STUDY IQ PUBLICATIONS

SIP+

SUCCESS IN PRELIMS

- Comprehensive Prelims Content
- Coverage of Standard Books & NCERTs
- Charts, Tables & Diagram driven summaries
- Memorisation Friendly

ECONOMY

STATIC REVISION SIMPLIFIED

For UPSC CSE Prelims & Other Competitive Exams

Indian Economy

Static Revision Simplified

A quick revision booklet of Economy for UPSC Prelims and other competitive exams

Study IQ Education Pvt. Ltd.

Indian Economy: Static Revision Simplified 1st Edition by Study IQ Publications

Author/Copyright Owner: Study IQ Education Pvt. Ltd.

Publisher: Study IQ Publications

Printed at: ATOP Printers Noida

Preface

Dear Aspirants,

CSE Prelims is just around the corner. It is considered to be the iron gate toward your goal to become a civil servant. Prelims is the most competitive part of UPSC CSE, and therefore, reading-revising and testing one's knowledge is imperative for clearing Prelims. According to the present competition, around 1 in 100 people who attempt UPSC Prelims clear it. Given the growing competition, there is an urgent requirement for content specially curated to crack Prelims. The need of the hour is simplified content that helps in a quick and complete revision of the UPSC syllabus.

Taking inspiration from the overwhelmingly positive response to our UPSC CSE books, we are taking another leap towards simplifying Prelims preparation. To fulfill our aspirants' demand, Study IQ Publications is delighted to present you with the first edition of 'SIP+ Static Revision Simplified booklets'.

The SIP+ booklet series has been strategically divided into 2 parts; SIP+ Static Revision Simplified and SIP+ Current Revision Simplified. The UPSC syllabus is huge, it is further complicated by information overload and increasingly difficult questions. These booklets have been created especially keeping in mind, the concerns and challenges that students face during their Prelims preparation. This is an honest attempt to tackle all of the student's issues and save their precious time before Prelims.

Special Features of This Book:

This booklet aims to make your preparation focused and relevant based on UPSC's current trends and patterns, revision-friendly, and up-to-date.

- The requirements of the UPSC Prelims are the exclusive focus of this book.
- We have taken great care to ensure that the material is written in a clear; ready revision format so that students can learn and recall key concepts and facts to their advantage.
- Wherever necessary, we've incorporated relevant tables, charts and mind-maps to help students grasp and revise key concepts and facts.
- The special feature of SIP+ booklet series is the availability of ready revision charts which students can take out and paste on their wall or study table to revise key concepts and facts anytime on their own discretion.

With all sincerity and humility, the StudyIQ team wishes you the best in your preparation, and we are hopeful that this book will help you in your journey.

Table of Contents

CHAPTER 1

Basics of Economics and National Income

INTRODUCTION

The term 'Economics' is derived from the Greek term **'Oikonomikos'**.

- **Oikos** means a households.
- **Nemein** means "management", "custom" or "law".

This gives the meaning of Economics as '**management of the households.'**

BASIC CONCEPTS IN ECONOMICS

Goods and Services

In an economy, Goods and Services satisfy the Human wants. Unless otherwise stated, the term 'goods' in Economics also includes the term 'services.'

Characteristics of Goods and Service	
Goods	**Services**
As material things, they are **tangible**	**Intangible** in nature. Services are non-physical objects that exist in relation to other things, such as brand image, goodwill, and so on
Have physical dimensions	Services vary across regions or cultural backgrounds i.e. services are Heterogeneous. For example, music, consulting physicians
Exist independently of their owner Are transferable and have value-in exchange	Services are inextricably connected to their makers. For example, labour and labourer

Kinds of Goods and Services

S.no	Types	Explanations
1	**Free Goods**	Free goods are available in nature and in abundance. Man does not need to incur any expenditure to own or use them**. For example** air, and sun shine.
2	**Economic Good**	Economic goods are not available in plenty. They are scarce in supply. Man has to spend money to own or use them. **For example**, cars, refrigerators, etc.
3	**Public Goods**	A good available to everyone to consume, regardless of who pays and who doesn't. **For example:** National defence, Law enforcement.
4	**Private Goods**	A good consumed by a single person or Household. **For Example:** food and drink
5	**Consumer Goods**	Consumer goods are those goods which are purchased by the household for **final consumption**. They are not used for the further production process. The common types of the consumer goods are as follows: a) **Durable goods**: These goods do not quickly wear out. Durable goods have a longer life span and can be used repeatedly for several years. **For example**: TV, car etc. b) **Semi-durable goods**: These goods can be used for a period of one year or slightly more. **For example**: clothes. c) **Non-durable goods**: These goods are single-use consumption goods. They have a short shelf life. **For Example**: bread, fruits etc.

S.no	Types	Explanations
6	**Capital Goods**	The goods used in the production process i.e. to produce consumer goods. **For Example:** Machines used in a factory
7	**Giffen Goods**	The Giffen good are **inferior goods**. It is an exception to the **law of demand** i.e. Its demand increases with increase in price and vice-versa. **Inferior goods** are those goods that have inverse relation with income. **Rise in income goods----→ less consumption**. Note: all Giffen Goods are inferior goods but not all inferior goods are Giffen goods. **For example: off branded Ketchup**
8	**Veblen Goods**	Veblen goods are high-quality premium goods, the demand for which increases along with its price. This is caused by the exclusive nature of these products. **For Examples:** Sports cars, expensive accessories etc.
9	**Complementary good**	Goods which are used together. Ex: TV and DVD player, Pen and refill etc.
10	**Demerit goods**	Goods that have negative externalities. Ex: Alcohol, cigarettes etc.

What happen If a commodity is provided free to the public by the Government?

When we have the opportunity to access public services for free, this would always come at a cost of somebody paying for it, so here the opportunity cost is transferred from the consumers of the product to the tax-paying public.

Utility

'Utility' means 'usefulness'. In Economics, utility is the "want" satisfying power of a commodity or a service.

Characteristics of Utility

Characterstics	Example
Utility is psychological.	A vegetarian derives no utility from mutton
Utility is not equivalent to usefulness	a smoker derives utility from a cigarette but, his health gets affected
Utility is not the same as pleasure	A sick person derives utility from taking a medicine
Utility is the function of the intensity of human want.	An individual consumer faces a tendency of diminishing utility
Utility is a subjective concept	A smoker's utility from the cigarette cannot be measured numericaaly
Utility has no ethical or moral significance.	A cook derives utility from a knife using which he cuts some vegetables; and, a killer wants to stab his enemy by that knife.

Price

Price is the value of goods stated in terms of money. **For example:** The money charged for buying a toothpaste is the price.

Cost

Cost is the expenses incurred to manufacture or acquire a specific quantity of an item.

Cost Concept

Concepts	Meanings
Money Cost	Production cost expressed in money terms is called as money cost. This includes cost of raw materials, payment of wages and salaries, etc.
Real Cost	Real cost refers to the payment made to compensate the efforts of all factor owners for their services in production.
Opportunity costs	It refers to the cost of next best alternative use. **For example,** a farmer can cultivate both paddy and sugarcane in a farm land. If he cultivates paddy, the opportunity cost of paddy output is the amount of sugarcane output given up. Opportunity Cost is also called as 'Alternative Cost' or 'Transfer Cost'.

Concepts	Meanings
Direct costs	Direct costs, also known as traceable costs, refer to expenses that are associated with a certain process or product. They can alter as the activity or product changes. **For example**: Manufacturing expenses related to production, customer acquisition costs related to sales, and so on.
Indirect costs	Indirect costs, often known as untraceable costs, are expenses that are not directly related to a specific company activity or component. **For example**: An increase in power rates or income taxes. Although indirect expenses are difficult to track, they are significant since they have an impact on total profitability.
Private costs	Private costs are those expenses that are incurred by the company in order to achieve its own goals. Entrepreneurs use them for both personal and business purposes. **For example:** Manufacturing, production, sales, and advertising costs.
Social costs	Any community suffers the social costs of private interests and business expenses. **For example**: Water pollution due to the discharge of wastewater into the river by the factories.
Fixed costs	Fixed costs are those that remain constant regardless of production volume. They are incurred by the company regardless of its degree of production. **For example:** Rent, taxes, and interest on a loan.
Variable cost	Variable costs will fluctuate depending on the amount of output produced by the company. **For example:** Expenses such as raw material purchases and salary payments.
Incremental costs	When a corporation makes a policy decision or policy change , these costs are incurred. **For example**: Changes in product lines, the acquisition of new consumers, and the update of gear to increase output are all examples of incremental expenses.
Sunk Cost	Sunk costs are expenses that an entrepreneur has already incurred and can no longer recover. **For example**: Money spent on advertising, research, and machinery acquisition.

Market

In economics, a market refers to a place where buyers and sellers enter into an exchange of goods and services over a price.

Revenue

Revenue is income obtained from the sale of goods and services. Total Revenue (TR) represents the money obtained from the sale of all the units of a good.

Income

Income is the amount of revenue a business earns from selling its goods and services. Income also refers to the money an individual receives in compensation for their labour, services, or investments.

Indifference curve

An indifference curve is a graph showing combination of two goods that give the consumer equal satisfaction and utility. Any combination lying on the indifference curve gives the same level of consumer satisfaction. Each point on an indifference curve indicates that a consumer is indifferent between the two and all points give him the same utility.

CLASSIFICATION OF ECONOMICS

Economics is classified into two categories: **microeconomics and macroeconomics.**

Microeconomics

Micro Economics is the study of the economic actions of individual units say households, firms or industries. It studies how business firms operate under different market conditions and how the combined actions of buyers and sellers determine prices.

Macro-economics

It is concerned with the economy as a whole. It is the study of aggregates such as national output, inflation, unemployment and taxes.

Difference between Macroeconomics and Microeconomics

	Microeconomics	Macroeconomics
Domain	Microeconomics is the study of a specific market section of the economy.	Macroeconomics is the study of the entire economy that includes a variety of market areas.
Concerned with	Demand, supply, factor pricing, product pricing, economic welfare, production, consumption, etc.	National income, distribution, employment, general price level, money etc.
Applications	It is concerned with the optimization goals of individual consumers and producers.	It is concerned with the optimisation of the growth process of the entire economy.
Significance	It's useful for managing product prices as well as the pricing of factors of production (labour, land, entrepreneur, capital, and so on) within the economy. It is known as price theory.	It maintains broad price stability and addresses significant economic challenges such as deflation, inflation, rising prices (reflation), unemployment, and poverty in general. It is also known as the income theory.

CONCEPTS OF MICROECONOMICS

Demand

Demand is the quantity of things that customers are willing to buy at various prices during a particular period of time.

Determinants of Demand

Determinants	Meaning
Product cost	As the price of the commodity varies, so does the demand for the product.
Consumer income	As consumer income rises, the number of commodities desired rises as well.
Costs of linked goods and services	If the price of one item rises, demand for the complementary product falls.
Changes in Expectations	The expectation of a price rise in the future results in an increase in demand.
Buyers in the market	The demand of a commodity varies based on the quantity of its buyers

The Law of Demand

The law states that quantity demanded of a commodity expands with a fall in price and contracts with a rise in price.

Elasticity of Demand

Elasticity of demand explains the rate of change in quantity demanded due to a given change in price.

Types of Elasticity of Demand

Types	Meaning
Price Elasticity of Demand	The price elasticity of demand, commonly known as the elasticity of demand refers to the responsiveness and sensitiveness of demand for a product to the changes in its price.
Income Elasticity of Demand	The degree of responsiveness of a change in demand for a product due to the change in the income is known as income elasticity of demand
Income Elasticity of Demand	The cross elasticity of demand refers to the percentage change in quantity demanded for one commodity as a result of a small change in the price of another commodity.
Advertising Elasticity of Demand	The responsiveness of the change in demand due to the change in advertising or other promotional expenses, is known as advertising elasticity of demand

Exceptions to the Law of Demand

- **Giffen Goods:** These goods do not obey the demand curve. One of the most notable characteristics of Giffen items is that as the price rises, the quantity required also rises.
  - **For example:** During the Irish Potato famine, the price of potatoes skyrocketed from its normal level. However, people saved money on more expensive foods like meat and bought more potatoes to stick to their diet. This is a case of complete inversion of the law of supply and demand.
- **Veblen Goods:** The demand for these luxury goods rise as their price or cost rises.
  - **For example:** A Rolex watch or Porsche car is desirable because of their high price and associated status symbol.

Supply

Supply is the quantity of a product that a seller is willing to give in the market at a specific price and within a certain time frame. Various elements, such as price, cost of production, government legislation, and technology, have an impact on a product's availability.

Determinants of Supply

Determinants	Meanings
Price of the commodity	Higher the price larger the supply.
Cost of production	The cost of production and the supply of goods are inversely proportional.
Taxation policies	The supply of goods will be reduced if the tax rates on items are high and vice-versa.
Production techniques	Low output due to obsolete production techniques /processes reduces the supply of commodities and vice versa
Factor prices and their availability	The factors of production, such as raw materials, machinery and equipment, and labour, are all important in the manufacturing of goods
Price of related goods	Prices of alternatives and complementary goods have a significant impact on a product's supply.

Law of Supply

It explains the positive relationship between the price of a commodity and the supply of that commodity. **For example**, if the price of cloth increases, the supply of cloth will also increase.

Elasticity of Supply

The elasticity of supply establishes a quantitative relationship between the supply of a commodity and it's price.

Types of Elasticity of Supply

Types	Meanings
Relatively elastic supply	One percent change in the price of a commodity causes more than one per cent change in the quantity supplied of the commodity.
Unitary elastic supply	One percent change in the price of a commodity causes an equal (one per cent) change in the quantity supplied of the commodity.
Relatively inelastic supply	One percent change in the price of a commodity causes a less than one per cent change in the quantity supplied of the commodity
Perfectly inelastic supply	One percent change in the price of a commodity causes no change in the quantity supplied of the commodity.
Perfectly elastic supply	One percent change in the price of a commodity causes an infinite change in the quantity supplied of the commodity.

Market Equilibrium and Competition

Market Equilibrium is an ideal situation where the quantity demanded is equal to the quantity supplied.