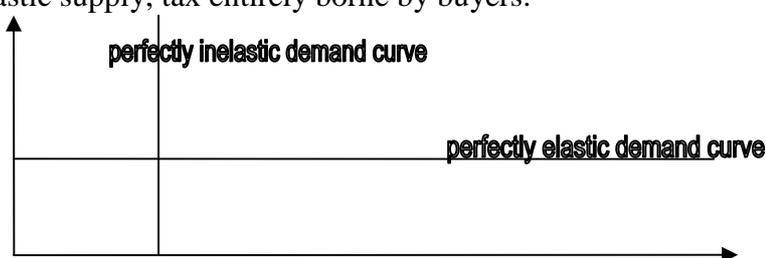


Economics

1. The tendency of the market prices to direct individuals pursuing their own interests into producing activities that also promote the economic well being of the society is referred to as the invisible hand principle.
2. Opportunity cost is the highest valued benefit that must be sacrificed as a result of choosing an alternative.
3. Partial equilibrium analysis: each product or factor market is considered as independent and self-contained for a proper explanation of the determination of price and quantity of a commodity or a factor.
4. General equilibrium analysis: considers simultaneous equilibrium of all the markets taking into account all effects of changes in price in one market over other.
5. Price elasticity of demand (ep) = $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} = \frac{dQ}{dP} \times \frac{P}{Q}$
6. Cross price elasticity of demand: % change in the Q demanded of a good due to a change in the P of another good. For substitute goods dQ_i/dP_j is +ve and for complementary goods it is -ve.
7. Relation between marginal revenue (MR), average revenue (AR) and price elasticity (ep)
 $MP = AR \{1 - 1/|ep|\}$; here ep is always -ve. (Differentiating $R=P \cdot Q$ wrt Q)
8. Engel curve: captures the changes in the quantity demanded due to change in the income of the customer.
9. Normal goods have +ve income elasticity whereas inferior goods have -ve.
10. Luxury goods: income elasticity > 1; Necessity goods < 1 and semi-luxury goods = 1
11. price elasticity of demand depends on:
 - a. The closeness of substitutes.
 - b. The proportions of income spend on the good.
 - c. The time elapsed since a price change
 - d. Nature of the good.
12. Only goods which are scarce have supply price.
13. Demand: A consumer is willing and able to purchase. Supply: A seller is willing and able to sell.
14. The law of supply: ceteris paribus, more of a good is supplied at a higher price and less of it at a lower price.
15. Market demand curve: summation of all individual demand curves.
16. Rationing of prices: A price ceiling which is a max. Price that can be legally charged for a good/service.
17. For elastic demands, tax is entirely borne by suppliers
18. For elastic supply, tax entirely borne by buyers.



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20. Utility: extent of satisfaction obtained from the consumption of goods preferred by consumer.
21. Cardinalist approach: utility can be measured in subjective units (utils)
22. Ordinalist approach: utility can't be measured, but can be ranked in order of preference.
23. Marginal utility: the extra satisfaction by consuming an extra unit of a good.

24. Marginal utility of a good is the slope of the total utility function $U = f(Q_x)$
25. Law of Diminishing marginal utility (DMU): Marginal utility of any good tends to decline as more of the good is consumed over a definite period of time.
26. At any quantity of the good consumed, the total utility is the sum of the marginal utilities.
27. Equilibrium condition: Equal marginal utility per rupee for every good.

$$\frac{MU_1}{P_1} = \frac{MU_2}{P_2}$$
28. Real income: actual purchasing power of a consumer.
29. Income effect: In case of price increase, real income of a consumer will fall, money income remains same. i.e. change in consumption of a good arising out of the change in the purchasing power of money.
30. Induced demand: tied to purchase of some parent product
31. Consumer surplus: measures the difference between what a person is prepared to pay for a commodity and the amount that he actually is required to pay.
32. Dead weight loss: net loss of consumer surplus. It can't be transferred to any other group and is solely attributed to the loss of consumer.
33. Indifference relationship possesses three attributes:
 - a. Transitivity [if X is indiff to Y (X | Y) and Y | X \Rightarrow X | Z]
 - b. Reflexiveness [X | X]
 - c. Symmetry [if X | Y \Leftrightarrow Y | X]
34. Indifference curve: level of utility remains same
 It is a boundary line, 2 the right of which lies the preferred sets of the consumers and 2 the left of which lies the inferior sets. However, considering the curve all points are indiff 2 the consumer.
 - a. This curve is downward sloping. Slope = - MU_1 / MU_2
 - b. Two indifferent curves can't intersect each other. (axiom of transitivity)
 - c. It is convex to the origin
 - d. Absolute value of the slope is equal to the MRS (Marginal rate of substitution) at that point
 - e. Law of diminishing marginal rate of substitution operates in the case of this curve.
35. Budget Line: $Y = P_1Q_1 + P_2Q_2$
 - a. Slope of budget line depends on price only. [Slope = - P_1/P_2]
36. Law of equimarginal utility: the consumer will purchase two commodities in such a proportion that he gets same level of marginal utility by spending one unit of money either on the commodity q_1 or on q_2 .
37. Slutsky measure of substitution effect: budget line shifts in such a manner that the consumer can purchase, if likes to purchase the previous combination.
38. Cost difference = (change in price) X (No of units purchased at old price)
39. Substitution effect: measures the change in the purchase of a good, which arises out of the change in its relative price.
40. Price effect = substitution effect + Income effect
41. All giffen goods are inferior but vice-a-versa is not true.
42. production may be transformation of form, space or time.
43. When marginal utility becomes negative, it implies that the total utility has start diminishing
44. The slope of the isoquant represents the Marginal Rate of Technical Substitution (MRTS) between labor (L) and capital (K).
45. MRTS is equal to the ratio of the marginal productivities of two factors.
46. When marginal product (MP) is greater than average product (AP), AP will be increasing. When $MP < AP$, AP will be decreasing. Therefore, AP is maximum when AP is equal to MP.
47. A rational firm always employs labor up to the point when the marginal product of labor is zero.
48. When the variable costs of the firm exceed its revenue, it can reduce the losses by shutting down its operations

49. Increasing marginal costs with increase of output implies Decreasing average fixed costs
50. In perfect competition, normal profit is possible only when the firm operates at its minimum average cost.
51. The 'investment multiplier' explains the change in national product due to change in investment expenditure.
52. If an economy is reviving from a recession, in the short run, there will be an increase in the demand. This increase in demand causes an increase in price which in turn results in a rise in real output.
53. High powered money = Monetary liabilities of central bank + Government money
54. Monetary liabilities of central bank = Financial Assets + Other assets – Non-monetary liabilities
55. Financial Assets = Credit to government + claims on commercial banks + credit to commercial sectors + foreign exchange assets
56. An important difference between the approaches of the classical and Keynesian economists use to achieve a macroeconomic equilibrium is that Keynesian economists actively promote the use of fiscal policy; the classical economists do not. Classical economists believe intervention can be destabilizing and advocate laissez- faire economy.
57. According to classical economist, aggregate supply curve is a vertical straight line. Hence it is unrelated to the price level.
58. Frictional unemployment is a short-run job/skill matching problem while structural unemployment is a long-run matching problem.
59. Phillips curve in the short-run shows an inverse relation between inflation and unemployment. But in the long run there is no trade-off because Phillips curve is vertical in the long-run.
60. Expansionary monetary policy affects the goods market because it lowers interest rates and raises investment spending
61. Balance in current account + Balance in capital account + Change in reserves = Zero
62. The real value of repayments in the future will fall with an increase in the inflation causing an increase in the wealth of the debtors.
63. Expansionary fiscal policy refers to increase in government spending and decrease in taxes.
64. When the budget deficit increases, there is higher expenditure undertaken by the government, which will mean more public work projects. This will further boost employment and reduce unemployment.
65. The cross elasticity of demand for perfect substitutes is infinity.
66. In monopoly the rate of decline of marginal revenue is twice the rate of decline of price.
67. Oligopolistic markets are characterized by high market concentration.
68. In an oligopoly market the demand curve faced by a firm is indeterminate this is due to difference in reaction pattern of the rival.
69. Classical economics believe that the economy moves to full employment in the long run
70. Keynesian model uses spending in explaining economic fluctuations
71. In the long run, increasing the budget deficit will raise interest rates leading to lower investment and hence lower output.
72. In an open economy, an increase in the domestic willingness to save should reduce net foreign borrowing.
73. Cost functions are derived from production function which describes the available efficient methods of production at any particular point of time.
74. The cost that can be easily attributed to a product or a process is called as separate cost.
75. An increase in the expected price level shifts short-run aggregate supply curve to left.
76. In the short run, changes in aggregate demand determine the level of prices and income. In the long run, changes in aggregate demand determine only the level of prices.
77. In the classical theory, saving and investment determine Interest rates
78. Keynesian economics focuses on the role government plays in stabilizing the economy by managing aggregate demand.

79. Type of Unemployment:
- a. Structural unemployment arises when the regional or occupational pattern of the job vacancies does not match the pattern of workers availability and suitability.
 - b. Unemployment that is caused by constant changes in the labor market is called frictional (natural) unemployment. It occurs on account of two reasons: (a) employers not fully aware of all available workers and their job qualifications; and (b) available workers are not fully aware of the jobs being offered by employers.
 - c. Unemployment that arises when there is general downturn in business activity is called cyclical unemployment.
 - d. Unemployment that arises because of seasonal variations is called seasonal unemployment. For example, agricultural labors normally face unemployment during summer.
 - e. When marginal productivity becomes negative because of excess employment we call it as disguised unemployment. In less developed countries like India there is widespread disguised unemployment in agricultural sector.
80. Recession is, technically, defined as decline in output for two or more consecutive quarters.
81. following chain of events results from an expansionary monetary policy:
Money supply increases, the interest rate decreases, planned investment increases, aggregate output increases, and money demand increases