.	Q6, Q13, Q18, Q32	PYQ 2025-Jan, 2025-May, 2025-Sep; MTP 2025-Aug S2	3.3.3, p. 8.49; Summary, p. 8.53
3.3.15	Market Stabilisation Scheme (MSS): the Government of India borrows from the RBI, over and above its normal borrowing, and issues treasury bills or dated securities. MSS money is not for normal government expenditure. Treasury bills are Government of India securities, issued through the RBI.	Q26, Q27	MTP 2025-Aug S1 (×2)	Summary, p. 8.53
3.3.16	Quantitative easing: the central bank increases money supply by buying financial assets.	Q36	MTP 2026-Apr S1	Not in SM (MTP-only)
3.3.17	Macro-prudential policy measures are aimed at systemic risk.	Q40	MTP 2026-Apr S1	Not in SM (MTP-only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.18	See Unit 8.1, Topic 1.3: in a liquidity trap monetary policy is ineffective (the SM frames this for expansionary policy).	Q39	MTP 2026-Apr S1	1.3.3, p. 8.11 (Unit 1)
3.3.19	See Unit 8.2, Topic 2.3: creating credit (credit money) is done by commercial banks; the central bank issues currency (high-powered money).	Q42	MTP 2026-Apr S2	2.3, p. 8.25 (Unit 2)
3.3.20	*See Topic 3.2: monetary policy is directed at directly influencing the interest rate to affect spending in the short run.*	Q33	MTP 2025-Dec S1	3.2, p. 8.45
3.3.21	*See Topic 3.4: the MPFA is an agreement between the Government of India and the RBI on the maximum tolerable inflation rate the RBI should target.*	Q22, Q44	PYQ 2026-May, 2026-Sep	3.4, p. 8.50

Topic 3.4 The Organisational Structure for Monetary Policy Decisions

7 Scanner questions · frequency PYQ 3 · RTP – · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.4.1	The RBI Act was amended on 27 June 2016 to give statutory backing to the MPFA (a Government of India–RBI agreement on the maximum tolerable inflation rate) and the MPC, under flexible inflation targeting. The Government sets the target in consultation with the RBI once every five years: 4% CPI inflation for 5 August 2016 to 31 March 2021, with a 6% upper and 2% lower tolerance limit (4% ± 2%).	Q3, Q4, Q7 (+ 3.3 Q22, 3.3 Q44)	PYQ 2026-Jan, 2026-May (×2), 2026-Sep; MTP 2025-Dec S1	3.4, p. 8.50; Summary, p. 8.53
3.4.2	The RBI must publish a Monetary Policy Report every six months, explaining the sources of inflation and forecasting inflation for the coming six to eighteen months.	Q1, Q2	PYQ 2024-Sep; MTP 2024-Dec S1	3.4, p. 8.50
3.4.3	The six-member Monetary Policy Committee (MPC) sets the policy (repo) rate to achieve the inflation target, by debate and majority vote.	Q6	MTP 2025-Aug S1, 2025-Dec S1	Summary, p. 8.53
3.4.4	*See Topic 3.3: the bank rate is the rate at which the RBI lends long-term funds to banks.*	Q5	MTP 2025-May S2	3.3.3, p. 8.49

Topic 3.5 Conclusion

4 Scanner questions · frequency PYQ – · RTP 1 · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.1	Challenges in an emerging market like India include rudimentary and non-competitive financial systems and the lack of integrated money and interbank markets. Instruments such as the bank rate and OMO need a well-developed money, bill and securities market to work.	Q1, Q4	RTP 2025-May; MTP 2025-May S2	3.5, p. 8.51

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.2	Explicit inflation targeting needs operational autonomy for the central bank and good coordination between the fiscal and monetary authorities, so inflation is controlled through monetary and fiscal policies together.	Q2	MTP 2025-May S2	3.5, p. 8.51
3.5.3	Call money: banks borrow from each other (overnight) to maintain their cash reserve ratio.	Q3	MTP 2025-Aug S1	Not in SM (MTP-only)

Part B — Chapter 8 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 43% of ICAI appearances in this chapter.

Unit 1 — The Concept of Money Demand: Important Theories

#	One-liner	Weight	Part A ref
1	Functions of money: store of value, unit of account, medium of exchange (and standard of deferred payments).	★	1.1.1
2	Characteristics of money: acceptable, durable, recognisable, hard to counterfeit, scarce, portable, uniform, divisible. Perishable or easily reproducible money fails.	★★	1.1.2
3	Fiat money is worthless as material; it has value only because people collectively agree it does.	★	1.1.3
4	Money demand is a derived demand for real balances (nominal money ÷ price level).	★	1.2.1
5	Determinants: income (+), price level (+), interest rate (−, the opportunity cost), real GDP, financial innovation. The fiscal deficit is not one.	★★	1.2.2, 1.4.1
6	**Fisher (1911): MV = PT, extended to MV + M'V' = PT. With V and T constant, P varies in proportion to M.**	★★★	1.3.1, 1.3.2
7	Numericals: V = PT/M and P = MV/T. Watch crore and lakh conversions.	★★	1.3.3
8	Fisher: PT is the demand for money and the supply of money determines prices. Cambridge: the value of money depends on demand.	★★	1.3.4, 1.3.6
9	Cambridge: Md = kPY, where k = the share of nominal income held as cash and Y = real national income.	★	1.3.5
10	Keynes (1936), liquidity preference: transactions, precautionary and speculative motives. There is no 'investment motive'.	MQ	1.3.8
11	Transactions motive: Lr = kY, depends on income and not on the interest rate.	★★	1.3.9
12	Precautionary motive: covers unforeseen contingencies; depends on income, conditions and personality.	MQ	1.3.10
13	Speculative motive: exploit investment opportunities; inversely related to the interest rate. Expecting rates to rise means holding cash.	★	1.3.11
14	**Liquidity trap: interest rate near 0, speculative demand perfectly elastic, curve parallel to the X-axis, monetary policy ineffective.**	★★★	1.3.12, 1.4.9
15	Post-Keynesian theories stress money as an asset (store of value).	MQ	1.4.2
16	Baumol–Tobin inventory approach: two media (money and an interest-bearing asset); opportunity cost = interest forgone.	★★	1.4.3, 1.3.16
17	Square Root Rule C = √(2bY/r): optimal money holding rises with Y, P and c and falls with i.	★★	1.4.4
18	Friedman (1956): money as a capital asset; permanent income (not current income); demand rises with P.	★★	1.4.5

#	One-liner	Weight	Part A ref
19	Tobin: risk aversion and a diversified portfolio. More bonds and shares mean higher return and higher risk. The liquidity preference curve relates the interest rate to money demand.	★★	1.4.7, 1.4.8
20	Keynes formally introduced the interest rate into money demand. All the theories: + real income, − interest rate.	★	1.5.1, 1.5.2, 1.3.7

Unit 2 — The Concept of Money Supply

#	One-liner	Weight	Part A ref
1	Money supply is a stock held by the public at a point of time.	★	2.1.1, 2.4.5
2	Measurement serves monetary policy: it checks the stock of money against price stability.	MQ	2.2.1, 2.1.2
3	'Public' excludes the government and the banking system, so currency with the RBI and inter-bank deposits are not counted.	★★	2.2.2
4	Central bank currency is fiat money: legal tender backed by reserves and guaranteed by the government.	★★	2.3.1
5	**Sources: the central bank (high-powered money) and the banks (credit money, created on deposits).**	★★★	2.3.2, 2.3.3
6	Crypto currencies are not legal currency in India and are not money.	★	2.3.4
7	**M1 = C + DD + OD(RBI); M2 = M1 + post office savings deposits; M3 = M1 + time deposits; M4 = M3 + total post office deposits (excluding NSCs).**	★★★	2.4.1, 2.1.3
8	Broad money: maturity up to 2 years, notice up to 3 months, debt securities up to 2 years.	★	2.4.4
9	**Currency with the public = notes + rupee coins + small coins − cash with banks.**	★★★	2.4.3
10	**M = m × MB, and m = M/MB (ΔM/ΔMB).**	★★★	2.5.2, 2.5.3, 2.6.1, 2.7.4
11	**Simple multiplier = 1/R; credit multiplier = 1/RRR; credit created = deposit × 1/RRR.**	★★★	2.6.2, 2.5.4, 2.9.1
12	High-powered money = reserve money = base money = currency + bank reserves (not M1).	★	2.5.5
13	Excess reserves ER = TR − RR. Fewer excess reserves mean a larger multiplier.	★★	2.5.6
14	m = (1 + c)/(r + e + c), set by the public (c), the banks (e) and the central bank (r).	★★	2.5.7, 2.7.3, 2.5.1
15	**Required reserve ratio up means money supply down; a CRR cut raises lending capacity.**	★★★	2.7.1
16	**Currency–deposit ratio = banking habits. A smaller ratio gives a larger multiplier; more cash held gives a smaller money supply.**	★★★	2.7.2, 2.6.2
17	A higher TD/DD ratio frees more reserves and raises monetary expansion.	★	2.5.8
18	An OMO purchase injects high-powered money; an OMO sale reduces money supply.	★	2.8.1

Unit 3 — Monetary Policy

#	One-liner	Weight	Part A ref
1	The RBI implements monetary policy to manage fluctuations and achieve price stability; cutting rates is easing, raising them is tightening.	★★	3.2.1, 3.2.2
2	Primary objective: a judicious balance between price stability and growth.	★★	3.3.1, 3.1.1
3	Transmission channels: saving and investment, cash-flow, asset prices and wealth, exchange rate. 'Open market' and 'international trade' are not channels.	★★	3.3.3, 3.3.4
4	**Quantitative tools: CRR, SLR, OMO. Qualitative tools: margin requirements, moral suasion, selective credit control. Taxes and spending are fiscal.**	★★★	3.3.6, 3.3.5, 3.3.10
5	**CRR = cash with the RBI, no interest. SLR = liquid assets (gold or government securities). Extra CRR = NDTL × ΔCRR.**	★★★	3.3.7, 3.3.8
6	OMO: buying injects and selling absorbs liquidity; used for temporary mismatches from foreign capital flows.	★★	3.3.9
7	Bank rate: long-term lending and rediscounting of bills; a penalty for CRR/SLR shortfall; a higher rate discourages borrowing.	★★	3.3.11
8	**LAF (Narasimham Committee) = repo + reverse repo. Reverse repo = repo − 1 and absorbs liquidity (banks lend to the RBI).**	★★★	3.3.12, 3.3.13
9	MSF = repo + 1: a penal overnight rate, up to 1% of SLR securities.	★★	3.3.14
10	MSS: the Government borrows from the RBI and issues T-bills and dated securities; the money is not for normal expenditure.	★	3.3.15
11	RBI Act amended 27 June 2016: MPFA (Government of India and RBI) and MPC.	★★	3.4.1, 3.3.21
12	Inflation target: 4% CPI ± 2% (5 August 2016 to 31 March 2021), set by the Government with the RBI every five years.	★★	3.4.1
13	Monetary Policy Report every six months, with inflation forecasts for 6–18 months.	★	3.4.2
14	The MPC (six members) sets the repo rate.	★	3.4.3
15	Emerging-market limits: weak, non-integrated money markets; fiscal and monetary coordination is needed.	★★	3.5.1, 3.5.2

CHAPTER 9

International Trade

257 Scanner questions · 165 one-liners · 85 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Unit 1: Theories of International Trade

SM Chapter 9, Unit 1, pages 9.1 – 9.11

Topic 1.1 Introduction

3 Scanner questions · frequency PYQ 2 · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.1.1	Benefits of international trade (SM list): stimulus to economic efficiency and growth; efficient deployment of resources (and fewer domestic monopolies); access to new markets and new materials and competitive sourcing of inputs; automation, technological change and R&D; greater stimulus to innovative services in banking, insurance, logistics and consultancy; for emerging economies, improvement in the quality of output, superior products and finer labour and environmental standards; broader productive base and export diversification; human resource development; stronger bonds between nations.	Q1	PYQ 2026-Jan	1.1, pp. 9.2 – 9.3
1.1.2	Arguments against trade openness (so never 'benefits'): unequal gains between nations; economic exploitation as underprivileged countries become vulnerable to the growing political power of corporations operating globally; environmental damage and exhaustion of natural resources; rapid transmission of trade cycles; risky dependence of underdeveloped countries on foreign nations, impairing economic autonomy and political sovereignty; too much export orientation; lack of transparency and predictability in partners' trade policies.	Q1, Q3	PYQ 2026-Jan; MTP 2025-May S2	1.1, pp. 9.3 – 9.4
1.1.3	*See Topic 1.2: the Absolute Advantage theory assumes there is NO transportation cost (other assumptions: two countries, two commodities, labour-cost basis, labour mobile within but immobile between countries).*	Q2	PYQ 2026-May	1.2.2, p. 9.5

Topic 1.2 Important Theories of International Trade

21 Scanner questions · frequency PYQ 8 · RTP 2 · MTP 19

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.1	Mercantilism (Europe, 16th–18th centuries): national power is achieved by constant large quantities of exports over imports — 'massive and aggressive export over import to accumulate wealth' and secure a favourable balance of payments and trade; it advocated maximising exports to bring in precious metals (bullion) and minimising imports through very high tariffs. Its yardstick is the balance of trade, not overall welfare.	Q2, Q6, Q19, Q20	PYQ 2024-Jun; MTP 2024-Dec S1, 2025-Apr S1, 2025-Dec S1, 2026-Apr S2 (×2)	1.2.1, p. 9.4; Summary, p. 9.10
1.2.2	Adam Smith (father of economics): trade is based on absolute cost advantage — the ability of a party to produce a greater quantity of a good than competitors using the same amount of resources. He used labour as the only input, so a nation with no absolute advantage in anything will not trade; a country specialises in and exports the commodity in which it has an absolute cost advantage.	Q4, Q17	PYQ 2024-Sep; MTP 2025-Aug S2	1.2.2, p. 9.5; Summary, p. 9.10
1.2.3	Assumptions of the Absolute Advantage theory: trade between two countries; a two-country, two-commodity framework; no transportation cost; costs computed by the relative amounts of labour required; labour mobile within a country but immobile between countries; trade takes place if each country has an absolutely lower cost in one commodity.	Q17 (+ 1.1 Q2)	PYQ 2026-May; MTP 2025-Aug S2	1.2.2, p. 9.5
1.2.4	David Ricardo — Theory of Comparative Advantage: trade is driven by comparative rather than absolute costs; a country gains by exporting products in which its absolute advantage is greatest and importing those in which its absolute advantage is comparatively less (i.e. export where its absolute disadvantage is smaller). Even a country more efficient in everything gains, so trade is useful whenever comparative cost ratios differ.	Q8, Q12, Q15	PYQ 2025-Jan, 2025-Sep; MTP 2025-May S2	1.2.3, pp. 9.5 – 9.6; Summary, p. 9.10
1.2.5	Ricardo's comparative cost theory rests on the labour theory of value: labour is the sole factor (a one-factor model) and differences in comparative advantage are attributed to differences in the productive efficiency of workers — the theory does not explain the cause of those differences. Haberler later freed it from dependence on labour alone through the opportunity-cost concept.	Q3, Q10	RTP 2025-Sep; MTP 2024-Aug, 2025-Jan S2, 2025-Apr S1	1.2.4 Table 4.1.3, pp. 9.7 – 9.8; Summary, p. 9.10
1.2.6	Classical trade theory (Smith, Ricardo) works with constant costs; Haberler restated it in opportunity-cost terms (opportunity cost = value of the forgone option), so the classical model assumes constant opportunity costs.	Q21	MTP 2026-Apr S2	Summary, p. 9.10 ('constant opportunity costs' is not SM wording)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
1.2.7	The Theory of Comparative Costs is normative (tries to demonstrate the gains from international trade) and does NOT take into account factor price differences; it is based on the labour theory of value, not on money cost.	Q1, Q11	PYQ 2024-Jun, 2025-May	1.2.4 Table 4.1.3, pp. 9.7 – 9.8
1.2.8	Modern (Heckscher-Ohlin) theory is positive (concentrates on the basis of trade); based on money cost, which is more realistic; a 2-factor (labour and capital) model; treats international trade as only a special case of inter-regional trade; considers the relative prices of factors and treats factor price differences as the main cause of commodity price differences. It is NOT based on the labour theory of value.	Q13, Q16	PYQ 2026-May; MTP 2025-Aug S1, 2025-Dec S1	1.2.4 Table 4.1.3, pp. 9.7 – 9.8
1.2.9	Heckscher-Ohlin theory (Swedish economists Eli Heckscher and Bertil Ohlin) = Factor-Endowment Theory = Modern Theory of Trade: comparative advantage is explained by differences in factor endowments (two factors, labour and capital); a country exports goods whose production uses intensively its relatively abundant factor (capital-abundant → capital-intensive goods; labour-abundant → labour-intensive goods) and imports goods that use its scarce factor.	Q5, Q7, Q9, Q18	PYQ 2025-Jan; RTP 2026-Jan; MTP 2024-Dec S1, 2025-Jan S2, 2025-Apr S1, 2025-May S2, 2026-Apr S2	1.2.4, pp. 9.6 – 9.7; Summary, pp. 9.10 – 9.11
1.2.10	Balance of trade is a flow concept — it is measured over a period of time, not at a point of time like a stock.	Q14	MTP 2025-May S2	Not in SM (MTP-only)

Unit 2: The Instruments of Trade Policy

SM Chapter 9, Unit 2, pages 9.14 – 9.29

Topic 2.1 Introduction

3 Scanner questions · frequency PYQ 1 · RTP – · MTP – · Model Q 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.1.1	Trade policy encompasses all instruments that governments may use to promote or restrict imports and exports — typically to restrict imports and/or encourage exports so as to protect domestic industries; it also includes the approach taken in trade negotiations.	MQ 1.1: Q1	Model Q	2.1, p. 9.16; Summary, p. 9.27
2.1.2	The instruments of trade policy are broadly classified into price-related measures such as tariffs, and non-price measures or non-tariff measures (NTMs).	MQ 1.1: Q2	Model Q	2.1, p. 9.16; Summary, p. 9.27
2.1.3	Protectionism is a state policy aimed to protect domestic producers against foreign competition through tariffs, quotas and non-tariff trade policy instruments; trade liberalisation is the opening up of domestic markets to goods and services from the rest of the world by bringing down trade barriers.	Q1; MQ 1.1: Q2	PYQ 2026-Jan; Model Q	2.1, p. 9.15

Topic 2.2 Tariffs

22 Scanner questions · frequency PYQ 16 · RTP – · MTP 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.1	Ad valorem tariff = duty levied as a fixed percentage of the value of the traded commodity (a constant percentage of the monetary value of one unit of the imported good). Specific tariff = fixed amount of money per physical unit or by weight/measurement — its protective value varies inversely with the import price.	Q1, Q9	PYQ 2024-Jun, 2025-May	2.2.1(i)–(ii), pp. 9.16 – 9.17
2.2.2	Numerical: ad valorem duty = rate × value, so the duty moves in proportion to price — change in duty = rate × change in price (e.g. 15% × (₹90 lakh – ₹60 lakh) = ₹4.50 lakh). A specific duty would not change with price.	Q21	PYQ 2026-Sep	2.2.1(ii), p. 9.17
2.2.3	Mixed tariff = EITHER an ad valorem rate OR a specific duty, whichever generates the most (or at times least) income — e.g. 5% ad valorem or ₹3,000 per tonne, whichever is higher; only one is collected. Compound tariff = ad valorem PLUS specific duty added together (e.g. 5% ad valorem plus ₹100 per kg).	Q6, Q11	PYQ 2025-Jan, 2025-Sep	2.2.1(a), p. 9.17
2.2.4	Technical/Other tariff is calculated on the basis of the specific contents of the imported goods, i.e. duty is payable by its components or related items (e.g. ₹3,000 on each solar panel plus ₹50 per kg on the battery).	Q8, Q14	PYQ 2025-Jan, 2026-May	2.2.1(b), p. 9.17
2.2.5	Tariff Rate Quotas (TRQs) combine two policy instruments — quotas and tariffs: imports within the quota pay a lower (sometimes zero) tariff; imports above the quantitative threshold face a much higher tariff.	Q13, Q17	PYQ 2026-Jan; MTP 2025-Aug S2	2.2.1(c), p. 9.17
2.2.6	Preferential tariff: a lower tariff than the MFN rate for a partner's goods under a reciprocal preferential agreement — e.g. zero tariff within the EU, and the North American Free Trade Agreement (NAFTA) among Canada, Mexico and the USA (zero on essentially all products); GSP is a unilateral preference.	Q5	PYQ 2024-Sep	2.2.1(f), p. 9.18
2.2.7	Bound tariff: a WTO member binds itself with a legal commitment not to raise the tariff rate above a certain level (the maximum duty on that product); applied tariff = duty actually charged on an MFN basis, which may be lower but never higher than the bound level.	Q4	PYQ 2024-Sep	2.2.1(g)–(h), p. 9.18
2.2.8	Variable tariff: a duty fixed to bring the price of an imported commodity up to the level of the domestic support price for that commodity.	Q15	PYQ 2026-May	2.2.1(e), p. 9.18

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.2.9	Escalated tariff structure: nominal tariff rates on imports of manufactured goods are higher than those on intermediate inputs and raw materials — the tariff rises as the product moves up the value-added chain (e.g. 4% on iron ore, 12% on steel pipes); it is discriminatory against developing exporters.	Q3, Q7, Q18	PYQ 2025-Jan; MTP 2024-Aug, 2025-Aug S2	2.2.1(i), pp. 9.18 – 9.19
2.2.10	Prohibitive tariff: a tariff set so high that no imports can enter.	Q10	PYQ 2025-May	2.2.1(j), p. 9.19
2.2.11	Dumping occurs when manufacturers sell goods in a foreign country below the sales prices in their domestic market or below their full average cost. An anti-dumping duty is a protectionist tariff on foreign imports believed to be priced below fair market value — a 'trigger-price' response that offsets the foreign firm's unfair price advantage.	Q16, Q19 (+ 2.3 Q7, 2.3 Q10)	PYQ 2025-Sep; RTP 2025-Jan; MTP 2025-May S2, 2025-Aug S1, 2025-Aug S2	2.2.1(l)–(m), p. 9.19
2.2.12	Countervailing duties (CVD) are tariffs that aim to offset the artificially low prices charged by exporters who enjoy export subsidies and tax concessions from their home governments, so as to negate the subsidy advantage (e.g. India's 12.5% CVD on gold jewellery from ASEAN, 2016).	Q12, Q22	PYQ 2026-Jan, 2026-Sep	2.2.1(n), p. 9.20
2.2.13	Effects of a tariff: trade volume and the exporter's market access fall; domestic consumers lose consumer surplus (higher price, lesser quantity); domestic import substitutes are encouraged; domestic producers' well-being and producer surplus rise, as they can charge higher prices because foreign competition has reduced; output, firms and employment in the industry rise; comparative advantage is disregarded (efficient production in the rest of the world is discouraged); government revenue increases.	Q2, Q20	PYQ 2024-Jun; MTP 2026-Apr S1	2.2.2, pp. 9.20 – 9.21

Topic 2.3 Non-Tariff Measures (NTMs)

17 Scanner questions · frequency PYQ 11 · RTP 2 · MTP 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.1	NTMs are policy measures other than ordinary customs tariffs that can affect international trade in goods, changing quantities traded, prices or both; tariffs are the visible barriers, NTMs the hidden or 'invisible' ones. Non-tariff barriers (NTBs) are the subset of NTMs with a protectionist or discriminatory intent. Tariffs — including countervailing and anti-dumping duties — are therefore not NTBs, whereas import quotas and technical standards (TBT) are NTMs.	Q4, Q15	MTP 2024-Dec S1, 2025-Aug S2	2.3, p. 9.21

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.2	Technical measures refer to product-specific properties — characteristics of the product, technical specifications and production processes (SPS, TBT). Non-technical measures relate to trade requirements — shipping requirements, custom formalities, trade rules, taxation policies — and are hard (price and quantity control), threat (anti-dumping, safeguards) or other (trade-related finance and investment) measures.	Q11, Q17	PYQ 2026-Jan, 2026-Sep	2.3, p. 9.22
2.3.3	Sanitary and Phytosanitary (SPS) measures protect human, animal or plant life from risks arising from additives, pests, contaminants, toxins or disease-causing organisms, and protect biodiversity (e.g. ban on poultry from avian-flu countries); they are technical measures.	Q5, Q17	PYQ 2025-Jan, 2026-Sep	2.3.1(I), p. 9.22
2.3.4	Technical Barriers to Trade (TBT) cover both food and non-food traded products: mandatory standards and technical regulations on size, shape, design, labelling/marking/packaging, functionality, performance and production methods (excluding SPS), plus conformity assessment (testing, inspection, certification). Examples: food laws, quality standards, industrial standards, organic certification, eco-labelling, marketing and label requirements — import quotas are NOT TBT.	Q2, Q9, Q14	PYQ 2024-Sep, 2025-Sep; MTP 2025-Dec S1	2.3.1(II), pp. 9.22 – 9.23
2.3.5	Non-technical measures on imports (SM list): import quotas; price control (para-tariff) measures; non-automatic licensing and prohibitions; financial measures; measures affecting competition; government procurement policies; trade-related investment measures; distribution restrictions; restriction on post-sales services; administrative procedures; rules of origin; safeguard measures; embargoes. SPS is a technical measure, not a non-technical one.	Q17	PYQ 2026-Sep	2.3.2, pp. 9.23 – 9.26
2.3.6	Import quota: a direct restriction allowing only a certain physical amount of a good into the country in a given period, usually one year, enforced by licences — its purpose is to limit the quantity of imports; the government gets no revenue and licence holders earn 'quota rents'. Quantity limits can apply to imports (quotas, prohibitions) and to exports (export bans, VERs).	Q3, Q16	RTP 2024-Sep; MTP 2025-Dec S1, 2026-Apr S2	2.3.2(i), pp. 9.23 – 9.24; 2.4, p. 9.26 ('quantitative restrictions' is not defined in the SM)
2.3.7	Non-automatic licensing and prohibitions are aimed at limiting the quantity of goods that can be imported, regardless of whether they originate from different sources or one particular supplier (e.g. textiles only on a discretionary licence).	Q12	PYQ 2026-May	2.3.2(iii), p. 9.24

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.3.8	Financial measures increase import costs by regulating access to and cost of foreign exchange and by defining terms of payment — e.g. advance payment of a percentage of the value three months before arrival, or foreign exchange denied for certain imports.	Q8	PYQ 2025-Sep	2.3.2(iv), p. 9.24
2.3.9	Safeguard measures restrict imports of a product temporarily if its domestic industry is injured or threatened with serious injury by a surge in imports; they must be for a limited time and non-discriminatory.	Q13	PYQ 2026-May	2.3.2(xii), p. 9.26
2.3.10	Embargo: a total ban imposed by government on import or export of some or all commodities to a particular country or region for a specified or indefinite period (for political, health or religious reasons) — the most extreme form of trade barrier.	Q1, Q6	PYQ 2024-Jun, 2025-Jan	2.3.2(xiii), p. 9.26
2.3.11	*See Topic 2.2: dumping = sale abroad below home-market price or full average cost; anti-dumping duty is levied on imports priced below fair market value.*	Q7, Q10	PYQ 2025-Sep; RTP 2025-Jan; MTP 2025-May S2	2.2.1(m), p. 9.19

Topic 2.4 Export-Related Measures

2 Scanner questions · frequency PYQ 1 · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
2.4.1	Voluntary Export Restraints (VERs) are an informal quota administered by the EXPORTING country, voluntarily restraining the quantity exported during a specified period; they arise from negotiations with the importer, to appease it and avoid retaliatory restraints. So VERs are neither imposed by importing countries nor formal legal quotas.	Q2	PYQ 2026-Sep	2.4(iv), pp. 9.26 – 9.27
2.4.2	*See Topic 2.2: CVD offsets export subsidies. The levy conditions — subsidy relating to export performance, to the use of domestic over imported goods in the export article, or conferred on a limited number of persons — come from customs law, not the SM; ICAI keys 'all the above'.*	Q1	MTP 2026-Apr S2	Not in SM (MTP-only)

Unit 3: Trade Negotiations

SM Chapter 9, Unit 3, pages 9.33 – 9.47

Topic 3.1 Introduction

1 Scanner question · frequency PYQ – · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.1.1	UNCTAD (United Nations Conference on Trade and Development) promotes the development-friendly integration of developing countries into the world economy.	Q1	MTP 2026-Apr S2	Not in SM (MTP-only)

Topic 3.2 Taxonomy of Regional Trade Agreements (RTAs)

6 Scanner questions · frequency PYQ 2 · RTP – · MTP 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.2.1	RTAs are groupings of countries (not necessarily in the same region) formed to reduce barriers to trade between members — a treaty between two or more governments defining the rules of trade for all signatories; as of 1 February 2021, 339 RTAs were in force.	(+ 3.5 Q3)	PYQ 2024-Sep	3.2, p. 9.34
3.2.2	Types of RTA: unilateral, bilateral, regional preferential, trading bloc, free-trade area, customs union, common market, economic and monetary union. Bilateral agreements set the rules of trade between two countries, two blocs or a bloc and a country, reducing tariffs and barriers between them (e.g. EU–South Africa FTA; ASEAN–India FTA).	Q1	MTP 2025-Jan S2, 2025-Apr S1	3.2, pp. 9.34 – 9.35
3.2.3	Multilateral negotiations and agreements involve the entire WTO membership — the multilateral trading system built by GATT and now the WTO; WTO agreements are multilateral, whereas NAFTA and the EU are regional arrangements.	Q3	MTP 2025-Jan S2	3.2, p. 9.36; 3.5.3 item 16, p. 9.43
3.2.4	Trading bloc: a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries (e.g. Arab League, EFTA).	Q4 (+ 3.5 Q2, 3.5 Q5)	PYQ 2024-Jun, 2025-Sep; MTP 2024-Dec S1	3.2, pp. 9.34 – 9.35
3.2.5	Free-trade area: members trade tariff-free but keep their own distinct external tariffs (e.g. ASEAN–India FTA, 2005). Customs union: members eliminate all internal tariffs and maintain a common external tariff — the EU (27 members), Gulf Cooperation Council (GCC), MERCOSUR.	Q5 (+ 3.5 Q8)	PYQ 2025-Jan, 2026-May	3.2, p. 9.35
3.2.6	Common market deepens a customs union with free flow of output and factors of production (labour, capital) and harmonised laws; Economic and Monetary Union adds a common currency and strong convergence of macroeconomic policies (e.g. the EU's single currency).	Q6	MTP 2025-Aug S1	3.2, pp. 9.35 – 9.36
3.2.7	Policies targeting key exporting industries raise employment in that sector and, by boosting exports, improve the current account balance.	Q2	MTP 2025-Jan S2	Not in SM (MTP-only)

Topic 3.3 The General Agreement on Tariffs and Trade (GATT)

2 Scanner questions · frequency PYQ – · RTP – · MTP 1 · Model Q 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.3.1	GATT covers international trade in goods; it provided the rules for most of world trade for 47 years (1948–1994), and eight multilateral 'trade rounds' held under its auspices reduced tariffs and brought substantial trade liberalisation. GATT was an agreement — not a treaty and not an international organisation.	Q1; MQ 1.3: Q1 (+ 3.4 MQ 1.3 Q2)	MTP 2026-Apr S2; Model Q ×2	3.3, pp. 9.36 – 9.37; Summary, p. 9.46

Topic 3.4 The Uruguay Round and the Establishment of WTO

10 Scanner questions · frequency PYQ 3 · RTP 1 · MTP 1 · Model Q 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.4.1	The SM dates GATT from 1948 — it provided the rules of world trade for 47 years, 1948 to 1994.	Q1; MQ 1.3: Q1	PYQ 2024-Jun; Model Q	Summary, p. 9.46
3.4.2	*See Topic 3.3: GATT reduced trade barriers by conducting multilateral trade negotiations — eight 'trade rounds'.*	MQ 1.3: Q2	Model Q	Summary, p. 9.46
3.4.3	GATT lost its relevance by the 1980s because: it was obsolete for emerging globalisation; international investments had expanded substantially; intellectual property rights and services were not covered; merchandise trade grew beyond its scope; ambiguities were exploited; efforts at liberalising agricultural trade were not successful; there were inadequacies in institutional structure and dispute settlement system; it was not a treaty.	Q4	PYQ 2025-May	3.3, pp. 9.36 – 9.37
3.4.4	Uruguay Round (the eighth, largest and most ambitious round; 123 countries): began at Punta del Este, Uruguay, in September 1986 and was completed in December 1993 (the 1986–94 round); signed 15 April 1994, it gave birth to the World Trade Organisation in 1995.	MQ 1.1: Q1; MQ 1.4: Q1, Q2; MQ 1.5: Q1	MTP 2025-Aug S1; Model Q ×3	3.4, p. 9.37; Summary, p. 9.46
3.4.5	The WTO is the single institutional framework encompassing the GATT as modified by the Uruguay Round — it was established to implement the Uruguay Round's final act, a new set of agreements replacing GATT.	Q2	RTP 2025-Jan	3.4, p. 9.37; Summary, p. 9.46
3.4.6	*See Topic 3.1: USMCA (United States–Mexico–Canada Agreement), concluded in 2020 between Canada, Mexico and the United States, is the successor of NAFTA.*	Q3	PYQ 2025-May	3.1, pp. 9.33 – 9.34

Topic 3.5 The World Trade Organisation (WTO)

39 Scanner questions · frequency PYQ 7 · RTP 1 · MTP 9 · Model Q 23

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.1	*See Topic 3.1: trade negotiations are interactive processes in which countries with competing objectives cooperate to frame the rules of trade — one party bargains for market access through lower tariffs, another for protection of domestic industry; the agenda ranges from market access to trade-related intellectual property.*	MQ 1.1: Q1, Q2	Model Q ×2	3.1, pp. 9.33 – 9.34; 3.4, p. 9.37 (Model Q only)
3.5.2	The WTO is the only global international organisation dealing with the rules of trade between nations; its principal objective is to facilitate the flow of international trade smoothly, freely, fairly and predictably, and multilateral talks aim to lower trade barriers ('freer trade: gradually, through negotiation').	Q11; MQ 1.4: Q1	RTP 2026-Jan; Model Q	3.5, p. 9.37; 3.5.2, p. 9.40
3.5.3	Six WTO objectives: set and enforce rules for international trade; provide a forum for negotiating and monitoring further trade liberalisation; resolve trade disputes; increase the transparency of decision-making; cooperate with other international economic institutions; help developing countries benefit fully from the trading system. Secrecy is never an objective.	Q9	PYQ 2026-Jan	3.5, p. 9.38
3.5.4	WTO structure: Secretariat in Geneva headed by a Director General; three-tier decision-making — the Ministerial Conference is the top body (meets at least once every two years); then the General Council (which also meets as the Trade Policy Review Body and the Dispute Settlement Body); then the Goods, Services and TRIPS Councils.	MQ 1.5: Q2; MQ 1.5.1: Q1	Model Q ×2	3.5.1, p. 9.38
3.5.5	Appeals against dispute-panel decisions go to the WTO Appellate Body (the SM mentions only the Dispute Settlement Body).	MQ 1.5.1: Q2	Model Q	Not in SM (Model Q only)
3.5.6	Most-favoured-nation (MFN): countries cannot normally discriminate between their trading partners — grant one a special favour and you must do the same for all WTO members (same terms for all). It is the first article of GATT (so introduced by GATT), and is also in GATS (Art. 2) and TRIPS (Art. 4); FTAs and special access for developing countries are permitted exceptions.	Q1, Q6, Q10, Q12; MQ 1.3: Q1	PYQ 2024-Jun; MTP 2024-Dec S1, 2025-Jan S2, 2025-Apr S1, 2025-Aug S1	3.5.2, p. 9.39
3.5.7	National treatment: imported and locally produced goods (and foreign and domestic services, trademarks, copyrights, patents) should be treated equally once they have entered the market; reserving post-sales services for local companies therefore violates national treatment, but charging customs duty on an import does not.	Q7; MQ (ix) Restriction on: Q1; MQ 1.5.2: Q1	MTP 2024-Dec S1; Model Q ×2	3.5.2, p. 9.39; 2.3.2(ix), p. 9.25

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.8	WTO guiding principles: trade without discrimination (MFN and national treatment); freer trade gradually, through negotiation; predictability through binding and transparency; promoting fair competition; encouraging development and economic reform. 'Special treatment' is not one of them.	Q15; MQ 1.5.2: Q1	PYQ 2026-Sep; Model Q	3.5.2, pp. 9.39 – 9.41
3.5.9	Trade Policy Review Mechanism (TPRM): regular surveillance and periodical review of members' trade policies and practices by the Trade Policy Review Body, encouraging transparency.	Q13	MTP 2025-Aug S2	3.5.2, p. 9.40; 3.5.3 item 15, p. 9.43
3.5.10	Encouraging development: developing countries get longer transition periods, special assistance and trade concessions; for least-developed countries, better-off members accelerate market access, increase technical assistance and allow duty-free, quota-free imports.	MQ 1.5.2: Q2	Model Q	3.5.2, p. 9.41
3.5.11	Major WTO agreements: Agriculture; SPS; Textiles and Clothing; TBT; TRIMs; Anti-Dumping; Customs Valuation; Pre-shipment Inspection; Rules of Origin; Import Licensing; Subsidies and Countervailing Measures; Safeguards; GATS; TRIPS; TPRM; Plurilateral Agreements (GATT itself is covered) — NAFTA is a regional agreement, not a WTO agreement.	MQ 1.5: Q1	Model Q	3.5.3, pp. 9.41 – 9.43
3.5.12	TRIPS = Agreement on Trade-Related Aspects of Intellectual Property Rights: MFN and national treatment for copyright, trademarks, geographical indications, industrial designs, patents etc., with high protection and enforcement.	Q4	PYQ 2024-Sep; MTP 2025-Dec S1	3.5.3 item 14, p. 9.43
3.5.13	Trade-related investment measures restrict trade through investment rules — local content requirements (e.g. 25% of automobile components sourced domestically), limits on imported components, trade balancing (imports capped at 75% of export earnings); the TRIMs Agreement bars measures inconsistent with national treatment and the general elimination of quantitative restrictions.	MQ (vii) Trade-Related Investment: Q1, Q2	Model Q ×2	2.3.2(vii), p. 9.25; 3.5.3 item 5, p. 9.42
3.5.14	Agreement on Agriculture strengthens GATT disciplines on farm trade through binding commitments in three areas: market access, domestic support and export subsidies.	Q14	MTP 2026-Apr S2	3.5.3 item 1, p. 9.42 (the detail on permitted support is MTP-only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.5.15	*See Topic 2.3: NTMs are allowed under WTO agreements only in certain circumstances, so import quotas, price controls, non-automatic licensing, financial measures, measures affecting competition and government procurement policies can be challenged under WTO rules; the WTO discourages quotas.*	MQ (i) Import Quotas:: Q1; MQ (ii) Price Control: Q1; MQ (iii) Non-automatic Licensing: Q1; MQ (iv) Financial Measures:: Q1; MQ (v) Measures Affecting: Q1; MQ (vi) Government Procurement: Q1	Model Q ×6	2.3, p. 9.21; 3.5.2, p. 9.40 (Model Q only)
3.5.16	*See Topic 2.3: distribution restrictions and costly administrative procedures (licences, delays, red tape) raise transaction costs and discourage imports; the WTO's Agreement on Import Licensing Procedures simplifies procedures so they do not act as trade barriers — streamlined procedures promote efficiency and facilitate cross-border transactions.*	MQ (viii) Distribution Restrictions:: Q1; MQ (x) Administrative Procedures:: Q1, Q2	Model Q ×3	2.3.2(viii), (x), p. 9.25; 3.5.3 item 10, p. 9.43
3.5.17	Safeguard measures are temporary emergency restrictions on imports when a sudden surge in imports injures or threatens serious injury to a domestic industry; the Agreement on Safeguards sets the disciplines.	MQ (xii) Safeguard Measures:: Q1	Model Q	2.3.2(xii), p. 9.26; 3.5.3 item 12, p. 9.43
3.5.18	The SM requires safeguards only to be for a limited time and non-discriminatory; it gives no duration (the WTO Agreement on Safeguards allows up to four years, extendable to a maximum of eight).	MQ (xii) Safeguard Measures:: Q2	Model Q	Not in SM (Model Q only)
3.5.19	*See Topic 3.2: trading bloc = group of countries with an FTA among themselves that may apply a common external tariff to others; the EU is a customs union; 339 RTAs were in force on 1 February 2021.*	Q2, Q3, Q5, Q8	PYQ 2024-Jun, 2024-Sep, 2025-Jan; MTP 2024-Dec S1	3.2, pp. 9.34 – 9.35

Topic 3.6 The Doha Round

3 Scanner questions · frequency PYQ 2 · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.6.1	Doha Round = Doha Development Agenda: the ninth round since the Second World War, launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001; it covers 20 areas (agriculture, services, NAMA, trade facilitation, environment, IP issues) and its most controversial topic was agriculture trade.	Q1, Q3	PYQ 2025-May, 2026-Sep; MTP 2025-Aug S1	3.6, p. 9.44

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.6.2	The Doha Development Agenda takes up developing countries' concerns, including the difficulties they face in implementing the Uruguay Round agreements.	Q2	MTP 2026-Apr S2	3.5.2, p. 9.41; 3.6, p. 9.44

Topic 3.7 G 20 Economies: Facilitating Trade

1 Scanner question · frequency PYQ 1 · RTP – · MTP –

Ref	One-liner for the student	Scanner Q	Asked in	SM source
3.7.1	G20 members: Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Türkiye, the United Kingdom and the United States (Tunisia is not a member).	Q1	PYQ 2025-Jan	3.7, p. 9.45

Unit 4: Exchange Rate and its Economic Effects

SM Chapter 9, Unit 4, pages 9.50 – 9.66

Topic 4.1 Introduction

3 Scanner questions · frequency PYQ – · RTP – · MTP – · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.1.1	Exchange rate is the rate at which the currency of one country exchanges for the currency of another country.	MQ 1.1: Q1	Model Q	Summary, p. 9.64
4.1.2	To convert an amount at a quoted rate, multiply by the units of the other currency per unit: at 1 USD = 0.85 EUR, 100 USD = 100 × 0.85 = 85 EUR.	MQ 1.2: Q1	Model Q	Not in SM (Model Q only)
4.1.3	*See Topic 4.4: the nominal exchange rate is the rate at which a person can trade the currency of one country for the currency of another country.*	MQ 1.4: Q1	Model Q	4.4, p. 9.54

Topic 4.2 The Exchange Rate

1 Scanner question · frequency PYQ – · RTP – · MTP 1

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.2.1	Dollars are supplied to the forex market by US residents who buy foreign goods, services and assets (they need foreign currency — the SM's demand-side reason 'purchase goods and services from another country'); if fewer US residents travel abroad, the quantity of dollars supplied falls.	Q1	MTP 2025-Dec S1	4.6, pp. 9.56 – 9.57 (US-side framing MTP-only)

Topic 4.3 The Exchange Rate Regimes

16 Scanner questions · frequency PYQ 1 · RTP 1 · MTP 5 · Model Q 10

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.3.1	An exchange rate regime is the system by which a country manages its currency with respect to foreign currencies — the method by which the value of the domestic currency in terms of foreign currencies is determined; the two extremes are the floating (flexible) and the fixed regime.	MQ 1.3: Q1	Model Q	4.3, p. 9.52
4.3.2	Under a floating regime the exchange rate is market-determined — by the demand for and supply of the currency relative to other currencies; in a free float, governments and central banks do not participate in the foreign exchange market.	MQ 1.1: Q1	Model Q	4.3, p. 9.52; Summary, p. 9.64
4.3.3	Managed float: rates are still free to float, but the government or central bank participates — buying or selling currency — to influence their value, typically to prevent sudden large swings. RBI's intervention makes India's system a managed float (also loosely called a 'dirty float' — a feature of floating, not fixed, regimes).	Q2, Q4, Q6; MQ Managed Float Systems: Q1, Q2	MTP 2024-Dec S1, 2025-Aug S1, 2026-Apr S1; Model Q ×2	4.3, pp. 9.52 – 9.53 (India's regime and 'dirty float' not named in SM)
4.3.4	Fixed (pegged) exchange rate: set by government policy — the government announces or decrees what its currency is worth in terms of another currency, a basket of currencies or another measure of value such as gold; the central bank must stand ready to intervene in the forex market (buying or selling foreign currency) and maintain adequate foreign exchange reserves.	MQ 1.2: Q2; MQ Fixed Exchange Rates: Q1, Q2	Model Q ×3	4.3, p. 9.53; Summary, p. 9.64
4.3.5	Soft peg: the exchange rate is generally determined by the market; hard peg: the central bank sets a fixed and unchanging value. The soft peg is the regime used by the largest number of IMF members.	Q1	RTP 2024-Sep; MTP 2025-Dec S1	Summary, p. 9.64 (IMF-membership fact RTP/MTP-only)
4.3.6	Crawling peg (rate adjusted gradually over time on set indicators) and currency board (domestic currency pegged to a foreign currency at a fixed rate) are intermediate regimes not described in the SM.	MQ 1.3: Q2, Q3	Model Q ×2	Not in SM (Model Q only)
4.3.7	Advantages of a fixed regime: avoids currency fluctuations and eliminates exchange rate risks and transaction costs; greatly enhances international trade and investment; a REDUCTION in speculation on exchange rate movements; discipline on the monetary authority (lower inflation); stability encourages investment; enhances credibility of monetary policy. Cost: the central bank must intervene and hold adequate reserves.	Q3	PYQ 2025-Sep	4.3, p. 9.53

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.3.8	Floating regime — advantages: independent monetary policy; exchange rate usable as a policy tool; no need for huge forex reserves. Greatest disadvantage: volatile exchange rates generate uncertainty in international transactions and add a risk premium to costs. Fixed = stability and credibility but no flexibility; floating = policy flexibility but less stability.	Q5	MTP 2025-Aug S2	4.3, p. 9.54
4.3.9	*See Topic 4.7: a currency appreciates when its value increases with respect to another currency or a basket of other currencies.*	MQ 1.2: Q1	Model Q	4.7, p. 9.57

Topic 4.4 Nominal versus Real Exchange Rates

6 Scanner questions · frequency PYQ 4 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.4.1	Nominal exchange rate: the rate at which a person can trade the currency of one country for the currency of another. Real exchange rate: the rate at which a person can trade the goods and services of one country for those of another — 'how many' of a good or service in one country can be traded for 'one' of that good or service in a foreign country. Trade flows are affected by the real, not the nominal, rate.	(+ 4.1 MQ 1.4 Q1, 4.5 Q4)	PYQ 2026-Sep; Model Q	4.4, p. 9.54
4.4.2	Real exchange rate = Nominal exchange rate × (Domestic price index ÷ Foreign price index) — the product of the nominal rate and the ratio of prices. Rearrange for the nominal rate: NER = RER × Foreign index ÷ Domestic index (25 × 70/140 = 12.5); forwards: 15 × 250/200 = 18.75.	Q2, Q3 (+ 4.6 MQ 1.4 Q1)	PYQ 2026-Jan, 2026-May; Model Q	4.4, p. 9.55
4.4.3	REER = nominal effective exchange rate (value of the domestic currency against a weighted average of various foreign currencies) divided by a price deflator or index of costs, i.e. NEER adjusted for inflation; with the nominal rate constant, REER rises only when domestic inflation exceeds foreign inflation.	Q4, Q5	MTP 2025-Dec S1, 2026-Apr S1	4.4, p. 9.55; Summary, p. 9.65
4.4.4	An increase in REER (a high real exchange rate) means exports become more expensive and imports cheaper — a loss in trade competitiveness, so exports become less competitive and the current account tends towards deficit.	Q1, Q6	PYQ 2024-Jun, 2025-Sep; MTP 2026-Apr S1	4.4, p. 9.55; 4.9, p. 9.63

Topic 4.5 The Foreign Exchange Market

7 Scanner questions · frequency PYQ 2 · RTP – · MTP 2 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.5.1	The foreign exchange market is the wide-reaching collection of markets and institutions that handle the exchange of foreign currencies — an over-the-counter, electronically linked network (not a physical place) with very narrow spreads.	MQ 1.5: Q1	Model Q	Summary, p. 9.65
4.5.2	Most forex transactions exchange foreign currencies for US dollars even when the dollar is not the national currency of either importer or exporter — hence the dollar is the 'vehicle currency'.	Q1, Q2	PYQ 2026-Jan; MTP 2024-Aug	4.5, p. 9.56
4.5.3	The most traded currency pair is EUR/USD (consistent with the dollar's vehicle role).	MQ 1.5: Q2	Model Q	Not in SM (Model Q only)
4.5.4	Speculation and hedging are among the reasons for demanding foreign currency; speculative trading runs on expectations formed from political events and economic indicators.	MQ 1.6: Q1	Model Q	4.6, p. 9.57 (expectations driver Model Q only)
4.5.5	Foreign exchange in India is governed by the Foreign Exchange Management Act (FEMA), 1999, administered by RBI.	Q3	MTP 2026-Apr S2	Not in SM (MTP-only)
4.5.6	Direct quote (European) = units of local currency per one unit of foreign currency (₹65/US$; foreign currency is the base); indirect quote (American) = units of foreign currency per one unit of local currency ($0.0151 per rupee; domestic currency is the base). Cross rate = the rate between Y and Z derived from the X–Y and X–Z rates.	(+ 4.9 Q1, 4.9 Q2)	PYQ 2024-Jun, 2024-Sep	Summary, p. 9.64
4.5.7	Arbitrage — making risk-less profits by exploiting price differences of an asset at different dealing places — makes all markets have the same exchange rate for a given currency at any moment.	(+ 4.9 Q3)	MTP 2024-Dec S1	Summary, p. 9.65
4.5.8	*See Topic 4.4: the real exchange rate describes 'how many' of a good or service in one country can be traded for 'one' of that good or service in a foreign country.*	Q4	PYQ 2026-Sep	4.4, p. 9.54; Summary, p. 9.65

Topic 4.6 Determination of Nominal Exchange Rate

10 Scanner questions · frequency PYQ – · RTP – · MTP – · Model Q 10

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.6.1	Usually the supply of and demand for foreign exchange determine the external value of the domestic currency; the equilibrium rate is where the downward-sloping demand curve (D$) meets the upward-sloping supply curve (S$). Demand for foreign currency: buying foreign goods and services, unilateral transfers, investment income payments abroad, buying foreign financial assets, opening a foreign bank account, direct ownership of real capital, speculation and hedging. Supply: purchases of home exports, transfers to the home country, investment income, FDI and portfolio investment, bank deposits, speculation.	MQ 1.5: Q1 (+ 4.2 Q1)	MTP 2025-Dec S1; Model Q	4.6, pp. 9.56 – 9.57
4.6.2	*See Topic 4.9: depreciation lowers the relative price of a country's exports (more competitive); appreciation lowers the relative price of its imports (more attractive to domestic consumers).*	MQ 1.1: Q1, Q2	Model Q ×2	4.9, p. 9.60
4.6.3	Trade deficit: a country's imports exceed its exports.	MQ 1.2: Q1	Model Q	Not in SM (Model Q only)
4.6.4	*See Topic 4.4: RER = NER × (domestic price ÷ foreign price); with US inflation 2% and Eurozone inflation 1%, 0.85 × 1.02/1.01 ≈ 0.858 EUR (printed key 0.8685 — see Editorial Note).*	MQ 1.4: Q1, Q2	Model Q ×2	4.4, p. 9.55
4.6.5	Beyond the SM: in the short term relative inflation, relative interest rates and trade balances all move the nominal rate; the long-term trend follows relative inflation rates (purchasing power parity).	MQ 1.6: Q1, Q2	Model Q ×2	Not in SM (Model Q only)
4.6.6	Beyond the SM: higher domestic interest rates and political stability attract foreign capital, raising demand for the domestic currency, so it appreciates.	MQ 1.7: Q1, Q2	Model Q ×2	Not in SM (Model Q only)

Topic 4.7 Changes in Exchange Rates

3 Scanner questions · frequency PYQ 1 · RTP – · MTP – · Model Q 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.7.1	A currency appreciates when its value increases, and depreciates when its value falls, with respect to another currency or a basket of currencies; when one depreciates, the other simultaneously appreciates. Home-currency depreciation = a rise in the home-currency price of foreign currency: $1 = ₹70 → ₹75 (or €1 = ₹80 → ₹85) means the rupee has depreciated.	Q1 (+ 4.3 MQ 1.2 Q1)	PYQ 2024-Sep; Model Q	4.7, pp. 9.57 – 9.58

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.7.2	Under a floating rate, higher demand for a currency (supply unchanged) raises its exchange value — it appreciates; a rightward shift in demand for foreign currency depreciates the home currency, and a rightward shift in the supply of foreign exchange appreciates it.	MQ 1.6: Q1; MQ 1.7: Q1 (+ 4.9 MQ 1.6 Q1)	Model Q ×3	4.7, pp. 9.58 – 9.59

Topic 4.8 Devaluation Vs Depreciation

5 Scanner questions · frequency PYQ 1 · RTP – · MTP 1 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.8.1	Devaluation: a deliberate, discrete official downward adjustment of the fixed par value of a currency (fixed or nearly fixed regime); revaluation: a discrete official increase in that par value. Depreciation / appreciation: a fall / rise in value due to market forces of demand and supply under a floating rate, not government action.	Q1; MQ 1.8: Q1, Q2	MTP 2024-Dec S1; Model Q ×2	4.8, pp. 9.59 – 9.60
4.8.2	Devaluation or revaluation is a policy act: the monetary authority formally sets a new fixed rate against a reference currency or basket; buying or selling foreign currency is how the central bank then holds that rate.	MQ 1.8: Q3	Model Q	4.8, p. 9.59; 4.3, p. 9.53
4.8.3	*See Topic 4.9: depreciation raises (does not lower) the relative price of imports; it leads to output expansion, encourages economic activity and improves the trade balance.*	Q2	PYQ 2026-May	Summary, p. 9.66

Topic 4.9 Impacts of Exchange Rate Fluctuation on Domestic Economy

16 Scanner questions · frequency PYQ 5 · RTP 4 · MTP 5 · Model Q 6

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.9.1	Depreciation lowers the relative price of a country's exports and raises the relative price of its imports: foreigners find its exports cheaper (more competitive), residents find imports dearer — so if the dollar depreciates against the euro, US exports to the Eurozone rise.	Q6; MQ 1.7: Q1; MQ 1.9: Q1 (+ 4.6 MQ 1.1 Q1)	PYQ 2024-Jun; RTP 2025-Sep, 2026-Jan; MTP 2025-Jan S2; Model Q ×3	4.9, p. 9.60
4.9.2	Appreciation raises the relative price of exports and lowers that of imports: foreigners pay more for the country's products, domestic consumers pay less for foreign products — when the US exchange rate rises, foreign goods become less expensive and US imports increase; a revaluation likewise cuts the cost of imports.	Q5, Q9 (+ 4.6 MQ 1.1 Q2)	MTP 2025-Jan S2, 2026-Apr S2; Model Q	4.9, p. 9.60
4.9.3	An appreciation of currency or a strong currency makes the domestic currency more valuable, so it can be exchanged for a larger amount of foreign currency.	Q7	PYQ 2025-May	4.9, p. 9.62

Ref	One-liner for the student	Scanner Q	Asked in	SM source
4.9.4	An appreciation raises the price of exports and therefore the quantity of exports would fall; cheaper imports raise import quantity, aggregate demand and growth fall, and the current account tends to worsen (depending on elasticities).	Q10	PYQ 2026-Sep	4.9, p. 9.63
4.9.5	Depreciation diverts spending to domestic goods, encourages economic activity and output expansion and improves the trade balance — which is why it can offset the effect of domestic inflation on price competitiveness; but it adds to consumer price inflation in the short run (dearer imported goods) and may cause cost-push inflation via imported inputs.	Q8; MQ 1.9: Q2 (+ 4.8 Q2)	PYQ 2026-May; RTP 2025-May; Model Q	4.9, p. 9.61; Summary, p. 9.66
4.9.6	Exchange rate volatility (sudden, significant swings) makes forecasting harder and raises hedging costs; foreign investors become indecisive or highly cautious, so FPI and FDI inflows are likely to shrink.	MQ 1.7: Q2; MQ 1.9: Q3	Model Q ×2	4.9, p. 9.62 (definition of 'volatility' Model Q only)
4.9.7	In a flexible regime a widening trade deficit raises demand for foreign currency, so the domestic currency depreciates (the printed key 'appreciation' is wrong — see Editorial Note).	MQ 1.6: Q1	Model Q	4.7, p. 9.58
4.9.8	Current account deficit: imports (payments) exceed exports (receipts); a widening current account deficit is a danger signal for growth prospects.	Q4	RTP 2025-Sep; MTP 2025-Jan S2	4.9, p. 9.61 (definition not in SM)
4.9.9	*See Topic 4.5: indirect quote = units of foreign currency per one unit of local currency; cross rate = rate derived from two other currency pairs; arbitrage makes all markets quote the same rate.*	Q1, Q2, Q3	PYQ 2024-Jun, 2024-Sep; MTP 2024-Dec S1	Summary, pp. 9.64 – 9.65

Unit 5: International Capital Movements

SM Chapter 9, Unit 5, pages 9.70 – 9.86

Topic 5.2 Type of Foreign Capital

6 Scanner questions · frequency PYQ – · RTP 1 · MTP 3 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.2.1	International capital movements are cross-border flows of financial assets and liabilities; 'foreign capital' includes any inflow of capital into the home country from abroad — e.g. a country receiving FDI.	MQ 1.1: Q1, Q2	Model Q ×2	5.2, p. 9.71 (definition wording Model Q only)
5.2.2	Components of foreign capital: (1) foreign aid — bilateral, multilateral (funds pooled with international organisations like the World Bank), tied or untied, grants; (2) borrowings — inter-government loans, loans from international institutions (World Bank, IMF, ADB), soft loans (IDA), external commercial borrowing, trade credit; (3) NRI deposits; (4) investments — FPI and FDI.	MQ 1.2: Q1	Model Q	5.2, pp. 9.71 – 9.72

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.2.3	The World Bank is the International Bank for Reconstruction and Development (IBRD).	Q1	RTP 2025-Jan	Not in SM (RTP-only)
5.2.4	World Bank lending is development lending for medium and long periods (IMF lending is short-term); the MTP key prints 'medium term loans' — see Editorial Note.	Q2	MTP 2025-May S2	Not in SM (MTP-only)
5.2.5	A Global Depository Receipt is a negotiable receipt issued by an overseas (depository) bank in lieu of shares of a domestic company.	Q3	MTP 2026-Apr S2, 2026-Apr S1	Not in SM (MTP-only)

Topic 5.3 Foreign Direct Investment (FDI)

7 Scanner questions · frequency PYQ 4 · RTP – · MTP 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.3.1	FDI (IMF): investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity of one economy in an enterprise resident in another — typically at least 10% of ordinary shares or voting power; the investor retains control and influences management.	Q7	MTP 2026-Apr S1	5.3, p. 9.72
5.3.2	FDI has three components: equity capital, reinvested earnings and other direct capital (intra-company loans) — portfolio investment is NOT a component.	Q1	PYQ 2024-Jun	5.3, p. 9.72
5.3.3	Main forms of direct investment: overseas subsidiaries or branches, joint ventures, joint development of natural resources, purchase or annexation of companies; external commercial borrowing is a borrowing (debt) and gives no ownership or control, so it is not FDI.	Q4	PYQ 2026-May	5.3, p. 9.72; 5.2, p. 9.71
5.3.4	Horizontal FDI: the same type of business abroad as at home (US cell-phone provider offering the same service in India); vertical: a different activity abroad that supplements the main business (car maker acquiring a parts supplier); conglomerate: an unrelated business, often a joint venture with a firm already in the industry, as the investor has no previous experience; two-way: reciprocal investments between countries.	Q2, Q3 (+ 5.9 Q4, 5.9 Q6)	PYQ 2025-Jan, 2025-Sep, 2026-Jan, 2026-Sep	5.3, p. 9.73
5.3.5	Singapore has been the leading source of FDI inflows into India in recent years.	Q5	MTP 2025-Dec S1	Not in SM (MTP-only)
5.3.6	An FDI inflow improves the capital account balance but adds to foreign liabilities, worsening the Net International Investment Position.	Q6	MTP 2026-Apr S1	Not in SM (MTP-only)

Topic 5.4 Foreign Portfolio Investment (FPI)

10 Scanner questions · frequency PYQ 1 · RTP 1 · MTP 1 · Model Q 7

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.4.1	FPI is the flow of 'financial capital' rather than 'real capital' — investment in stocks, bonds and other financial instruments through the capital market, with no ownership or control, a stake below 10%, and the sole aim of a remunerative return; it moves to countries showing potential for higher returns.	Q1; MQ 1.2: Q1; MQ 1.4: Q1, Q3	MTP 2024-Dec S1; Model Q ×3	5.4, pp. 9.73 – 9.74
5.4.2	FDI vs FPI (Table 4.5.1): FDI creates physical assets, has long-term interest, is relatively difficult to withdraw, not speculative, brings technology transfer, directly affects employment and wages, and carries enduring management control; FPI is only in financial assets, short-term, easy to withdraw, speculative, with no technology transfer, no direct employment impact and no management control.	Q2; MQ 1.4: Q2	PYQ 2025-May; Model Q	5.4, p. 9.74
5.4.3	Buying shares without seeking control is portfolio investment — not a mode of FDI (see Editorial Note).	MQ 1.6: Q1	Model Q	5.4, p. 9.73
5.4.4	FII = investment by foreign institutions in domestic securities — portfolio capital that develops the capital market, improves the flow of equity capital and promotes financial innovation.	Q3; MQ 1.2: Q2	RTP 2025-May; Model Q	Not in SM (RTP-only)
5.4.5	Capital flight = rapid outflow of capital from a country in response to economic or political uncertainty (printed key describes ordinary investment flows — see Editorial Note).	MQ 1.1: Q1	Model Q	Not in SM (Model Q only)
5.4.6	Matching items from other units: helping developing countries benefit fully from the global trading system = WTO (Unit 3); governments and central banks not participating in the forex market = free-floating exchange rate system.	Q2	PYQ 2025-May	4.3, p. 9.52; WTO in SM Unit 3

Topic 5.5 Reason for Foreign Direct Investment

7 Scanner questions · frequency PYQ 1 · RTP – · MTP 2 · Model Q 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.5.1	The chief motive for shifting capital across regions or industries is the expectation of a higher rate of return than is possible at home (maximisation of economic interests); firm-specific assets such as superior management skills or an important patent let the foreign firm outperform host-country firms.	MQ 1.1: Q1	Model Q	5.5, pp. 9.74 – 9.75

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.5.2	Reasons for FDI include capturing large, fast-growing markets; control of strategic raw materials and access to mineral or raw-material deposits (resource-seeking); low relative wages; economies of large-scale operation; risk diversification — in short, access to new markets, resources and technologies.	Q2; MQ 1.3: Q1; MQ 1.5: Q1	MTP 2025-Jan S2; Model Q ×2	5.5, pp. 9.75 – 9.76; Table 4.5.2, pp. 9.76 – 9.77
5.5.3	'Getting behind the tariff wall': FDI eases penetration of markets protected by blanket bans, high customs duties or non-tariff barriers — producing locally bypasses import tariffs and quotas.	MQ 1.5: Q2	Model Q	5.5, p. 9.75
5.5.4	Foreign corporations investing in India to benefit from investment privileges such as tax breaks and comparatively lower salaries is Foreign Direct Investment.	Q1	PYQ 2024-Sep	5.9, pp. 9.82 – 9.83; 5.5, p. 9.76
5.5.5	Host-country policies that attract FDI: supportive tax policies (tax holidays), openness and preferential investment systems such as special economic zones, stable and favourable investment climate, business facilitation (ease of doing business); protectionist import bans are not an FDI incentive.	Q3	MTP 2025-Dec S1	5.5, p. 9.76; Table 4.5.2, p. 9.77

Topic 5.6 Modes of Foreign Direct Investment (FDI)

8 Scanner questions · frequency PYQ 1 · RTP – · MTP 5 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.6.1	Modes of FDI: (i) opening a subsidiary or associate company abroad; (ii) equity injection into an overseas company; (iii) acquiring a controlling interest in an existing foreign company; (iv) mergers and acquisitions; (v) joint venture; (vi) greenfield investment; (vii) brownfield investment.	Q5; MQ 1.3: Q1; MQ 1.6: Q1	MTP 2026-Apr S2; Model Q ×2	5.6, pp. 9.77 – 9.78
5.6.2	Greenfield investment: establishment of a new overseas affiliate for freshly starting production by a parent company (creation of fresh assets) — e.g. ONGC Videsh, incorporated by ONGC for exploration and production abroad.	Q1, Q4; MQ 1.6: Q2	MTP 2024-Aug, 2026-Apr S1; Model Q	5.6, p. 9.78
5.6.3	Brownfield investment: makes use of existing infrastructure by merging, acquiring or leasing instead of developing a completely new one; in India 100% FDI under the automatic route is allowed in brownfield airport projects.	Q2, Q3 (+ 5.9 Q3)	PYQ 2025-Sep, 2026-Jan; MTP 2025-Aug S2, 2025-Dec S1	5.6, p. 9.78

Topic 5.7 Benefits of Foreign Direct Investment

2 Scanner questions · frequency PYQ – · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.7.1	FDI sets up a production base and so generates direct employment, plus indirect employment through backward and forward linkages, ancillary units and multiplier effects; it brings technological know-how, management skills and skill development.	Q1, Q2	MTP 2025-Jan S2, 2025-Dec S1	5.7, pp. 9.78 – 9.79
5.7.2	Other benefits: competition (cost-reducing, quality-improving innovations, lower prices), finance beyond domestic savings, technology spill-overs, better access to foreign markets and exports, new tax revenue, economies of scale, weaker domestic monopolies, favourable balance of payments, better work culture.	(+ 5.8 MQ 1.7 Q1)	Model Q	5.7, pp. 9.78 – 9.80

Topic 5.8 Potential Problems Associated with Foreign Direct Investment

6 Scanner questions · frequency PYQ 1 · RTP – · MTP – · Model Q 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.8.1	*See Topic 5.7: job creation, technology transfer and competition-led lower prices are benefits of FDI; capital flight and loss of foreign exchange reserves are not — FDI brings in foreign exchange.*	MQ 1.7: Q1	Model Q	5.7, pp. 9.78 – 9.80
5.8.2	FDI brings in foreign exchange, improves the balance of payments and raises the value of the host currency; imported inputs and repatriation of profits strain the balance of payments and depreciate it.	MQ 1.1: Q1	Model Q	5.8, p. 9.81
5.8.3	Problems of FDI: capital-intensive methods in labour-abundant countries, regional disparity, lost tax revenue, crowding-out, balance-of-payments and exchange rate instability, low-skill jobs, distorted production, anti-ethical practices, monopoly power, off-shoring, lower labour and environmental standards, security risks, worse terms of trade, exploitation of natural resources, a dual economy (developed foreign sector, underdeveloped domestic sector) and loss of sovereignty.	MQ 1.8: Q4	PYQ 2026-Sep	5.8, pp. 9.80 – 9.82
5.8.4	Tax competition / 'race to the bottom': host governments compete with excessive tax incentives, subsidies and low standards to attract FDI; with tax holidays the host country loses tax revenue.	MQ 1.8: Q2, Q3	Model Q ×2	5.8, pp. 9.80, 9.82 (terms not in SM)
5.8.5	'Resource curse' (term not in SM): resource-rich countries growing more slowly; the SM's related charges are ruthless exploitation of natural resources and dependence on foreign capital — see Editorial Note on the printed key.	MQ 1.8: Q1	Model Q	5.8, pp. 9.80, 9.82 (term Model Q only)

Topic 5.9 Foreign Direct Investment in India (FDI)

9 Scanner questions · frequency PYQ 5 · RTP 1 · MTP – · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.9.1	FDI is a key driver of economic growth and a significant non-debt financial resource for India; IT, telecommunication and automobile were the major receivers of FDI in FY22 (the Model Q keys 'Services' as the top sector overall).	MQ 1.9: Q1	Model Q	5.9, pp. 9.82 – 9.83
5.9.2	'Make in India' aims to attract foreign investment and promote manufacturing in India.	MQ 1.9: Q2	Model Q	Not in SM (Model Q only)
5.9.3	FDI in India is regulated by the RBI under the Foreign Exchange Management Act (FEMA), with the Government's FDI Policy.	MQ 1.9: Q3	Model Q	Not in SM (Model Q only)
5.9.4	Sectoral caps are dated facts — check the current FDI Policy: telecom raised to 100%; marketing of food products and food e-commerce 100% under the automatic route; the 2019 key: 49% in private sector banking.	Q1, Q2, Q5	PYQ 2019-May, 2026-May; RTP 2025-Jan	Not in SM (PYQ-only)
5.9.5	*See Topic 5.6: 100% FDI under the automatic route is allowed in brownfield airport projects.*	Q3	PYQ 2025-Sep	5.6, p. 9.78
5.9.6	*See Topic 5.3: setting up the same type of business abroad as at home (US cell-phone provider in India; Indian restaurant chain opening the same outlets in Canada) is horizontal direct investment.*	Q4, Q6	PYQ 2025-Sep, 2026-Sep	5.3, p. 9.73

Topic 5.10 Overseas Direct Investment by Indian Companies

5 Scanner questions · frequency PYQ – · RTP – · MTP – · Model Q 5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
5.10.1	Overseas direct investment (outbound FDI) = investment by Indian companies in foreign countries; inward FDI flows into a country, outward FDI flows out. ODI was made possible by progressive relaxation of capital controls — controls that limit the flow of capital between countries.	MQ 1.1: Q1; MQ 1.6: Q1; MQ 1.10: Q1	Model Q ×3	5.10, p. 9.83; Summary, p. 9.86
5.10.2	RBI releases ODI data (US$ 1,922.51 million in September 2022) and monitors and regulates ODI under FEMA.	MQ 1.10: Q2	Model Q	5.10, p. 9.83 (regulatory role Model Q only)
5.10.3	The SM's ODI examples span steel, telecom, energy, IT, pharma and retail brands (Tata Steel, Tata Communications, Wipro, ONGC Videsh, Dr Reddy's); the Model Q key 'IT and BPO' is not stated in the SM.	MQ 1.10: Q3	Model Q	5.10, pp. 9.83 – 9.85 (Model Q only)

Part B — Chapter 9 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 22% of ICAI appearances in this chapter.

Unit 1 — Theories of International Trade

#	One-liner	Weight	Part A ref
1	Benefits: efficiency and growth, new markets and materials, innovative services, quality upgrade for emerging economies.	★	1.1.1
2	Against trade: exploitation of underprivileged countries by global corporations; risky dependence; trade-cycle transmission.	★	1.1.2
3	**Mercantilism (16th–18th c.): aggressive exports over imports → wealth, bullion, favourable BoT; high import tariffs.**	★★★	1.2.1
4	Adam Smith — absolute advantage: more output from the same resources; labour the only input.	★	1.2.2
5	Absolute advantage assumptions: 2 countries × 2 goods, no transport cost, labour-cost basis, labour immobile between countries.	★	1.2.3, 1.1.3
6	Ricardo — comparative advantage: export where absolute advantage greatest, import where comparatively less; gains even if better at everything.	★★	1.2.4
7	Comparative cost theory: labour theory of value, one factor; Haberler → opportunity cost (constant).	★★	1.2.5, 1.2.6
8	Comparative costs = normative, ignores factor prices; Modern = positive, money cost, factor price differences, special case of inter-regional trade.	★★	1.2.7, 1.2.8
9	**H-O = Factor-Endowment = Modern theory: 2 factors; export goods using the abundant factor.**	★★★	1.2.9
10	Balance of trade = flow concept (not in SM).	★	1.2.10

Unit 2 — The Instruments of Trade Policy

#	One-liner	Weight	Part A ref
1	Trade policy = all instruments to promote or restrict imports/exports; price-related (tariffs) vs non-price (NTMs).	MQ	2.1.1, 2.1.2
2	Protectionism = tariffs, quotas, NTMs to shield domestic producers; liberalisation = bringing down barriers.	★	2.1.3
3	Specific = fixed sum per unit; ad valorem = fixed % of value (duty change = rate × price change).	★★	2.2.1, 2.2.2
4	Mixed = ad valorem OR specific, whichever higher; compound = both added; technical = on contents/components.	★★	2.2.3, 2.2.4
5	TRQ = quota + tariff: low tariff inside the quota, high beyond.	★	2.2.5
6	Preferential (NAFTA: USA, Canada, Mexico); bound = legal ceiling, applied ≤ bound; variable → domestic support price.	★★	2.2.6, 2.2.7, 2.2.8

#	One-liner	Weight	Part A ref
7	Escalated = higher tariff on manufactures than raw materials; prohibitive = no imports enter.	★★	2.2.9, 2.2.10
8	**Dumping = sale abroad below home price or full average cost; ADD on imports below fair market value; CVD offsets export subsidies.**	★★★	2.2.11, 2.2.12, 2.3.11, 2.4.2
9	Tariff effects: consumers lose surplus; producers gain as foreign competition falls; revenue rises; comparative advantage ignored.	★	2.2.13
10	NTMs = non-tariff, invisible; NTBs = discriminatory subset; tariffs and CVD are not NTBs.	★	2.3.1
11	Technical = product properties and production processes (SPS, TBT); non-technical = trade requirements (hard, threat, other).	★	2.3.2, 2.3.5
12	SPS: human, animal, plant life and biodiversity; TBT: food and non-food standards, labels, eco-labels, organic certification — not quotas.	★★	2.3.3, 2.3.4
13	Import quota = physical limit, usually per year; no government revenue; quota rents.	★★	2.3.6
14	Non-automatic licensing limits quantity from any source; financial measures = advance payment, forex controls.	★	2.3.7, 2.3.8
15	Safeguards: temporary, non-discriminatory, against import surges; embargo = total ban, most extreme barrier.	★★	2.3.9, 2.3.10
16	VERs: informal quota administered by the exporting country after negotiation.	★	2.4.1

Unit 3 — Trade Negotiations

#	One-liner	Weight	Part A ref
1	UNCTAD: development-friendly integration of developing countries (not in SM).	★	3.1.1
2	Trade negotiations: market access vs protection; USMCA (2020) = NAFTA successor (USA, Mexico, Canada).	★	3.5.1, 3.4.6
3	**RTAs: 339 in force on 1 Feb 2021; eight types, unilateral → EMU; bilateral = two countries/blocs.**	★★★	3.2.1, 3.2.2, 3.5.19
4	Multilateral = entire WTO membership (WTO agreements); NAFTA/EU are regional.	★	3.2.3
5	Trading bloc: FTA + may apply a common external tariff (Arab League, EFTA).	★★	3.2.4
6	FTA keeps own external tariffs; customs union has a common external tariff (EU, GCC, MERCOSUR); common market adds factor mobility; EMU adds common currency.	★★	3.2.5, 3.2.6
7	Export-industry targeting → sector jobs, better current account (not in SM).	★	3.2.7
8	GATT: goods; 1948–1994; eight trade rounds; an agreement, not a treaty.	★	3.3.1, 3.4.1, 3.4.2
9	GATT lost relevance: investments, IPR and services outside it, agriculture failure, weak institutions and dispute settlement, not a treaty.	★	3.4.3
10	Uruguay Round 1986–94 (8th, 123 countries) → WTO 1995, encompassing GATT as modified.	★	3.4.4, 3.4.5

#	One-liner	Weight	Part A ref
11	WTO objective: trade flows smoothly, freely, fairly, predictably; six objectives incl. transparency — never secrecy.	★	3.5.2, 3.5.3
12	Structure: Geneva Secretariat under DG; Ministerial Conference (top, every 2 yrs) → General Council (TPRB, DSB) → Goods, Services, TRIPS Councils.	MQ	3.5.4, 3.5.5
13	MFN: no discrimination among partners; Article 1 of GATT.	★★	3.5.6
14	National treatment: imported = local goods once inside the market; post-sales restrictions violate it.	★	3.5.7
15	Guiding principles: non-discrimination, freer trade, predictability (binding and transparency), fair competition, development and reform.	★	3.5.8, 3.5.10
16	TPRM: periodical review of members' trade policies.	★	3.5.9
17	WTO agreements: AoA (market access, domestic support, export subsidies), SPS, TBT, TRIMs, TRIPS, GATS ... — NAFTA is not one.	★★	3.5.11, 3.5.12, 3.5.13, 3.5.14
18	NTMs under WTO: quotas, licensing, procedures disciplined; safeguards temporary emergency measures.	MQ	3.5.15, 3.5.16, 3.5.17, 3.5.18
19	Doha Development Agenda: 9th round, Doha, Nov 2001; most controversial = agriculture; developing-country concerns.	★★	3.6.1, 3.6.2
20	G20: 19 countries + EU (Tunisia not a member).	★	3.7.1

Unit 4 — Exchange Rate and its Economic Effects

#	One-liner	Weight	Part A ref
1	Exchange rate = rate at which one currency exchanges for another; convert by multiplying by the quoted rate.	MQ	4.1.1, 4.1.2
2	Regime = system by which a country manages its currency against foreign currencies; extremes: floating (flexible) and fixed.	MQ	4.3.1
3	Free float: market-determined by demand and supply; governments and central banks stay out.	MQ	4.3.2
4	Managed float: rate floats but central bank buys/sells to influence it — India = managed float.	★★	4.3.3
5	Fixed (pegged): government decrees value against a currency, basket or gold; central bank intervenes and keeps reserves.	MQ	4.3.4
6	Soft peg (market-led; most IMF members) vs hard peg (fixed, unchanging); crawling peg and currency board lie beyond the SM.	★	4.3.5, 4.3.6
7	Fixed: no fluctuation risk, more trade and investment, LESS speculation, monetary discipline, credibility.	★	4.3.7
8	Floating: independent monetary policy, rate as policy tool, no huge reserves — but volatility, uncertainty, risk premium.	★	4.3.8
9	Nominal = currency for currency; real = goods for goods ('how many' for 'one'); trade flows follow the real rate.	★	4.4.1, 4.5.8, 4.1.3

#	One-liner	Weight	Part A ref
10	RER = NER × Domestic price index ÷ Foreign price index; rearrange to find NER.	★	4.4.2, 4.6.4
11	REER = NEER ÷ price deflator; rising REER → exports dearer, imports cheaper, lost competitiveness, current account deficit.	★★	4.4.3, 4.4.4
12	Forex market: over-the-counter electronic network, very narrow spreads; US dollar = vehicle currency; FEMA governs forex in India.	★★	4.5.1, 4.5.2, 4.5.3, 4.5.5
13	Direct quote (European) = local per 1 foreign; indirect (American) = foreign per 1 local; cross rate from two pairs; arbitrage equalises rates.	★★	4.5.6, 4.5.7, 4.9.9
14	Equilibrium rate where D$ meets S$; demand from imports, transfers, income payments, assets, speculation; supply from exports, FDI/FPI inflows.	★	4.6.1, 4.2.1, 4.5.4
15	Beyond the SM: short run — interest, inflation, trade balance; long run — relative inflation; higher interest and stability → appreciation.	MQ	4.6.5, 4.6.6
16	Appreciation = value up, depreciation = value down; $1 = ₹70 → ₹75 means the rupee depreciated, the dollar appreciated.	★	4.7.1, 4.3.9
17	More demand for a currency → it appreciates; more demand for foreign currency (e.g. wider trade deficit) → home currency depreciates.	MQ	4.7.2, 4.9.7
18	Devaluation / revaluation = official change in fixed par value; depreciation / appreciation = market forces under floating.	★	4.8.1, 4.8.2
19	**Depreciation: exports cheaper, imports dearer → output expansion, better trade balance, offsets inflation's competitiveness loss; but adds to inflation.**	★★★	4.9.1, 4.9.5, 4.8.3, 4.6.2
20	Appreciation: currency more valuable, buys more foreign currency; exports dearer so their quantity falls; imports cheaper so they rise.	★★	4.9.2, 4.9.3, 4.9.4
21	Volatility deters FDI and FPI and raises hedging costs; trade deficit / CAD = imports exceed exports.	★	4.9.6, 4.6.3, 4.9.8

Unit 5 — International Capital Movements

#	One-liner	Weight	Part A ref
1	Capital movements = cross-border flows of financial assets and liabilities; foreign capital = any capital inflow.	MQ	5.2.1
2	Foreign capital: aid, borrowings (World Bank/IMF/ADB, IDA soft loans, ECB, trade credit), NRI deposits, FPI and FDI.	MQ	5.2.2
3	Beyond the SM: World Bank = IBRD (long-term development loans); GDR = overseas bank's receipt against domestic shares.	★★	5.2.3, 5.2.4, 5.2.5
4	FDI (IMF): lasting interest and control, at least 10% voting power; components: equity, reinvested earnings, intra-company loans.	★	5.3.1, 5.3.2
5	ECB is debt, not FDI; an FDI inflow improves the capital account but worsens NIIP.	★	5.3.3, 5.3.6
6	Horizontal = same business abroad; vertical = supplementary activity; conglomerate = unrelated (often JV); two-way = reciprocal.	★★	5.3.4, 5.9.6

#	One-liner	Weight	Part A ref
7	FPI: financial capital in stocks/bonds, below 10%, no control, short-term, speculative, return-seeking.	★	5.4.1, 5.4.3
8	FDI vs FPI: physical vs financial, long vs short, hard vs easy exit, technology and employment vs none.	★	5.4.2, 5.4.6
9	Beyond the SM: FII develops the capital market and equity flows; capital flight = rapid outflow on uncertainty.	★	5.4.4, 5.4.5
10	Chief motive: higher return than at home; firm-specific assets (management skill, patents).	MQ	5.5.1
11	Reasons: markets, resources, low wages, scale, diversification, tariff-jumping, tax breaks, SEZs, stable climate.	★★	5.5.2, 5.5.3, 5.5.4, 5.5.5
12	Modes: subsidiary, equity injection, controlling interest, M&A, joint venture, greenfield, brownfield.	★	5.6.1
13	**Greenfield = new affiliate, fresh assets; brownfield = existing infrastructure via merger, acquisition or lease (100% automatic in brownfield airports).**	★★★	5.6.2, 5.6.3, 5.9.5
14	Benefits: direct and indirect employment, technology, competition, finance beyond savings, exports, tax revenue, BoP.	★	5.7.1, 5.7.2, 5.8.1
15	FDI inflow appreciates the host currency; imported inputs and profit repatriation depreciate it.	MQ	5.8.2
16	Problems: capital-intensive methods, regional disparity, crowding-out, BoP instability, distortions, monopoly, dual economy, sovereignty; tax competition.	★	5.8.3, 5.8.4, 5.8.5
17	FDI in India: non-debt resource; tax breaks and lower salaries attract it; RBI/FEMA regulate; Make in India; sectoral caps are dated.	★★	5.9.1, 5.9.2, 5.9.3, 5.9.4, 5.5.4
18	ODI = Indian companies investing abroad (outbound FDI), enabled by relaxed capital controls; RBI publishes the data.	MQ	5.10.1, 5.10.2, 5.10.3

CHAPTER 10

Indian Economy

178 Scanner questions · 113 one-liners · 45 revision pointers

Part A — One-liners mapped to Scanner questions and Study Material

Indian Economy

SM Chapter 10, pages 10.1 – 10.34

Topic 10.1 Status of Indian Economy: Pre Independence Period (1850-1947)

7 Scanner questions · frequency PYQ 2 · RTP – · MTP 3 · Model Q 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.1.1	Between the first and the seventeenth century AD India is believed to have had the largest economy of the ancient and medieval world — prosperous and self-reliant, controlling between one third and one fourth of the world's wealth; it consisted of self-sufficient villages as well as cities which were centres of commerce, pilgrimage and administration.	Q5 (+ 10.2 Q1, 10.2 Q2)	PYQ 2025-May, 2025-Sep, 2026-Sep	10.1, p. 10.1
10.1.2	British rule (East India Company 1757–1858; British government 1858–1947) reversed India's trade from exporter of manufactures to exporter of raw materials; discriminatory tariffs and cheap machine-made imports destroyed Indian handicrafts. Consequences: large-scale unemployment and forced dependence on agriculture (agriculture the dominant sector), sub-division and fragmentation of holdings, subsistence farming, low productivity and poverty, zamindari, excessive rents, absentee landlordism, indebtedness and exploitative money-lenders — a virtual collapse of Indian agriculture. The 1850–1947 economy was thus an impoverished, under-developed one, not 'prosperous and self-reliant' (that describes the 1st–17th century).	Q5; MQ 1.1: Q2	PYQ 2026-Sep; Model Q	10.1, pp. 10.2 – 10.3
10.1.3	During the British period the modern industrial sector saw lopsided growth with the preponderance of cotton and jute: no factory production before 1850; cotton mills had 9 million spindles in the 1930s (5th in the world); Indian jute mills were the world's largest by the end of the 19th century; iron industry set up as early as 1814 (8th in the world in 1930); India was the 12th largest industrialised country just before the Great Depression. Producer goods industries lagged; manufacturing was barely 7% of NDP in 1946; factory employment only 0.4% (1900) and 1.4% (1941) of the population.	Q1	PYQ 2025-Jan	10.1, p. 10.4; Summary, p. 10.27
10.1.4	The Great Depression of the 1930s caused significant economic hardship and unemployment in India (the SM mentions the Depression only as a date-marker for India's 12th-place industrial ranking).	MQ 1.1: Q1	Model Q	Not in SM (Model Q only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.1.5	Economic growth comes from more resources (labour, capital), better technology and knowledge gained through education or experience — a mere increase in the size of the population does not by itself contribute to growth.	Q2	MTP 2025-Jan S2	Not in SM (MTP-only)
10.1.6	Disguised unemployment is typical of the agricultural sector — the SM's colonial story (handicraft workers pushed on to land, over-crowding, sub-division, subsistence farming) is its origin.	Q3	MTP 2025-May S2	Not in SM (MTP-only)
10.1.7	Industry depends on agriculture for food for its workers, raw materials for agro-based industries and a market for industrial products (all of the above).	Q4	MTP 2025-May S2	Not in SM (MTP-only)

Topic 10.2 Indian Economy: Post Independence (1947-1991)

15 Scanner questions · frequency PYQ 3 · RTP – · MTP 9 · Model Q 3

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.2.1	*See Topic 10.1: pre-British India was a self-reliant and prosperous economy of self-sufficient villages and cities which were centres of commerce.*	Q1, Q2	PYQ 2025-May, 2025-Sep	10.1, p. 10.1
10.2.2	*See Topic 10.1: pre-independence India faced limited access to modern technology and infrastructure — producer goods industries lagged and the country was deficient in physical, financial and human capital.*	MQ 1.1: Q1	Model Q	Not in SM (Model Q only)
10.2.3	The Nehruvian model of state-directed industrialisation with centralised economic planning dominated post-independence policy: the Planning Commission planned on socialistic lines through five-year plans, crafted to accomplish rapid economic growth accompanied by equity and distributive justice (growth with social justice) — a move from colonial exploitation to planned development.	Q10, Q11 (+ 10.6 Q8)	RTP 2025-Sep, 2026-Jan; MTP 2025-Jan S2, 2025-Apr S1, 2025-Dec S1, 2026-Apr S2	10.2, pp. 10.4 – 10.5
10.2.4	Inward-looking strategy: after the 1958 balance of payments crisis trade was tightened and comprehensive import controls kept until 1966; tariffs, quotas and quantitative restrictions kept foreign goods out to protect domestic industry (import substitution within a planned economy).	MQ 1.2: Q1 (+ 10.4 Q13)	MTP 2024-Dec S1; Model Q	10.2, p. 10.5; 10.3, p. 10.8
10.2.5	Policies of the 1950s were guided by two philosophies: Nehru's socialistic society with emphasis on heavy industry, and the Gandhian philosophy of small-scale and cottage industry and village republics. The Industrial Policy Resolution 1948 gave the State monopoly of atomic energy, arms and ammunition and railways; the IPR 1956 enormously expanded the public sector.	Q3	PYQ 2026-May	10.2, p. 10.5

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.2.6	'Hindu growth rate' = India's modest average annual GDP growth of 3.5 percent in the first three decades after independence (1950–80).	Q9, Q12	MTP 2025-Aug S2, 2026-Apr S1	10.2, p. 10.5
10.2.7	Before the green revolution, agricultural strategy relied on the institutional model — land reforms, farm cooperatives — not on technocratic areas such as R&D and irrigation; productivity gains were meagre.	Q4	MTP 2025-Apr S1	10.2, p. 10.6
10.2.8	Green revolution (the first major shift in strategy, mid-1960s): after the 1966 and 1967 droughts and PL 480 food aid, policy turned to raising productivity, especially of wheat (food grains); it was materialised by innovative farm technologies — high yielding seed varieties and intensive use of water, fertiliser and pesticides — and enabled India to tide over the food problem (self-sufficiency in food grains). The SM gives no exact start year.	Q6, Q8; MQ 1.2: Q2 (+ 10.7 Q2, 10.7 Q10, 10.7 Q22)	PYQ 2024-Jun, 2024-Sep; RTP 2026-Jan; MTP 2025-Jan S2, 2025-Apr S1, 2025-May S2, 2025-Aug S2; Model Q	10.2, p. 10.6
10.2.9	Interventionist 1960s–70s: stringent trade and licensing controls and a wave of nationalisation (State taking full ownership and control from the private sector) — 14 banks in 1969 and 6 more in 1980. 1965–81 was the worst period of growth in independent India.	(+ 10.4 Q12)	MTP 2024-Dec S1	10.2, p. 10.6
10.2.10	Industrial retrogression and deceleration (mid-1960s onwards) is attributed to poor agricultural performance, slackening public investment and a narrow market for industrial goods. (The SM's reasons for the 1965–81 slowdown: licence-raj, autarchic policies, three wars, droughts and the 1973 and 1979 oil shocks.)	Q5	MTP 2025-May S2	Not in SM (MTP-only)
10.2.11	An economy is underdeveloped when living standards and productivity are low, agriculture is the main occupation with low productivity, and production techniques are backward.	Q7	MTP 2025-May S2	Not in SM (MTP-only)

Topic 10.4 The Economic Reforms of 1991

67 Scanner questions · frequency PYQ 28 · RTP 2 · MTP 20 · Model Q 19

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.4.1	Early liberalisation: the seeds of reform were sown in the 1980s, especially after 1985; the 1981–89 measures ('early liberalisation' or 'reforms by stealth') covered industry, trade and taxation, and GDP growth rose to 5.7% (Sixth Plan, 1980–85) and 5.8% (Seventh Plan, 1985–90).	Q22	PYQ 2025-May	10.3, p. 10.7
10.4.2	Broad-banding (1980s): industry groups could change their product mix within existing capacity without a fresh licence — e.g. switching production from trucks to cars.	Q27, Q45	PYQ 2025-Sep, 2026-Sep	10.3, pp. 10.7 – 10.8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.4.3	Other 1980s reforms: delicensing of 25 broad categories of industries (1985); MRTP asset limit raised from ₹20 crore to ₹100 crore (1985–86); MODVAT replacing multipoint excise duties; SEBI set up as a non-statutory body (12 April 1988); expansion of the OGL list (1,329 capital goods items by April 1990); export incentives; a realistic exchange rate; abolition of price and distribution controls on cement and aluminium. Currency demonetisation was not one of them.	Q28	PYQ 2026-Jan	10.3, p. 10.8
10.4.4	The MRTP Act, 1969 regulated large firms which had relatively large market power (restrictions on licensing, capacity addition, mergers and acquisitions); the 1991 policy restructured it and repealed its merger, amalgamation and takeover provisions.	Q5, Q15	PYQ 2024-Jun, 2025-Jan	10.2, p. 10.6; 10.4.4, p. 10.12
10.4.5	*See Topic 10.2: import controls protected domestic industry — import substitution aimed to reduce dependence on foreign goods by promoting domestic industries.*	Q13	MTP 2024-Dec S1	10.2, p. 10.5; 10.3, p. 10.8
10.4.6	*See Topic 10.2: nationalisation = government taking full control and management from the private sector (14 banks 1969, 6 in 1980).*	Q12	MTP 2024-Dec S1	10.2, p. 10.6
10.4.7	India embarked on the bold economic reforms of 1991 under the P. V. Narasimha Rao government.	Q47; MQ 1.4: Q1	PYQ 2026-Sep; Model Q	10.4, p. 10.9
10.4.8	Dr Manmohan Singh (Finance Minister) is regarded as the key architect of the 1991 reforms — the SM names only the Narasimha Rao government.	MQ 1.3: Q3	MTP 2025-Aug S1	Not in SM (MTP-only)
10.4.9	Causes of the 1991 reforms (SM list): revenue expenditure persistently exceeding revenue receipts, with the fiscal deficit financed by huge domestic and external debt; swelling public debt and interest payments; the 1990 Gulf-war oil price surge and severe strain on the balance of payments; tighter import curbs cutting industrial output; dependence on IMF borrowing with stringent conditions; and the fragile political situation which, with the economic crises, ballooned into a 'crisis of confidence'. High forex reserves were NOT a cause.	Q3, Q32, Q46; MQ 1.2: Q2	PYQ 2024-Jun, 2026-May, 2026-Sep; Model Q	10.4, pp. 10.9 – 10.10
10.4.10	The immediate trigger was the balance of payments crisis: foreign exchange reserves fell to the lowest point — only $1.2 billion, barely two weeks of imports — 'the major context that triggered economic reforms'; reform momentum came from the critical economic, fiscal and BoP crises (not from mere stagnation).	Q39, Q41; MQ 1.3: Q2	MTP 2026-Apr S2, 2026-Apr S1; Model Q	10.4, pp. 10.9 – 10.10

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.4.11	1991 was a paradigm shift: after the Soviet collapse and China's outward-oriented success, reforms moved the economy toward greater market orientation and external openness — a rethinking of the role of markets versus the state (liberalisation and opening up).	Q19; MQ 1.2: Q1 (+ 10.6 Q5)	RTP 2025-Jan; MTP 2024-Dec S1; Model Q	10.3, p. 10.9; 10.4, p. 10.10
10.4.12	The 1991 reforms are popularly known as Liberalisation, Privatisation and Globalisation (LPG) — 'socialisation' is not one of them; liberalisation means decontrol, deregulation and freedom to do business, whereas disinvestment of PSUs is privatisation.	Q1, Q2; MQ 1.4.1: Q1	PYQ 2022-Dec, 2023-Dec; Model Q	10.4, p. 10.10; 10.4.4, p. 10.13
10.4.13	Two objectives: (1) reorientation from a centrally directed, highly controlled economy to a 'market friendly' one; (2) macroeconomic stabilisation by substantial reduction in the fiscal deficit. Measures were (a) short-term stabilisation measures against inflation and adverse BoP and (b) long-term structural reform measures removing structural rigidities.	Q44; MQ 1.4.1: Q2	MTP 2026-Apr S1; Model Q	10.4, p. 10.10
10.4.14	Fiscal reforms (to cut the fiscal deficit): stable and transparent tax structure; better tax compliance; thrust on curbing government expenditure; reduction and abolition of subsidies; disinvestment of part of government equity in select PSUs; encouraging private sector participation. A September 1994 agreement with the RBI aimed to phase out deficit financing by money creation by 1997–98.	Q20; MQ 1.4.1: Q3	PYQ 2025-May; Model Q	10.4.1, pp. 10.10 – 10.11
10.4.15	Monetary and financial sector reforms — focus: reducing NPAs of government banks, introducing and sustaining competition, deregulating interest rates. Measures: interest rate liberalisation and fewer RBI controls on lending and deposit rates; new private sector banks and competition with foreign banks; lower SLR and CRR per the Narasimham Committee Report, 1991 (banking and financial sector); liberal branch licensing; prudential norms on asset classification, income disclosure and bad-debt provisioning. Restricting foreign investment in banks was not a focus.	Q26, Q29, Q31; MQ 1.4.2: Q1, Q2	PYQ 2025-Sep, 2026-Jan, 2026-May; Model Q ×2	10.4.2, p. 10.11
10.4.16	Pre-reform banking was marked by administered interest rates, high reserve requirements, quantitative restrictions on credit flow and large directed (priority-sector) lending — so 'very little lendable resources for the priority sector' was not a feature.	Q34	MTP 2025-May S2	10.4.2, p. 10.11 (pre-reform features inferred; not listed in SM)
10.4.17	The Liquidity Adjustment Facility (LAF) provides liquidity to banks through repo and reverse repo operations.	MQ 1.4.2: Q3	Model Q	Not in SM (Model Q only)

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.4.18	SEBI, set up in 1988 (non-statutory), was given statutory recognition in 1992 as the independent regulator of the capital market, to facilitate mobilisation of adequate resources and their efficient allocation.	Q17; MQ 1.4.3: Q1	PYQ 2025-Jan; MTP 2025-May S2; Model Q	10.4.3, p. 10.12
10.4.19	The depository system enables electronic (dematerialised) holding and transfer of securities.	MQ 1.4.3: Q2	Model Q	Not in SM (Model Q only)
10.4.20	The New Industrial Policy, announced on 24 July 1991, substantially deregulated industry and ended the 'Licence Raj': licensing was removed for all industries except 18 (now 5 — arms and ammunition, atomic substances, narcotic drugs and hazardous chemicals, alcoholic drinks, cigarettes and cigars); small-scale items were de-reserved; the public sector was contracted — all to secure liberal participation by the private sector.	Q9, Q35, Q38, Q40; MQ 1.4: Q2	PYQ 2024-Sep; MTP 2025-Aug S1, 2025-Dec S1, 2026-Apr S2; Model Q	10.4.4, p. 10.12
10.4.21	Public sector reservation was cut to eight industries on strategic and security grounds; subsequently only two remain — railway transport and atomic energy.	Q30; MQ 1.4.4: Q1	PYQ 2026-Jan; Model Q	10.4.4, p. 10.12
10.4.22	Disinvestment of government equity in public sector enterprises, with greater autonomy, professional management and progressively reduced budgetary support, aimed at efficiency and reasonable returns.	Q42	MTP 2026-Apr S1	10.4.4, p. 10.13
10.4.23	Foreign investment: automatic approval for FDI up to 51 percent, later extended to nearly all industries except reserved ones; FDI is prohibited only in four sectors — retail trade, atomic energy, lottery business, and betting and gambling. Globalisation strategy = higher foreign equity limits, tariff reduction and rupee convertibility.	Q18, Q43; MQ 1.4.4: Q2	PYQ 2025-Jan; MTP 2026-Apr S1; Model Q	10.4.4, pp. 10.12 – 10.13
10.4.24	Trade policy reforms: dismantling quantitative restrictions on imports and exports; a more outward-oriented regime with phased reduction and simplification of tariffs; removal of import licensing (positive OGL list replaced by a negative list); export duties removed. Peak tariff 355% (1990–91) → 85% (1993–94) → 50% (1995–96) → 10% (2007–08).	Q21; MQ 1.3: Q1; MQ 1.4.5: Q2	PYQ 2025-May; Model Q ×2	10.4.4 – 10.4.5, p. 10.13
10.4.25	Exchange rate: rupee devalued by 18–19% against the dollar in July 1991; dual exchange rate March 1992; unified and allowed to float March 1993 — managed floating since 1993; rupee convertible on current account from 1994.	Q16, Q33, Q43	PYQ 2025-Jan; RTP 2025-May; MTP 2026-Apr S1	10.4.4 – 10.4.5, pp. 10.13 – 10.14
10.4.26	SEZs are promoted through tax incentives and duty exemptions.	MQ 1.4.5: Q1	Model Q	Not in SM (Model Q only)
10.4.27	A realistic (depreciated) exchange rate expands exports: the rupee's REER was depreciated by about 30% from 1985–86 to 1989–90, helping exports and easing forex pressure.	MQ 1.6: Q1	Model Q	10.3, p. 10.8

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.4.28	*See Topic 10.7: 100% FDI is allowed in marketing of food products and food product e-commerce under the automatic route.*	Q4	PYQ 2024-Jun	10.7.1, p. 10.19
10.4.29	*See Topic 10.7: 'Make in India' (2014) facilitates investment and manufacturing — higher investment is likely to increase aggregate demand.*	Q8	MTP 2024-Aug, 2025-Dec S1	10.7.2, p. 10.22
10.4.30	*See Topic 10.7: DPIIT = Department for Promotion of Industry and Internal Trade.*	Q10	PYQ 2024-Sep	10.7.2, p. 10.22
10.4.31	*See Topic 10.7: FIPB was abolished in May 2017 and replaced by the Foreign Investment Facilitation Portal (FIF); RoDTEP (2021) replaced MEIS.*	Q23, Q24, Q25	PYQ 2025-May (×2), 2025-Sep	10.7.2, pp. 10.23 – 10.24
10.4.32	GST was enacted through the Constitution (101st Amendment) Act, 2016; the Supreme Court's May 2022 verdict held that the Union and State legislatures have 'equal, simultaneous and unique powers' to make GST laws. (The SM gives only GST's introduction on 1 July 2017, p. 10.22.)	Q11, Q14	PYQ 2024-Sep; MTP 2024-Dec S1	Not in SM (PYQ/MTP-only)
10.4.33	Public finance items with no anchor in Chapter 10: statutory grants-in-aid to states are under Article 275; the Finance Commission recommends devolution of Union taxes and grants-in-aid (not a 'trade tax'); the 16th Finance Commission is chaired by Dr Arvind Panagariya.	Q6, Q36, Q37	MTP 2024-Aug, 2025-Dec S1 (×2)	Not in SM (MTP-only)
10.4.34	Government failure occurs when government intervention is ineffective and produces fresh and more serious problems.	Q7	MTP 2024-Aug	Not in SM (MTP-only)

Topic 10.5 GDP Growth Rates Post 1991 Reforms

7 Scanner questions · frequency PYQ 1 · RTP – · MTP 2 · Model Q 4

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.5.1	GDP growth rate is regarded as the most reliable indicator of economic growth (hence 'gross production' is keyed as the best indicator).	Q3	MTP 2025-May S2	10.5, p. 10.15
10.5.2	The reforms brought accelerated growth and global competitiveness: integration with the world economy, market orientation, surging private investment, internationally competitive sectors (auto components, telecom, software, pharma), stable FDI, forex reserves close to eight months of imports, reduced poverty — average GDP growth commendable except the pandemic year 2020.	MQ 1.4: Q1	Model Q	10.4, pp. 10.14 – 10.15; Summary, p. 10.31
10.5.3	Table 10.1 (GDP growth, 1991–2021): lowest 1991 (1.06%) and 2020 (−6.60%); highest 1999 (8.85%), then 2021 (8.68%) and 2010 (8.50%). Average 1991–2000 ≈ 5.6%; 1992–2001 ≈ 6.0%; 2001–2010 ≈ 6.8%.	MQ 1.4.6: Q1, Q2	Model Q ×2	10.5, Table 10.1, p. 10.15

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.5.4	Average growth method: average of n years = sum ÷ n, so the missing year = (n × average) − sum of the known years (printed working: x + 7.9 + 8.5 = 3 × 8.2 = 24.6, so x = 8.2%).	Q1	PYQ 2024-Jun	Not in SM (PYQ-only)
10.5.5	Inflation in India is commonly measured by the Consumer Price Index (CPI).	Q2; MQ 1.6: Q1	MTP 2024-Dec S1; Model Q	Not in SM (MTP-only)

Topic 10.6 NITI Aayog: A Bold Step for Transforming India

18 Scanner questions · frequency PYQ 7 · RTP 3 · MTP 12

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.6.1	On 1 January 2015 the Planning Commission (in place for nearly sixty-four years) was replaced by the National Institution for Transforming India (NITI) Aayog, to 'spur innovative thinking by objective experts' and promote 'co-operative federalism' by enhancing the voice and influence of the states; it serves as a 'Think Tank' of the government and a 'directional and policy dynamo'.	Q2, Q16, Q17	PYQ 2024-Sep; MTP 2026-Apr S2, 2026-Apr S1	10.6, p. 10.16
10.6.2	NITI Aayog objectives include developing mechanisms to formulate credible plans at the village level and aggregating them progressively at higher levels of government (plus a shared national vision with states and fostering cooperative federalism).	Q1	PYQ 2024-Jun	10.6, p. 10.16
10.6.3	NITI has a limited role: it does not produce national (five-year) plans, control expenditure or review state plans, and is excluded from the budgeting process — so neither formulating five-year plans nor allocating financial resources to states is its function.	Q4, Q11	RTP 2025-May; MTP 2024-Dec S1, 2025-Apr S1	10.6, p. 10.18
10.6.4	NDAP (National Data and Analytics Platform) facilitates and improves access to Indian government data.	Q3, Q7	PYQ 2024-Sep, 2025-Jan	10.6, p. 10.17
10.6.5	Electric vehicles: E-Amrit is a one-stop destination for all information on electric vehicles; the Shoonya campaign aims to improve air quality by accelerating the deployment of electric vehicles.	Q9, Q10 (+ 10.7 Q1)	PYQ 2024-Jun, 2025-May, 2026-Jan	10.6, p. 10.17
10.6.6	'LiFE' (Lifestyle for Environment) envisions replacing the prevalent 'use-and-dispose' economy — sustainable lifestyle choices. (The SM writes 'Life' and does not expand it.)	Q12, Q14	MTP 2025-Aug S1, 2025-Dec S1	10.6, p. 10.17
10.6.7	'Methanol Economy' programme aims at reducing India's oil import bill and GHG emissions, and converting coal reserves and municipal solid waste (not industrial waste) into methanol.	Q13 (+ 10.7 Q11)	PYQ 2024-Sep; MTP 2025-Aug S2	10.6, p. 10.18

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.6.8	NITI Aayog's seven key initiatives: LiFE, NDAP, Shoonya, E-Amrit, India Policy Insights (IPI), Methanol Economy, Transforming India's Gold Market. Creation of a start-up ecosystem in agriculture is a farm-sector measure, not a NITI initiative.	Q15, Q18	PYQ 2026-Sep; MTP 2025-Dec S1	10.6, pp. 10.17 – 10.18
10.6.9	Atal Tinkering Labs are an initiative of NITI Aayog (Atal Innovation Mission).	Q6	MTP 2024-Dec S1	Not in SM (MTP-only)
10.6.10	*See Topic 10.4: the New Economic Policy expanded the economy through liberalisation — lower tariffs, deregulation, opening markets to private and foreign players — so both A and R are true and R explains A.*	Q5	MTP 2024-Dec S1	10.4, p. 10.10
10.6.11	*See Topic 10.2: five-year plans aimed at rapid growth with equity and distributive justice (balanced, just growth).*	Q8	RTP 2025-Sep, 2026-Jan; MTP 2025-Jan S2, 2025-Apr S1	10.2, pp. 10.4 – 10.5

Topic 10.7 The current state of the Indian Economy: A brief overview

57 Scanner questions · frequency PYQ 36 · RTP 4 · MTP 23

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.7.1	Primary sector = agriculture with its allied sectors (livestock, dairy, fisheries) — the largest source of livelihood; India is the world's largest producer of milk, pulses, jute and spices, so milk production is a primary-sector activity.	Q18	PYQ 2025-Jan; MTP 2025-Apr S1	10.7.1, p. 10.18
10.7.2	47 per cent of India's population is directly dependent on agriculture; agriculture and allied GVA share was 18.8% in 2021–22; food grains output 315.7 million tonnes (2021–22).	Q24	PYQ 2025-May	10.7.1, p. 10.19
10.7.3	MSP for all 23 mandated crops is fixed at 1.5 times (one-and-a-half times) the all-India weighted average cost of production.	Q16, Q33	PYQ 2025-Jan, 2026-Jan	10.7.1, pp. 10.19 – 10.20
10.7.4	The Food Corporation of India (FCI) maintains the buffer stock of food grains; MSP is approved by the Cabinet Committee on Economic Affairs.	Q12, Q13	MTP 2024-Dec S1 (×2)	Not in SM (MTP-only)
10.7.5	APEDA = Agricultural and Processed Food Products Export Development Authority, entrusted with export promotion of agri-products; India is among the top ten agri-exporters.	Q4	PYQ 2024-Jun	10.7.1, p. 10.19
10.7.6	FDI liberalisation: 100% FDI under the automatic route in marketing of food products and food e-commerce, in telecommunication services (all services and infrastructure providers) and in coal sale and mining; insurance FDI cap raised from 49% to 74%. Telecom is no longer a public sector monopoly — only railway transport and atomic energy remain reserved.	Q47 (+ 10.4 Q4)	PYQ 2024-Jun; MTP 2025-Dec S1	10.7.1, p. 10.19; 10.7.2, p. 10.23; 10.7.3, p. 10.26; 10.4.4, p. 10.12

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.7.7	Farm measures (SM list): PM KISAN — income support to farmers; Pradhan Mantri Fasal Bima Yojana — insurance for farmers suffering crop loss or damage; Paramparagat Krishi Vikas Yojana — organic farming and soil health; Per Drop More Crop — water use efficiency at farm level; Kisan Rail — improvement in farm produce logistics; also MSP, Soil Health Cards, Agri Infrastructure Fund, FPOs, Micro Irrigation Fund.	Q7, Q25, Q27, Q29, Q34	PYQ 2024-Sep, 2025-May, 2025-Sep (×2), 2026-May; MTP 2025-Aug S1	10.7.1, p. 10.20
10.7.8	E-NAM is a pan-India electronic trading portal networking existing APMC mandis to create a unified national market for agricultural commodities.	Q5, Q23, Q36, Q45	PYQ 2024-Jun, 2026-May; RTP 2025-Jan; MTP 2025-Aug S2	10.7.1, p. 10.20
10.7.9	Agricultural issues: small and fragmented holdings, low farm productivity and subsistence farming leave little marketable surplus and reduce farmers' ability to participate in domestic and export markets; also poor adoption of new technologies and heavy dependence on monsoons.	Q6, Q20	PYQ 2024-Jun; MTP 2025-Jan S2	10.7.1, pp. 10.20 – 10.21
10.7.10	Indian agriculture is largely rain-fed (about two-thirds of the area), so the claim that about 80% of agricultural area is irrigated is incorrect.	Q42	MTP 2025-May S2	Not in SM (MTP-only)
10.7.11	The Index of Eight Core Industries (ICI) covers Coal, Crude Oil, Natural Gas, Refinery Products, Fertilisers, Steel, Cement and Electricity — 40.27% of the weight of items in the IIP; information and communication is not a core industry.	Q32, Q37	PYQ 2026-Jan, 2026-May	10.7.2, p. 10.22
10.7.12	Manufacturing Purchasing Managers' Index (PMI) stood at 55.4 (31 January 2023); India's Global Innovation Index rank improved to 40th in 2022 from 81st in 2015.	(+ 10.8 Q4, 10.8 Q5)	PYQ 2025-May, 2025-Sep	10.7.2, pp. 10.22, 10.24
10.7.13	DPIIT (Department for Promotion of Industry and Internal Trade) formulates and implements industrial policy and strategies for industrial development.	(+ 10.4 Q10)	PYQ 2024-Sep	10.7.2, p. 10.22
10.7.14	'Make in India' (2014), a 'Vocal for Local' initiative, facilitates investment, fosters innovation and makes India a hub for manufacturing, design and innovation; 'Make in India 2.0' focuses on 27 sectors — 15 manufacturing and 12 service sectors.	Q14, Q31 (+ 10.4 Q8)	PYQ 2026-Jan; MTP 2024-Aug, 2024-Dec S1, 2025-Dec S1	10.7.2, p. 10.22
10.7.15	Ease of Doing Business: India ranked 63rd in the World Bank's Doing Business Report 2020 (77th in 2019), a jump of 14 ranks.	Q43	MTP 2025-May S2	10.7.2, p. 10.22
10.7.16	PM Gati Shakti National Master Plan facilitates data-based decisions for integrated planning of multimodal infrastructure, thereby reducing logistics cost.	Q3, Q54	PYQ 2024-Jun, 2026-Sep	10.7.2, p. 10.23

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.7.17	Production Linked Incentive (PLI) Scheme (March 2020, 14 key sectors) gives manufacturers incentives to enhance India's manufacturing capabilities and export competitiveness; now extended to white goods (air conditioners and LED lights).	Q26, Q56	PYQ 2025-Sep, 2026-Sep	10.7.2, p. 10.23
10.7.18	FAME-India (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) promotes manufacturing of electric and hybrid vehicle technology and its sustainable growth.	Q15	PYQ 2025-Jan	10.7.2, p. 10.23
10.7.19	'Udyami Bharat' aims at the empowerment of Micro, Small and Medium Enterprises (MSMEs).	Q8, Q35	PYQ 2024-Sep, 2026-May	10.7.2, p. 10.23
10.7.20	Small-scale industries are promoted by providing financial and technical assistance to small businesses (not by subsidising MNCs or abolishing labour laws).	Q19	MTP 2025-Jan S2	Not in SM (MTP-only)
10.7.21	PM MITRA (PM Mega Integrated Textile Region and Apparel) ensures world-class industrial infrastructure to attract cutting-edge technology and boost FDI and local investment in textiles.	Q17, Q55	PYQ 2025-Jan, 2026-Sep	10.7.2, p. 10.23
10.7.22	FIPB was abolished in May 2017 and replaced by the Foreign Investment Facilitation Portal (FIF); RoDTEP (Remission of Duties and Taxes on Export Products, 2021) replaced MEIS, rebating hidden central, state and local duties on exports.	(+ 10.4 Q23, 10.4 Q24, 10.4 Q25)	PYQ 2025-May (×2), 2025-Sep	10.7.2, pp. 10.23 – 10.24
10.7.23	Start-up India Programme acts as the facilitator for ideas and innovation in the country.	Q57	PYQ 2026-Sep	10.7.2, p. 10.24
10.7.24	ECLGS = Emergency Credit Line Guarantee Scheme, a fully guaranteed emergency credit line.	Q39	PYQ 2026-May	10.7.2, p. 10.24
10.7.25	National Manufacturing Policy aims to increase the share of manufacturing in GDP to 25 percent by 2025.	Q28	PYQ 2025-Sep	10.7.2, p. 10.24
10.7.26	Unique feature of India's growth trajectory: bypassing the secondary sector by a shift from agriculture directly to the services sector.	(+ 10.8 Q6)	PYQ 2026-Jan	10.7.3, p. 10.25
10.7.27	Services (NIC 2008, Box 2) include trade and vehicle repair, transportation and storage, accommodation and food, information and communication, finance and insurance, real estate, professional and technical, administrative support, public administration and defence, education, health and social work, arts and recreation. Construction (e.g. of a dam) is not in the list — it is an industrial (secondary) activity.	Q9, Q40	PYQ 2024-Sep; RTP 2025-May	10.7.3, pp. 10.25 – 10.26
10.7.28	The services sector is the largest sector (53.89% of India's GVA), the fastest growing sector and has the highest labour productivity; knowledge-based and IT services have driven growth since the reforms.	Q21, Q38, Q46, Q51 (+ 10.8 Q1)	PYQ 2024-Jun, 2026-May; MTP 2025-Jan S2, 2025-Aug S2, 2026-Apr S1	10.7.3, p. 10.26

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.7.29	The services sector is the largest recipient of FDI inflows — more than 60 per cent of total FDI equity inflows.	Q30	PYQ 2026-Jan	10.7.3, p. 10.26
10.7.30	Services exports (software, business and travel services; India among the top 10 WTO service exporters) are the key forex earner — robust IT and financial services demand keeps the services trade surplus at about 3.7% of GDP.	Q44	RTP 2026-Jan; MTP 2025-Jan S2, 2025-Apr S1	10.7.3, p. 10.26; 10.4, p. 10.14
10.7.31	Structural constraint: despite growth, the economy is constrained by high fiscal deficit, growing inequalities, inflation and high public debt (86% of GDP in FY21/22) — high inequality explains persisting poverty.	Q49 (+ 10.8 Q3)	MTP 2025-Jan S2, 2026-Apr S1	Summary, p. 10.31; 10.4, p. 10.15
10.7.32	Nearly 23 per cent of the working population is said to be engaged in the service sector.	Q41	MTP 2025-May S2	Not in SM (MTP-only)
10.7.33	To reap the demographic dividend India must promote skill development.	Q48	MTP 2026-Apr S2	Not in SM (MTP-only)
10.7.34	Despite rapid GDP growth, India's per capita GDP remains low compared with other emerging economies.	Q50	MTP 2026-Apr S1	Not in SM (MTP-only)
10.7.35	Revision of the GDP base year is a structural reform affecting GDP measurement.	Q52	MTP 2026-Apr S1	Not in SM (MTP-only)
10.7.36	*See Topic 10.6: E-Amrit is a one-stop destination for all information on electric vehicles.*	Q1	PYQ 2024-Jun	10.6, p. 10.17
10.7.37	*See Topic 10.6: the Methanol Economy converts coal reserves and municipal solid waste (not industrial waste) into methanol.*	Q11	PYQ 2024-Sep	10.6, p. 10.18
10.7.38	*See Topic 10.2: the green revolution used high yielding seed varieties and intensive use of water, fertiliser and pesticides to raise food grain (especially wheat) output.*	Q2, Q10, Q22	PYQ 2024-Jun, 2024-Sep; RTP 2026-Jan; MTP 2025-Jan S2, 2025-Apr S1	10.2, p. 10.6
10.7.39	*See Topic 10.8: after the Russia-Ukraine war India faced higher crude oil and commodity prices, persistent global supply disruptions, tighter financial conditions and high domestic inflationary pressures.*	Q53	PYQ 2026-Sep	10.8, p. 10.27

Topic 10.8 Conclusion

7 Scanner questions · frequency PYQ 5 · RTP – · MTP 2

Ref	One-liner for the student	Scanner Q	Asked in	SM source
10.8.1	The World Bank's India Development Update (IDU), November 2022: after the Russia-Ukraine war India faced higher crude oil and commodity prices, persistent global supply disruptions, tighter financial conditions and high domestic inflationary pressures; yet real GDP grew 6.3% in July–September 2022–23 and India is more insulated and resilient than other emerging markets owing to its large domestic market.	Q2 (+ 10.7 Q53)	PYQ 2024-Sep, 2026-Sep	10.8, p. 10.27
10.8.2	*See Topic 10.7: the tertiary (services) sector contributes the most to India's GVA (53.89%).*	Q1	PYQ 2024-Jun	10.7.3, p. 10.26
10.8.3	*See Topic 10.7: India uniquely shifted from agriculture directly to the services sector.*	Q6	PYQ 2026-Jan	10.7.3, p. 10.25
10.8.4	*See Topic 10.7: PMI = Purchasing Managers' Index; India's GII rank was 40th in 2022 (81st in 2015).*	Q4, Q5	PYQ 2025-May, 2025-Sep	10.7.2, pp. 10.22, 10.24
10.8.5	*See Topic 10.7: high inequality in the distribution of income and resources explains persisting poverty despite growth.*	Q3	MTP 2025-Jan S2	Summary, p. 10.31
10.8.6	Foreign exchange reserves rise with net inflows of foreign exchange (FDI, portfolio flows, services surplus); India holds reserves close to eight months of import cover.	Q7	MTP 2025-Dec S1	10.4, p. 10.14 (cause not in SM)

Part B — Chapter 10 One-liner Revision Sheet

Deduplicated and in Study Material order. 'Part A ref' points to the Part A row(s) carrying the full wording, the Scanner questions and the SM page. The ★★★ lines alone cover about 43% of ICAI appearances in this chapter.

Unit — Indian Economy

#	One-liner	Weight	Part A ref
1	1st–17th century AD: largest economy, prosperous and self-reliant; self-sufficient villages + commercial cities.	★★	10.1.1
2	British rule: India became exporter of raw materials; discriminatory tariffs destroyed handicrafts → over-crowded land, subsistence farming, zamindari, collapse of agriculture.	★	10.1.2
3	Colonial industry lopsided — cotton and jute; producer goods lagged; manufacturing ~7% of NDP (1946).	★	10.1.3
4	**Nehruvian model: Planning Commission, five-year plans, growth with equity and distributive justice.**	★★★	10.2.3
5	1950s philosophies: Nehru (heavy industry) vs Gandhian (small-scale, cottage, village republics).	★	10.2.5
6	IPR 1948: State monopoly of atomic energy, arms and ammunition, railways; IPR 1956 over-expanded the public sector.	★	10.2.5
7	1958 BoP crisis → import controls till 1966; protection/import substitution.	★	10.2.4, 10.4.5
8	Hindu growth rate = 3.5% (1950–80).	★	10.2.6
9	**Pre-1965 farm strategy institutional (land reforms, cooperatives); green revolution mid-1960s: HYV seeds, water, fertiliser, pesticides; wheat.**	★★★	10.2.7, 10.2.8
10	Nationalisation: 14 banks 1969 + 6 in 1980; MRTP Act 1969 curbed large firms with large market power.	★★	10.2.9, 10.4.4
11	1965–81 worst growth period: licence-raj, autarchic policies, three wars, droughts, oil shocks of 1973 and 1979.	★	10.2.9, 10.2.10
12	Early liberalisation 1980s (after 1985), 'reforms by stealth'; growth 5.7% / 5.8%.	★	10.4.1
13	1980s: 25 categories delicensed; broad-banding (trucks ↔ cars, no fresh licence); MRTP limit ₹20 → ₹100 crore; MODVAT; SEBI 12 April 1988 (non-statutory).	★★	10.4.2, 10.4.3
14	REER depreciated ~30% (1985–86 to 1989–90) → exports expanded.	MQ	10.4.27
15	1991 reforms under P. V. Narasimha Rao government (architect Dr Manmohan Singh — not in SM).	★	10.4.7, 10.4.8
16	Causes: debt-financed fiscal deficits, interest burden, Gulf-war oil shock, IMF conditions, 'crisis of confidence'.	★★	10.4.9
17	Trigger: BoP crisis — forex reserves $1.2 bn, barely two weeks of imports.	★	10.4.10
18	Shift to market orientation and external openness; LPG (not socialisation).	★★	10.4.11, 10.4.12
19	Twin objectives: market-friendly reorientation + stabilisation via lower fiscal deficit; measures = stabilisation (short-term) + structural (long-term).	★	10.4.13

#	One-liner	Weight	Part A ref
20	Fiscal reforms: transparent taxes, tax compliance, curb expenditure, cut subsidies, disinvestment, private participation.	★	10.4.14
21	Monetary/financial: interest rate deregulation, private banks, lower SLR/CRR (Narasimham Committee 1991), branch licensing, prudential norms.	★★	10.4.15
22	Pre-reform banking: administered interest rates, high reserve requirements, credit restrictions.	★	10.4.16
23	SEBI: 1988 set up, 1992 statutory recognition.	★	10.4.18
24	New Industrial Policy 24 July 1991: Licence Raj ended (18 → 5 licensed industries); public sector → railway transport + atomic energy.	★★	10.4.20, 10.4.21
25	1991: MRTP merger/takeover provisions repealed; SSI items de-reserved; disinvestment of PSU equity (= privatisation, not liberalisation).	★★	10.4.4, 10.4.22, 10.4.12
26	FDI automatic approval up to 51%; FDI banned only in retail trade, atomic energy, lottery, betting & gambling.	★	10.4.23
27	Trade: QRs dismantled, import licensing removed, tariffs 355% → 10%.	★	10.4.24
28	Rupee devalued 18–19% (July 1991); managed float from 1993; current-account convertible 1994.	★★	10.4.25
29	**Post-reform gains: forex cushion ~8 months of imports; services trade surplus ~3.7% of GDP; but public debt 86% of GDP (FY21/22) and growing inequality.**	★★★	10.5.2, 10.7.30, 10.7.31, 10.8.6
30	Post-reform GDP growth commendable except 2020 (–6.6%); peak 1999 (8.85%); GDP growth rate = most reliable growth indicator.	★	10.5.1, 10.5.2, 10.5.3
31	NITI Aayog replaced Planning Commission on 1 January 2015 — think tank, co-operative federalism.	★★	10.6.1
32	NITI: village-level credible plans aggregated upward; no five-year plans, no budgeting/fund allocation.	★★	10.6.2, 10.6.3
33	**NITI initiatives: LiFE, NDAP (govt data), Shoonya (air quality via EVs), E-Amrit (EV information), IPI, Methanol Economy, Gold Market.**	★★★	10.6.4, 10.6.5, 10.6.6, 10.6.7, 10.6.8
34	Primary: milk is primary; 47% of population depends on agriculture; agri GVA 18.8% (2021–22); food grains 315.7 mn tonnes.	★★	10.7.1, 10.7.2
35	MSP: 23 mandated crops at 1.5 × cost of production.	★	10.7.3
36	APEDA = Agricultural and Processed Food Products Export Development Authority; 100% FDI (automatic) in food marketing/e-commerce and telecom.	★★	10.7.5, 10.7.6
37	**Farm schemes: PM KISAN (income), PMFBY (crop loss), PKVY (organic), PDMC (water), Kisan Rail (logistics), E-NAM (unified market of APMC mandis).**	★★★	10.7.7, 10.7.8
38	Agri issues: small holdings, low productivity, subsistence farming, low marketable surplus.	★	10.7.9
39	ICI: 8 core industries (coal, crude, gas, refinery, fertilisers, steel, cement, electricity) = 40.27% of IIP; PMI 55.4; GII 40th (2022).	★★	10.7.11, 10.7.12

#	One-liner	Weight	Part A ref
40	**Industry policy: DPIIT; Make in India 2014 (2.0: 15 mfg + 12 services); EoDB rank 63 (2020).**	★★★	**10.7.13, 10.7.14, 10.7.15**
41	**Gati Shakti (multimodal planning), PLI (Mar 2020, white goods), FAME (EVs), Udyami Bharat (MSMEs), PM MITRA (textiles).**	★★★	**10.7.16, 10.7.17, 10.7.18, 10.7.19, 10.7.21**
42	**FIPB → FIF (May 2017); RoDTEP replaced MEIS (2021); Start-up India; ECLGS; NMP 25% of GDP by 2025.**	★★★	**10.7.22, 10.7.23, 10.7.24, 10.7.25**
43	**Services: bypassed secondary; 53.89% of GVA; fastest growing; highest labour productivity; >60% of FDI equity.**	★★★	**10.7.26, 10.7.28, 10.7.29**
44	Construction is not a service (NIC 2008 Box 2 list).	★	**10.7.27**
45	IDU (World Bank, Nov 2022): oil, supply disruptions, tight finance, inflation; India resilient.	★	**10.8.1**