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Margdarshika Booklet UPDATED 2025 Edition

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Why read this?

- It is a well-planned roadmap to simplify the vast and complex syllabus of UGC NET. It is like a Guru showing you the path to success in the subject. You do not need to depend on anyone.
- Its main aim is to give clear answers to questions like "what to read, where to start, and how deep to read". Focus points are explained.
- It gives a systematic direction to your preparation by dividing it into small (manageable) parts. It tells you what is the new trend of the exam these days.

What's that for?

- It is useful for students preparing for UGC NET, PGT, Asst Professor
- It is very useful for those who are preparing at home, those who are working, those who are not getting proper guidance, those who do not want to watch videos. It is a one stop solution for them

Key Features and Benefits

- **Benefits:** Explains important concepts, theories and examples of the subject.
- **Time saving:** Guides you in the right direction by saving you from unnecessary information. 100% exam oriented
- **Complete coverage:** Ensures that no important part of the syllabus is missed.
- **Increased confidence:** Having a clear plan reduces nervousness regarding preparation.

How to make best use of it?

- Make sure to remember the most important
- Follow the order given in the guide.
- Have a strong grip on the basics of each topic.
- While studying, focus on those topics in ProfessorsAdda Booklets.
- Try to establish a connection between different concepts.
- Solve MCQ practice questions and old question papers based on the guide. All this is given in ProfessorsAdda MCQ + PYQ booklet which is complete, quality updated.
- It works like your personal guide.

MARGDARSHIKA GUIDE

HOW TO READ ECONOMICS SCIENCE UNIT -1

This Booklet covers fundamental concepts in microeconomics and some aspects of welfare economics and market structures. Here's a breakdown of the main sections to help you navigate:

1. **Theory of Consumer Behaviour:** This is where the unit starts, focusing on how individuals make choices about what to buy. Look for explanations of:
   - Consumer theory basics and assumptions (utility maximization, nonsatiation, decreasing marginal utility).
   - The concept of Utility, including Cardinal and Ordinal approaches.
   - Measures of Utility: Total Utility (TU) and Marginal Utility (MU), and the relationship between them.
   - Laws of Utility Analysis: Law of Equi-Marginal Utility and Law of Diminishing Marginal Utility (DMU).
   - **Indifference Curve Analysis:** What indifference curves are, their properties, indifference schedules, and indifference maps.
   - **Marginal Rate of Substitution (MRS).**
   - **Budget Line and Budget Set:** What they represent and how they shift.
   - **Consumer's Equilibrium:** How consumers achieve maximum satisfaction, explained using both Marginal Utility Analysis and Indifference Curve Analysis.
   - **Consumer Surplus:** The concept and how it's measured.

2. **Supply:** This section introduces the concept of supply from the producer's perspective.
   - Definition of Supply.
   - Factors Affecting Supply.
   - Movement Along vs. Shift in the Supply Curve.
   - **Law of Supply** and its assumptions and exceptions.
   - **Elasticity of Supply:** Definition, degrees (perfectly inelastic, perfectly elastic, unit elastic, inelastic, elastic), and factors affecting it.

3. **Demand In Economy:** This section focuses on the buyer's side, complementary to the supply section.
   - Definition of Demand.
   - Analysis of Demand and its importance.
   - Demand Schedule (Individual and Market).
   - Demand Curve (Individual and Market).
   - Demand Function.
   - Movement Along vs. Shift in the Demand Curve.
   - Determinants of Demand/Factors Affecting Demand.
   - **Law of Demand:** Explanation, assumptions, existence, and exceptions (like Giffen goods, Veblen goods).
   - **Elasticity of Demand:** Definition and kinds (Price Elasticity, Income Elasticity, Cross Elasticity).
   - Types/Degrees of Price Elasticity of Demand and methods of measurement.
   - Factors Affecting Price Elasticity of Demand.
   - Types/Degrees of Income Elasticity of Demand.
   - Cross Elasticity of Demand.
   - Important concepts like the Diamond-Water Paradox and the Engel

Curve.

4. **Theory of Production and Cost:** This part delves into how goods and services are produced and the associated costs.
   - Definition of Production and factors of production (Natural Resources, Labor, Capital, Technology, Entrepreneurship).
   - **Production Function:** Definition and types (Short-Run, Long-Run, Cobb-Douglas), properties, and criticism.
   - Fixed and Variable Factors.
   - Production Theory and its importance.
   - Measures of Production: **Total Product (TP)**, **Average Product (AP)**, and **Marginal Product (MP)**, and their relationships.
   - **Returns to Factor:** Law of Variable Proportion (stages, assumptions, explanation, postponement). Law of Diminishing Marginal Product.
   - **Law of Returns to Scale:** (Long-run analysis) Increasing, Constant, and Decreasing Returns to Scale, and their relationship with the homogeneity of the production function.
   - **Isoquant/Isoproduct Curve:** Definition, properties, and types (Linear, Input-Output, Kinked, Smooth Convex).
   - **Marginal Rate of Technical Substitution (MRTS)** and Diminishing MRTS.
   - Elasticity of Technical Substitution.
   - **Cost:** Definition and types of cost (Selling, Production, Implicit, Explicit, Opportunity).
   - Short-run Costs (Fixed, Variable, Total, Average, Marginal) and their curves and relationships.
   - Long-run Costs (Total, Average, Marginal).
   - Some Important Relations between Average Cost and Marginal Cost, and Total Cost and Marginal Cost.

- Cost Function.

5. **Revenue:** This section revisits the concept of revenue, likely in the context of firm behavior.
   - Definition of Revenue and types (Operating, Non-operating).
   - Measures of Revenue (Total, Average, Marginal).
   - Understanding Marginal Revenue and its example.
   - Relationship between TR, AR, and MR.
   - General Relationship between the Revenue Concepts.

6. **Price Determination in Different Markets:** This is a major section comparing various market structures.
   - Market and Market Structure definitions.
   - **Perfect Competition Market:** Features, price determination, and equilibrium (Firm and Industry, Short-run and Long-run).
   - **Monopoly Market:** Features, control on price and supply, determination of price and equilibrium (TC and TR approach, MR and MC approach, conditions for super normal profits, normal profits, abnormal loss). Comparison with Perfect Competition.
   - Special Conditions Related to Monopoly Market: Price Discrimination (degrees, important conditions), Dumping, Monopoly Power.
   - **Monopolistic Competition Market:** Features, determination of price and equilibrium (TC and TR approach, MR and MC approach, Short-run and Long-run equilibrium conditions).
   - **Oligopoly Market:** Features, types (Discriminating, Pure), forms (Collusive, Non-collusive), price rigidity, demand curve under oligopoly (kinked demand curve), price determination (Independent Pricing, Dominant Firm, Price Leadership), formation of cartels.
   - **Duopoly Market:** Characteristics and models (Cournot, Bertrand, Stackelberg).

- Similarities between Monopoly and Monopolistic Competition.
- Cartels (joint profit maximization, market sharing).

7. **Decision-making in Market:** This section explores how decisions are made in different market environments.
   - Decision-making under Certainty, Risk, and Uncertainty.
   - Modern Approaches to Decision-making under Uncertainty (Risk Analysis, Decision Tree, Preference/Utility Theory, Game Theory - definitions, how it works, types, examples like Prisoner's Dilemma, Dictator Game, Volunteer's Dilemma, Centipede Game, limitations).

8. **Factor Pricing: Concept and Theories:** This section focuses on how the prices of the factors of production are determined.
   - Concept of Factor Pricing and its aspects (Price Aspect, Income Aspect).
   - Why a Separate Theory of Factor Pricing?

- Theories of Factor Pricing (Marginal Productivity Theory - neo-classical version, definition, explanation, schedule, rule for employing a factor, least-cost combination, diagram, assumptions, criticism).
- Definition and Meaning of Rent (ordinary vs. economic). Modern Concept of Rent.
- Ricardian Theory of Rent (definition, assumptions, explanation under extensive and intensive cultivation, diagram, criticism).
- Definition of Interest (gross vs. pure). Keynesian Theory of Interest/Liquidity Preference Theory (definition, example, demand for money - transaction, precautionary, speculative motives, diagram, supply of money, determination of interest rate, criticism).
- Wages Meaning and Kinds (Time wages, Price wages, Money wages, Real wages). The Modern Theory of Wages (assumptions, demand for labor, supply of labor, wage determination diagram).
- Profit Meaning (Gross profit, Net profit). The Innovation theory of Profit (propounded by Schumpeter, innovation types, criticism).

9. **General Equilibrium Analysis:** This section looks at the economy as a whole system.
   - Meaning, Nature, Objectives, and Uses of General Equilibrium Analysis.
   - The Walrasian Model (description, assumptions, criticism).
   - Edgeworth Box and General Equilibrium of Exchange.
   - Asymmetric Information (definition, advantages, disadvantages, special considerations, distinguishing Moral Hazard from Adverse Selection).

10. **Welfare Economics:** This part discusses criteria for evaluating the well-being of society.

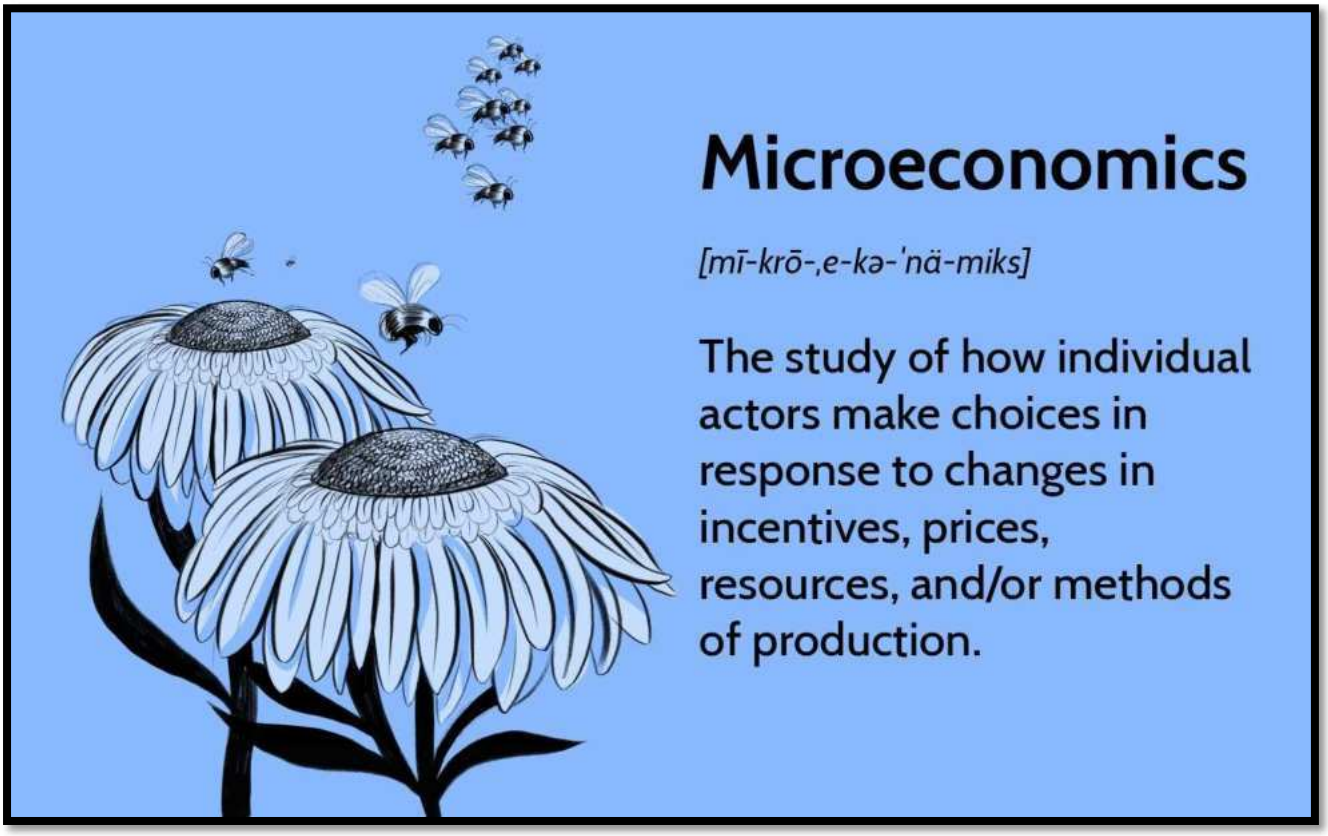
- Efficiency Criteria (Pareto-Optimality, Kaldor – Hicks and Wealth Maximization).
- Welfare Economics: Fundamental Theorems.
- Social Welfare Function (Bergson-Samuelson Social Welfare Function, relation to value judgements, critical evaluation, impossibility of constructing from individual preferences).
- Pareto Optimality: Conditions and Composition (efficiency in production, efficiency in consumption, efficiency in product-mix). Pareto-Optimal Composition of Outputs and Perfect Competition.
- Pigovian Welfare Economics (definition, conditions for maximization, private vs. social costs/benefits, assumptions, evaluation).
- New Welfare Economics (Pareto criterion, Kaldor-Hicks Welfare Criterion/Compensation Principle - assumptions, explanation, Scitovsky Paradox, Scitovsky's Double Criterion).
- Criterion of Welfare (Pareto criterion criticism).
- Social Welfare (Bergson Social Welfare Function).

11. **Practice Questions and Previous Years Questions:**
    This section provides questions to test your understanding of the concepts covered in the unit.

You can read through each section sequentially, making sure you understand the definitions, assumptions, diagrams, and relationships between concepts. The practice questions at the end will be helpful in reinforcing your learning.

Economics Unit-1

Micro-Economic Analysis



Microeconomics

thi 'Microeconomics' Also called. It includes economic relations as a unit or a part of the economy., Problems or issues are studied.; Such as a consumer., A Producer, A firm, An industry or a market etc. Microeconomics also studies the behaviour of various economic agents in the context of various goods and services available in the market. It tries to find out how the quantity and price of goods and services are determined by the interaction of people in the market. Microeconomics is the study of optimal resource allocation and economic activities (such as demand and supply) and problems and policies related to pricing.

Difference Between Microeconomics and Macroeconomics

Microeconomics	Macroeconomics
It deals with the economic issues and problems faced by small economic units such as an individual, a householder, a firm, an industry,	It highlights the problems at the level of the entire economy, such as employment, monetary policy, fiscal policy, budget, etc.

etc.	
It takes into account macroeconomic variables such as consumer demand and producer supply.	It uses macroeconomic variables, such as aggregate demand and aggregate supply.
In this, the amount of collectivity of economic variables is less than that of the population.	In this, the amount of collectivity of economic variables is higher than that of the individual.
Its central problem is the allocation of resources.	Its central problem is determination of national income and employment.
The method of study is often referred to as partial equilibrium analysis. It is important to note that partial equilibrium refers to the equilibrium of one market (e.g., commodity market) and it is based on the assumption that there is no change in other markets (e.g., labour market or capital market).	The method of study is often referred to as 'general equilibrium analysis'. General equilibrium refers to the simultaneous equilibrium in all types of markets in any economy.
It is also called 'price theory', as it deals with market pricing.	It is often referred to as income and employment theory as it is concerned with determining the overall output and employment levels of the economy as a whole.

Demand Analysis

The meaning of the term is different from its general meaning of economics. In the general sense, the synonyms 'desire', 'need' and 'need' are used in place of the word demand. But if there is enough monetary instrument value to satisfy your desire, it can result in demand. In economics, demand refers to the quantity of a commodity that is purchased at a specified time and at a specified price.

Demand is related to effective desire, which must include three things:
(i) Desire to acquire the object
(ii) Availability of resources for purchase of goods.
(iii) Readiness to spend resources

According to Benham, "The quantity of demand for a commodity at a given price at a given time is the quantity that is purchased at that price at a given time." "

Demand of Function
The demand function explains all the factors that affect the demand for a commodity. The relationship between the quantity demanded for a commodity and the factors that determine it can be expressed in the form of:

D(PPPY, T)

where D, object by family. P is the price of the commodity; PP is the price (other than n) of other goods, Y is the income of the family and T stands for the interest and preference of the family members.

Type of Demand

(1) Demand Price

The price that the buyer is willing to pay for the given price of the commodity.

$D_1 = /(p)$, if Y, P_1, T remain constant, is the quantity demanded of the commodity at different prices.

(2) Income Demand

A demand which is expressed only in terms of the income of the consumer taking other factors into account the constant, is called income bhong.

D/(Y), if P. P, T remain constant, is the quantity demanded of the commodity at different levels of income.

(3) Perdemand

There are two types of counterdemand, the demand for complementary goods and the demand for substitute goods.

D-f(p_1), if p. Y, T remain constant.

Supplementary Goods

When two goods are demanded simultaneously to serve a purpose, they are complementary or combined demands, such as tennis racquets and balls, pens and inks, etc.

Substituted Goods

Items which are used interchangeably, such as shoes and slippers, sugar and jaggery, etc.

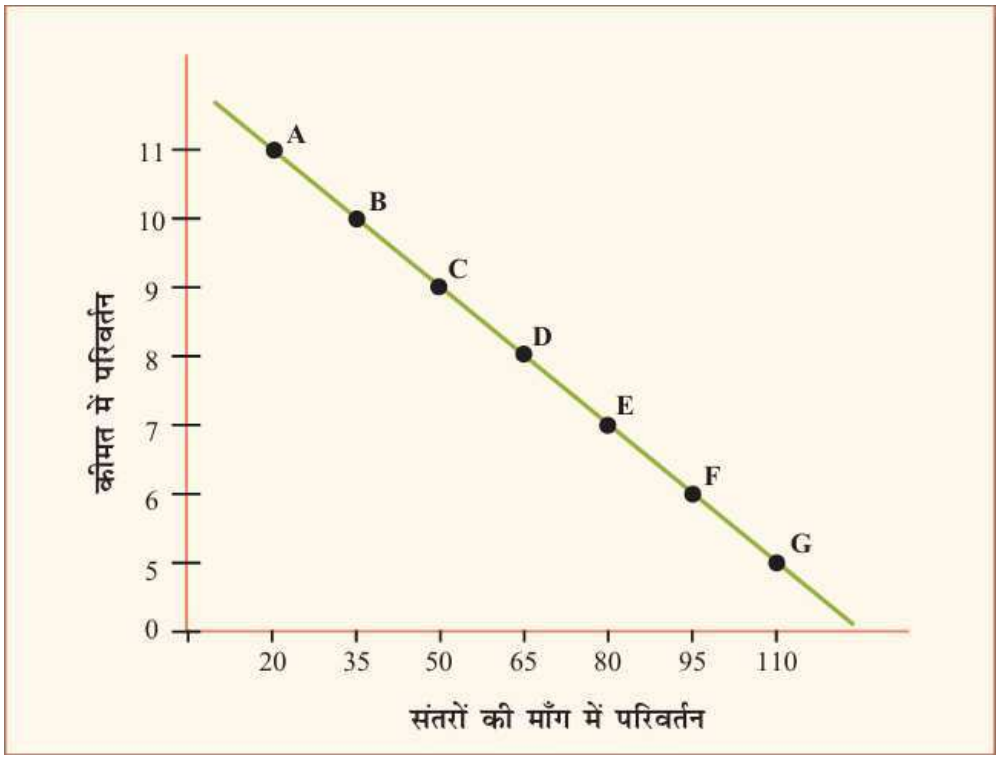
Consumer Demand Schedule and Demand Curve

For example, this relationship can be explained by formulating a hypothetical schedule of the consumer's demand for oranges. The first column gives the alternate prices per orange and the second column shows the quantity of oranges demanded per week at each price.

Hypothetical schedule of a consumer's demand for oranges

Price per Orange (Rs)	Quantity of oranges demanded per week
11	20
10	35
9	50
8	65
7	80
6	95
5	100

By depicting this schedule on a graph, the consumer gets the demand for oranges. The independent variable on the Y axis i.e. the price per orange is shown, and the dependent variable on the X axis i.e. the quantity of oranges at each price is shown. Each dot A, B, C, D, E, F, G represents a pair of prices: the price of one orange and the consumer's demand for oranges at that price. By combining these points, we get the demand AG which shows the consumer's demand for oranges at a given time



What is the reason for these inverse relations between the price of a commodity and the quantity demanded for it?? The empirical observation shows that most consumers behave in this manner for most goods.

At low prices, they buy more quantities and at higher prices they buy less quantities. But the question arises as to why they behave this way? The answer to this question can be found in the principles of consumer behaviour?

Professor Marsht's Marginal Utility Theory, Professor Hicks' proposal for the indifference curve and Professor Samuelson's theory of apparent preference. The most commonly accepted answers would be in the terminology of income and replacement effects.

When the price of a commodity is low, less expenditure has to be incurred on the purchase of that quantity. This has the effect of increased money in the form of an increase in the purchasing power.

This is the income effect of a decrease in the price of the commodity. With this increase in real income, the consumer buys more quantity of the commodity.

Substitution effect means that when the price of a commodity is low, it becomes cheaper than other goods. As a result, commodities whose prices have not fallen are replaced by cheaper goods.
Due to this, the demand for cheap goods increases. When the price of the commodity increases, the same effect works in the opposite direction. Together, they explain consumer behaviour in terms of demand theory.

The market demand schedule and the market demand curve of the commodity have so far been taken only in the context of demand of a consumer. But what happens to the market demand for the commodity?

Market demand can be defined as the quantity of demand demanded by all the consumers in the market at different prices of the commodity at a particular point of time.

Geometry, market demand is obtained by adding the demand bonds of consumers in the market.

Suppose there are three consumers for oranges in the market. The schedule given below gives the demand for oranges at different prices of these three consumers. The market demand for oranges per unit of time, say a week, is met by the consumption of the quantity demanded by each consumer at every price.

Quantity of Demand for Oranges Per Week Market Demand Curve for Oranges

By showing the quantity demanded in columns (2), (3) and (4) according to different prices given in column (1), we get the demand curve for oranges of the three consumers in the market, which is shown by A, B and C. Adding the quantity demanded by the three consumers to the transverse axis OX gives us the market curve of oranges. This is shown in the picture. The weekly demand for oranges can be obtained by adding the demand of each consumer at each price. Thus, geometrically, the market curve of a commodity can be obtained by the transverse sum of the demand curves of consumers in the market.

Market demand for a good depends on all the factors on which consumer demand depends, but it is also dependent on these additional factors:

The demand curve, which graphically represents the law of demand, is based on the assumption that 'other things being equal'. 'Other things being equal' means that there should be no change in the consumer's income, interest preferences, etc. In general, the slope of Mug goats is from top to bottom right, which makes it clear that Mog is higher at a higher price.

The Law of Demand

The law of demand states the qualitative relationship between the price of a commodity and the quantity demanded at that price. In his practical life, the consumer buys less quantity of the good at a higher price and more quantity of the good at a lower price according to his psychological tendency. It is on this psychological consumption tendency of the consumer that the law of demand is based.

LAW OF DEMAND

"A RISE IN THE PRICE OF A COMMODITY OR SERVICE IS FOLLOWED BY A REDUCTION IN THE QUANTITY DEMANDED & FALL IN THE PRICE IS FOLLOWED BY A EXTENSION IN QUANTITY DEMANDED, WITH OTHER CONDITIONS REMAINING THE SAME."

The law of demand states that when other

things being equal, there is an inverse relationship between the price of the commodity and the quantity of the commodity. In other words, when the price of a commodity rises, its demand decreases, and conversely, when the price decreases, the demand for the commodity increases.

According to Marshall, "A decrease in price leads to an increase in the quantity of a commodity demanded and a decrease in demand due to an increase in price."

In the words of Samuelson, "When the price of a good rises in a given time when it is the same as other things, it is demanded in small quantities. We buy more goods and buy less at a higher price."

Law of Demand:

Thinker/Economist	Theory/Concept	Fact/Explanation
Alfred Marshall	Formal Propounder of the Law of Demand	Marshall systematically presented the law of demand in his book "Principles of Economics" (1890). He said that other things being equal, demand increases when the price of the commodity decreases and decreases when the price increases.
	Concept of Price Elasticity	Marshall also explained that the sensitivity (elasticity) of demand to changes in price may vary.
John Locke	Early Ideas	Although Marshall is credited, Locke expressed views on the relationship between price and quantity as early as the 17th century. He had pointed out that the price of any commodity increases or decreases in proportion to the number of buyers and sellers.
Sir James Steuart	Use of the term "Supply and Demand"	Stuart, in his book "An Enquiry into the Principles of Political Economy" in 1767, first used the words "demand and supply" clearly and explained how these determine prices.
Adam Smith	Invisible Hand	Smith gave the concept of the "invisible hand" in his work "The Wealth of Nations" (1776), which indirectly explains the market equilibrium through the forces of demand and supply.
Other Common Concepts	Demand Schedule	It is a table that shows the different quantities that the consumer wants to ask for at different

		possible prices of a commodity over a given time period.
	Demand Curve	The graphical representation of the demand schedule is called the demand curve which is generally falling from top to bottom (having a negative slope). It shows the inverse relationship between the price and the quantity demanded.
	Substitution Effect	When the price of a commodity increases, consumers buy cheaper substitutes in place of its costlier commodity, thereby reducing the demand for the expensive commodity.
	Income Effect	When the price of the commodity decreases, the real income (purchasing power) of the consumer increases, so that he can buy more quantity of the same good. Conversely, real income decreases and demand decreases when the price rises.
	"Other things be the same" (Ceteris Paribus)	The law of demand applies only when other factors such as consumer income, interest, prices of related goods, future price expectations, etc. remain constant. If these are changed, the law of demand may be affected.

This table will be helpful in understanding various aspects of the law of demand, including its historical development to its methodology and underlying principles. It is important to note that the law of demand is also subject to certain exceptions, such as Giffen goods or prestige goods, where demand can increase even if the price increases.

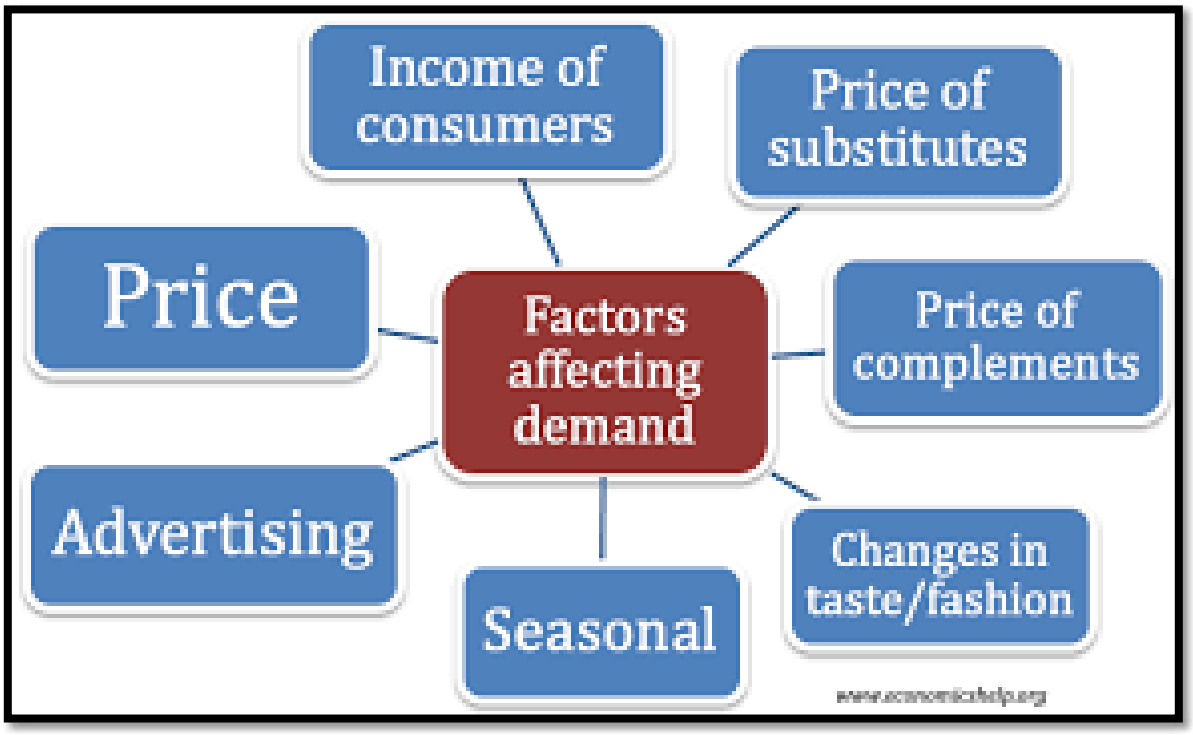
Basis of the Law of Demand

The demand curve generally tilts downwards to the right. This is also called the negative slope of the demand curve. The downward slope of the demand curve reveals the inverse relationship between price and meg. The demand for any good is low at a high price and more at a low price.

The following factors are responsible for the activity of the law of demand or the downward tilt of the demand curve:

(i) The Law of the Diminishing Marginal Utility
(II) Change in the number of Consumers

(III) Income effect
(IV) Substitution effect
(v) Diverse uses of a commodity



Relation between Demand and Income

The income demand curve is also known as angel curve. This curve points to the fact that the demand for general goods increases with the increase in income.

Assumptions of the Law of Demand

The operation of the law of demand is based on certain assumptions. In other words, the law of demand is at play under the following assumptions:

(1) There should be no change in the income of the consumer
(2) There should be no change in the taste, temperament, preference, etc. of the consumer
(3) There should be no change in the prices of the goods concerned
(4) The consumer should not have knowledge of any new substitute
(5) There should be no possibility of change in the price of the commodity in future

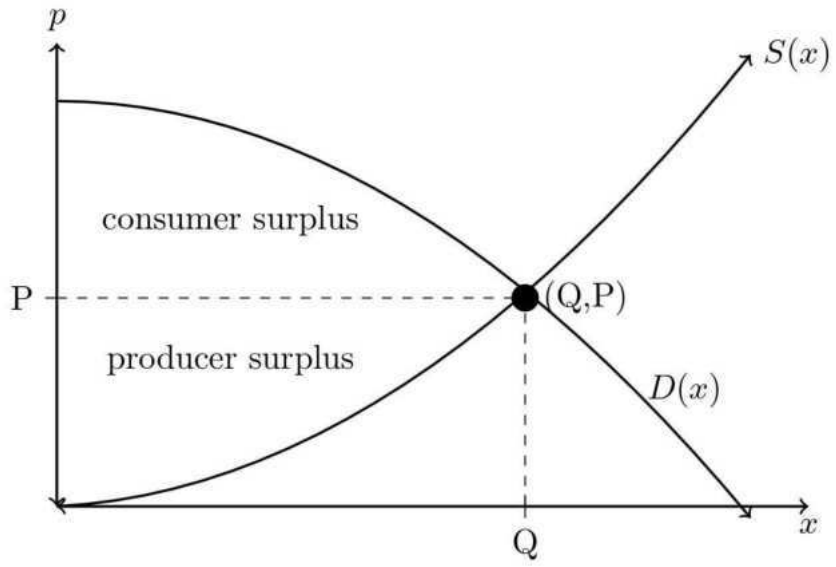
Exceptions to the Law of Demand

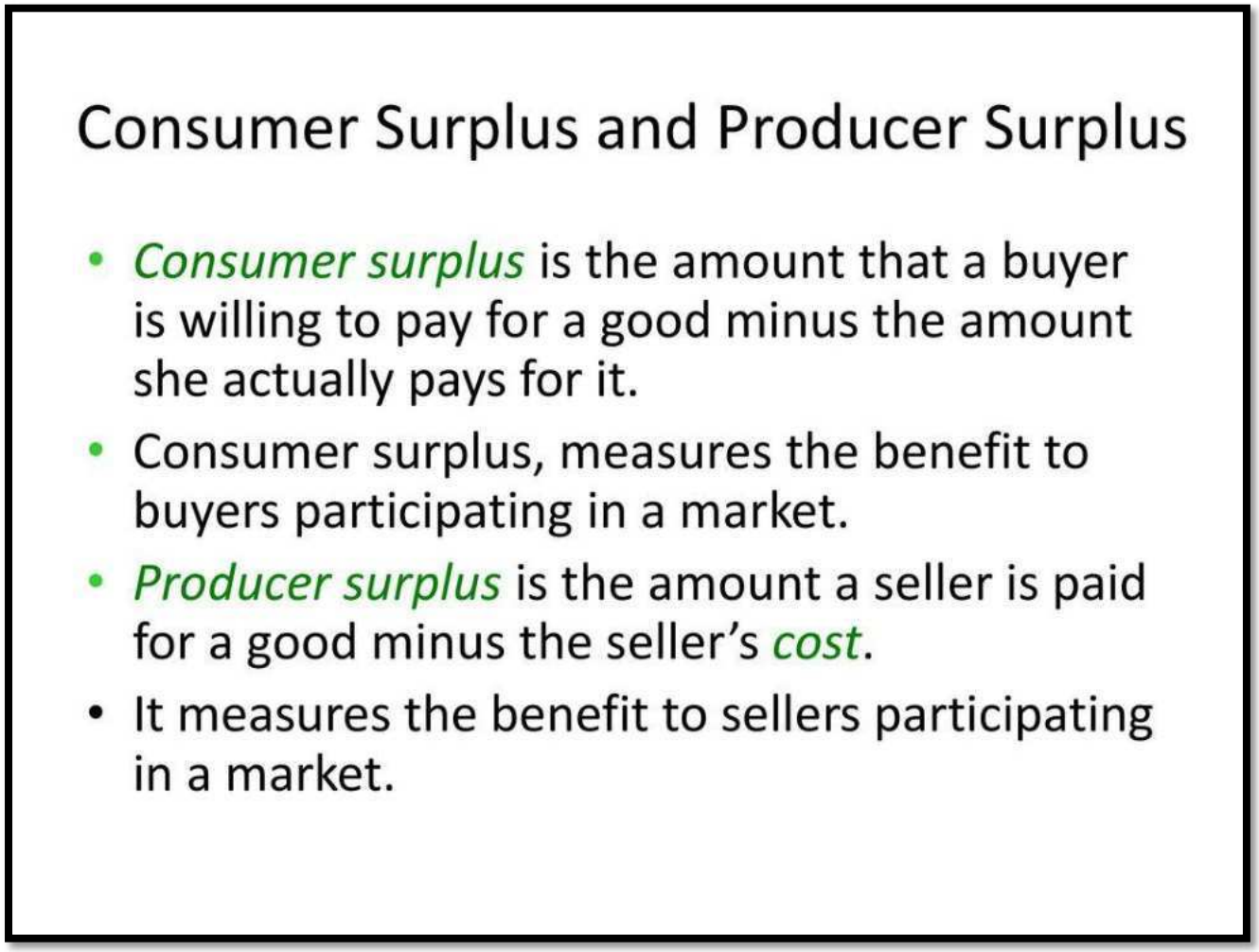
According to the law of demand, there is less demand for goods at higher prices and more demand for goods at low prices. But in some situations, the inverse relationship between price and demand does not persist. Under these circumstances, when the price increases, the demand increases, and when the price falls, the demand also decreases. It is called an exception to the law of demand, while the law of demand does not apply. The main exceptions to the law of demand are as follows:

- **Exected rise in Future Price**
- **Giffen Goods**
- **Conspicuous Necessities**
- **Ignorance of Consumer**
- **Fear of Rise in Prices**
- **Change in Fashion**
- Ignorance

Consumer's Surplus

The consumer savings theory plays an important role in modern economic analysis. Dr. Alfred Marshall is credited with propounding this theory. The essence of the idea of consumer savings is that the consumer. The satisfaction they derive from the consumption of goods is higher than the price they pay for the goods. It has been observed that consumers tend to pay a higher price than the actual price of the goods.





Key **Facts and Explanation:**

Aspect	**Description**
Definition	The difference between the maximum price a consumer is willing to pay for a good and the actual price he pays is called consumer savings.
Formula	Consumer's savings = (a consumer is willing to pay the maximum) – (actual price paid)
Relation to Demand Curve	Consumer savings are represented by the area below the demand curve and above the price line. The demand curve shows how much a consumer is willing to buy at different prices.
Based on Utility	This concept is based on the idea that the consumer is willing to pay a higher price for the first unit of a good and less for the subsequent units (law of diminishing marginal utility).
Importance	It helps in assessing market efficiency, the impact of government policies (such as taxes or subsidies), and the benefits from international trade. It shows how much welfare consumers derive from market

	transactions.
Determinants	Price of the commodity • Availability of substitutes • Income of the consumer • Tastes and preferences of the consumer • Nature of the commodity - necessity or luxury
Limitations	• It's hard to measure utility. It is difficult to estimate a uniform maximum desire price for all consumers. It is assumed that the marginal utility of income remains constant, which is not always true.

Measuring consumer savings is simple.

The difference between the maximum price that the consumer is willing to pay for the commodity and the price he actually pays for the good rather than the consumption of the commodity is called 'consumer savings'.

Dr. Marshall said, "The higher value that the consumer is willing to pay for the good in addition to the price actually paid for it than the deprivation of that good is the economic measure of this greater satisfaction and is called the consumer's savings." "

The amount of money a person is willing to pay for a good represents the amount of utility he will get from that commodity. The greater the amount of money he is willing to pay, the greater will be the utility or satisfaction he will derive from it.

Therefore, the marginal utility of a unit of a good determines the price that a consumer will be willing to pay for that unit. The total utility that a person will receive will be the sum of the marginal utility (∑ MU) of the units of the commodity purchased and the total price he will actually pay is equal to the price per unit and multiplied by the number of units purchased. thus

Consumer savings = how much a consumer is willing to pay – how much he actually pays.

= Sum of marginal utility – (units purchased × price) ∑ MU – (Price x No. of units purchased)

The idea of consumer savings has been derived from the law of diminishing marginal utility. As we buy more units of a commodity, the marginal utility derived from the additional units decreases.

The consumer is in equilibrium when the given price becomes equal to the marginal utility. In other words, the consumer buys successive units of a commodity until the marginal utility becomes equal to the given price.

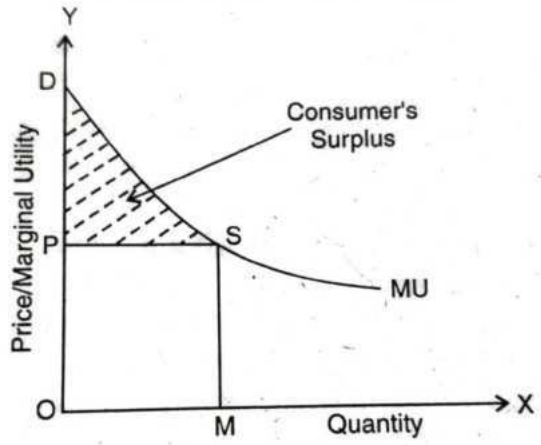
This means that at the equilibrium point, what a consumer is willing to pay (marginal utility) is equal to the price he actually pays.

But the marginal utility that he derives from the units before the marginal unit he buys is higher than the price he actually pays for them. This is because the price is stable for that.

Measure of consumer surplus

The savings of the consumer are shown in the following diagram.

उपभोक्ता की बचत को निम्न रेखाचित्र में दिखाया गया है।



रेखाचित्र : उपभोक्ता की बचत

The quantity of the commodity on the x-axis and the price and marginal utility of the commodity on the y-axis are measured in the figure. MU is the marginal utility curve that is declining downwards and expresses that as a consumer buys more units of a commodity, his marginal utility decreases. As mentioned above marginal utility demonstrates the price that a person would be willing to pay for its various units rather than living without that commodity. If OP is the price that is prevailing in the market, then the consumer will be in equilibrium when he pays the OM of the commodity .

- Buys units because the marginal utility on OM units is equal to the price given by OP. The M unit of the good does not provide any savings to the consumer because it is the last unit purchased and the price paid for it is equal to the marginal utility.
- But the difference is higher than the marginal utility price for the units before the marginal units i.e., M units and hence these units generate consumer savings for the consumer.
- The sum of the marginal utility (EMU) of different units of the commodity can be determined.

- In the figure, the total utility received by the consumer from the OM units of the commodity will be equal to the area under the MU curve up to the M point, i.e., the total utility of the OM units is equal to the ODSM.

- In other words, the consumer will be willing to pay an amount equal to ODSM rupees for OM units of the commodity. But given the OP of the price, the consumer will actually pay the same amount as the OPSM for the OM units of the commodity. It is thus clear from the diagram
- The consumer receives consumer savings equal to ODSM-OPSM = DPS.

- If the market price of the good exceeds the OP, the consumer will buy less quantity than the OM quantity of the commodity . As a result, consumer savings will be reduced from before.
- On the other hand, if the price falls below the OP then the consumer will be in equilibrium when he buys more than the OM quantity of the commodity. This will result in an increase in consumer savings.
- Thus, the higher the price at a given of the marginal utility curve, the lower the savings of the consumer and the lower the price, the greater the savings of the consumer.

- The point to be noted here is that we have assumed in the analysis of consumer savings that there is perfect competition in the market
- So that a consumer can buy any quantity of the commodity at a given price. But if the seller does price discrimination
- If a person charges different prices for different units of the commodity, i.e., higher prices for some units of the commodity and lower prices for others, the consumer will get comparatively less savings.
- Thus, when the seller differentiates the price, the consumer will get a small amount of savings as compared to the perfect competition. If the seller performs perfect price discrimination
- That is, if he charges for each unit of the good equal to the price that a consumer is willing to pay for it, then the consumer will not get any savings.

Measurement of Consumer's surplus through indifference curves

Above we have described the marshallian method of measuring consumer savings. We shall now measure consumer savings with the help of Hicks' indifference curve technique.

How consumer savings are measured with the help of an indifference curve is shown in Fig. In the figure, we have measured the quantity of the commodity on the x-axis and the consumer's money income on the y-axis.

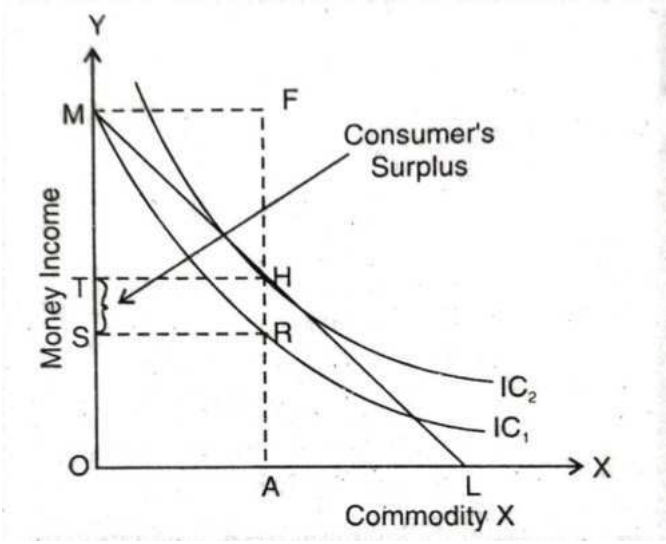
Let the consumer's income be OM which he can spend on item X and the rest on other items. An indifference curve IC1 is drawn passing through M which indicates that all combinations of X commodity and currency on IC1 provide equal satisfaction to the consumer

As much as the OM quantity of currency. For example, taking the R combination on the indifference curve IC1, it means that the OA quantity of the commodity and the OS quantity of the currency will provide the same satisfaction to the consumer as the OM quantity of the money because M and R coincides lie on the same indifference curve IC1. In other words, it means

The consumer is willing to pay the MS amount of currency for the OA quantity of X commodity. Thus it is clear that he is ready to sacrifice the FR (= MS) currency for the OA quantity of the X commodity.

Now suppose the market price of commodity X is such that we get the budget line ML . We know from the analysis of the balance of the consumer that the consumer will be in equilibrium where the budget line touches an indifference curve.

It is clear from the figure that the budget line ML touches the indifference curve at the point H of IC2. In this equilibrium situation, the consumer has the OA amount of the commodity and the OT amount of money earnings.



- Thus, at the prevailing market price of commodity X, the consumer has sacrificed MT quantity of money to obtain the OA quantity of commodity X.
- But as we have seen above, Consumer X was willing to sacrifice the MS(or FR) amount of currency in order to receive the OA quantity of the commodity. What the consumer pays for an item and what he is willing to pay,
- The difference between the two is called 'consumer savings'. In the figure shown, the consumer is willing to pay MS currency for the OA quantity of the X item but , in reality, he pays MT currency for this quantity.
- Hence, the difference between these two quantities (MS-MT = TS = HR) is the consumer's savings.

Hicks' Four Assumptions of Consumer Savings

The following four concepts of consumer savings have been presented by Hicks:

1. Price compensatory changes
2. Price paramount change
3. Magnitude Compensatory Change
4. Magnitude par value change

It is worth noting that Hicks' exhaustive analysis of these four conceptions of consumer savings depends on the fact that the best way to understand consumer savings is to understand it as the additional benefit or satisfaction that a consumer will derive as a result of a decrease in the price of the commodity.

- **Quantitative Measurement of Utility Impossible:** This theory assumes that utility can be measured, which is unrealistic. Hicks solved this problem with the indifference curve technique.
- **Marginal utility of money volatile:** The marginal utility of the remaining money increases when the commodity is bought, making the consumer's savings account incorrect. Hicks solved this too with the indifference curve.
- **Objects not independent of each other:** Marshall ignores the complementarity of objects, while in reality objects depend on each other, making it difficult to accurately measure savings.
- **Absence of Substitutions Unrealistic:** This theory assumes that there is no substitute for the object, which is not practical because almost every object has a substitution.
- **Variation in income, sensitivity and interests:** The theory ignores differences in income, sensitivity and interests of consumers. Marshall's suggestion of taking averages makes the theory arbitrary.
- **No more than the actual price:** The consumer will not pay more for an item than its actual price; He will choose the substitute item.
- **Savings zero in the final analysis:** According to Ulysses Gobi, the difference between the potential and the actual price eventually becomes zero.
- **Uncertain and Infinite Savings from Essential Goods:** The savings of the consumer from essential commodities are not fixed, but infinite and uncertain.
- **Impossible to measure savings from luxury and prestige goods:** Tosig argues that luxury items such as diamonds lose their utility when their price falls, which also reduces consumer savings.
- **Theory Hypothetical and Unreal:** Nicholson considers it to be hypothetical and fabricated because it is based on unrealistic assumptions.

UGC NET Economics – Unit 1: Microeconomics MCQs

1. Which of the following is not a property of indifference curve?

(a) The indifference curve bends downwards to the right.
(b) The indifference curves are convex towards the origin point.
(c) Two neutrality curves can intersect each other.
(d) High indifference curve indicates high level of satisfaction.

Answer: (C) Two neutrality curves can intersect each other.

Explanation:

- **Concept: The indifference curve is a fundamental tool in** the theory of consumer behavior , representing combinations of two goods that provide the consumer with the same level of satisfaction or utility.
- **Downward Slope:** The indifference curve bends downward from left to right. This is because if a consumer has more of one item, they must have less of the other item in order to maintain the same level of satisfaction, assuming that both goods are desirable. It reflects the principle of decreasing marginal rate of substitution (MRS).
- **Convexity to the origin:** Indifference curves are usually convex towards the origin. This property shows the decreasing marginal rate of substitution between two goods. As the amount of item X that the consumer has increases, they become willing to drop continuously fewer units for an additional unit of item Y.
- **Non-introduction**: An important property is that the two damping curves **cannot intersect each other**. If they intersect each other, it will mean that the same combination of goods provides two different levels of satisfaction, which contradicts the basic assumption of coherent consumer preferences. For example, if IC1 and IC2 intersect at point A, A is on both curves. If B is another point on IC1 and C is on IC2, then according to the transit, B must be indifferent to C, which is usually not the case if IC2 represents a higher satisfaction level than IC1.
- **Higher IC, higher satisfaction:** The higher the indifference curve (away from the original) shows a higher level of satisfaction, as it corresponds to

more of at least one item, or more combinations of both, than the lower indifference curve.

- **Ordinal Utility:** The theory of indifference curve **is based on ordinal utility** , which means that consumers can categorize their preferences, but cannot assess the exact amount of utility received.

2. Match List-I (Market Structure) with List-II (Attribute) and select the correct answer using the code given below:

List-I (Market Structure)	List-II (Specialty)
a) Perfect competition	i) Price rigidity (distorted demand curve)
b) Monopoly	ii) Product differentiation
c) Monopolistic competition	iii) Single seller, value creator
d) Oligopoly	iv) Larger number of identical products, buyers and sellers

Code:
(a) a-iv, b-iii, c-ii, d-i
(b) a-i, b-ii, c-iii, d-iv
(c) a-iv, b-ii, c-i, d-iii
(d) a-iii, b-iv, c-i, d-ii

Answer: (a) a-iv, b-iii, c-ii, d-i

Explanation:

- **a) Perfect competition (iv) Large number of identical products, buyers and sellers:**
  - **Definition:** A market structure consisting of a large number of buyers and sellers, a homogenous product, independent entry and exit of firms, and complete information.
  - **Price Takers:** Individual firms are price takers, i.e. they have no control over the market price.
  - **Demand Curve: The** demand curve in front of an individual firm is perfectly elastic (horizontal).
  - **Efficiency:** Perfect competition is often considered to be the criterion of allotropic and productive efficiency in the long run.
  - **Example: Agricultural markets for** certain commodities (e.g.,

wheat, corn) are often close to full competition.

- **(b) Monopoly (iii) Single Seller, Price Maker:**
  - **Definition:** A market structure where a product has only one seller and no close substitute.
  - **Barriers to Entry:** Significant barriers to entry (e.g., patents, control over required resources, economies of scale) provide protection to the monopolist.
  - **Price Maker:** The monopolist has considerable control over the price (he is the value maker) and has to face a downward sloping market demand curve.
  - **Profit maximization:** Monopolists maximize profit, where marginal revenue (MR) equals marginal cost (MC), which usually results in higher prices and lower output than perfect competition.
  - **Welfare Loss:** Monopoly often leads to a deadload loss, which reflects a loss of economic efficiency.
- **c) Monopolistic Competition (ii) Product Differentiation:**
  - **Definition:** A market structure in which several sellers offer different products. Products are similar but not identical (e.g., through branding, quality, design).
  - **Main feature: Product differentiation** is the hallmark of monopolistic competition, which gives each firm some degree of market power.
  - **Demand Curve:** Every firm faces a downward-sloping, relatively elastic demand curve.
  - **Entry and Exit:** Relatively free entry and exit of firms.
  - **Long-Term Equilibrium: In the** long run, companies earn only normal profits (price = average total cost) due to free entry, but $P > MC$, which reflects some inefficiencies.
  - **Examples:** restaurants, clothing stores, hairdressers.
- **d) Oligopoly (i) Price Rigidity (Kinked Demand Curve):**
  - **Definition:** A market structure that is dominated by a few large sellers (oligopolists).
  - **Interdependence:** The key feature is the interdependence of firms; The activities of one firm significantly affect the others.
  - **Price Rigidity:** Oligopolistic markets often exhibit price rigidity, which means that prices remain stable even when costs change. The **kinked**

demand curve model by Paul Sweezzi is one explanation for this, suggesting that rivals will cut price but not increase prices.
- **Strategic behavior:** Companies engage in strategic behavior considering the reactions of their competitors (often analyzed using game theory).
- **Barriers to Entry:** Significant barriers to entry exist.
- **Examples:** automobile industry, airline industry, telecommunications.

Assertion (A): A rational producer will always work in step II of the law of variable proportions.
Reason (R): In stage II, both the marginal product (MP) and average product (AP) of the variable factor are positive and decreasing, and the total product (TP) is increasing.

Code:
Both (A) and (R) are true, and (R) is the correct explanation of (A).
Both (B) (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is wrong, but (R) is correct.

Answer: Both (A) and (R) are true, and (R) is the correct explanation of (A).

Explanation:
- **Law of Variable Ratio:** This rule, also known as the law of decreasing returns, states the relationship between an output and a changing quantity of an input, while other inputs are kept constant in the short run. It was developed significantly by economists such as Alfred Marshall .
- **Phase I (Increasing Returns):**
  - The total product (TP) increases first at an increasing rate, then at a decreasing rate.
  - Marginal product (MP) rises, reaches its maximum, and then begins to fall. MP > AP.
  - The average product (AP) increases and reaches its maximum level at the end of this phase.
  - A rational producer will not work in Phase I, as they can increase

production more efficiently by adding more variable inputs, as stationary factors are used less.

- **Phase II (Decreasing Returns/Economic Zone):**
  - t.p. It continues to rise, but at a decreasing rate, and reaches its maximum level at the end of this phase.
  - MP keeps on decreasing continuously and becomes zero when TP is maximum. MP < AP.
  - a.p. It also decreases but remains positive.
  - **This is the economically rational stage of operation.** Here, each additional unit of variable input contributes positively to the total output, although at a decreasing rate. The efficiency of both static and variable factors is optimized.
  - The goal of the producer is to act where the marginal product of the variable factor is positive but decreasing.
- **Phase III (Negative Returns):**
  - t.p. It starts declining.
  - M.p. It becomes negative.
  - AP continues to decline but remains positive.
  - A rational generator will not work in Phase III, as adding more variable inputs actually reduces the total output, making it inefficient.
- **Reason (R) correctly explains the assertion (A):** **The** characteristics of Phase II (positive and decreasing MP and AP, increasing TP) make it the only efficient and rational stage for production. In Phase I, there is an incentive to increase variable input utilization, and in Phase III, it is counterproductive. Therefore, the producer maximizes the production efficiently in phase II.

4. Which of the following conditions must be fulfilled to make an allocation Pareto optimal?

(a) Efficiency in exchange (MRSxy for consumer A = MRSxy for consumer B)
(b) Efficiency in production (MRTSlk for object X = MRTSlk for item Y)
(c) Efficiency in product mix (MRSxy = MRTxy)
(d) Equitable distribution of income.

(e) Presence of external factors.

Choose the correct answer from the options given below:
(a) (a), (b), and (d) only
(b) (a), (b), and (c) only
(c) (b), (c), and (e) only
(d) (a), (c), and (d) only

Ans: (b) (a), (b), and (c) only

Explanation:

- **Pareto Efficiency: It is named** after Italian economist **Vilfredo Pareto**. If a person can't be made better, without putting at least one person in a worse position is called Pareto Optimality. This is a state of allocation efficiency.
- **Three marginal conditions for Pareto optimality:**
  1. **(a) Efficiency in Exchange (Consumption Efficiency):**
     - This condition requires that the marginal rate of substitution (MRS) between any two goods (say, X and Y) should be the same for all consumers consuming both the goods.
     - Mathematically: MRSAxy = MRSBxy.
     - This ensures that there are no more mutually beneficial exchanges between consumers. This is achieved when the indifference curves of consumers are tangent to each other in an Edgeworth box diagram.
  2. **(b) Efficiency in Production (Production Efficiency):**
     - This condition requires that the marginal rate of technological substitution (MRTS) between any two inputs (say, labour L and capital K) should be the same for all producers producing any two goods (say, X and Y) using these inputs.
     - Mathematically: MRTSXLK = MRTSYLK.
     - This ensures that based on the available resources, it is impossible to increase the production of one commodity without decreasing the production of any other commodity. This is achieved when isoquant edgeworks are tangent in the production box or with the Production Possibility Frontier (PPF).

3. **(c) Efficiency in Product Mix (Overall Efficiency/Allocation Efficiency):**
   - This condition requires that the marginal rate of substitution (MRS) in the consumption of any two goods should be equal to the marginal rate of change (MRT) in the production of those two goods.
   - Mathematically: MRSxy = MRTxy.
   - MRT shows the slope of the production probability limit (PPF) and the opportunity cost of production of one commodity in terms of another. This stipulation ensures that the goods being produced conform to the preferences of the consumer.

- **(d) Equitable Distribution of Income:** Pareto Optimality is an efficiency criterion and not an equality criterion. The allocation can be Pareto optimality but highly unequal (for example, one person has everything, and others have nothing, and you can't make others better without taking from one person). **Amartya Sen has** widely criticized the limitations of Pareto Optimality in addressing equality.
- **(e) Presence of externalities:** Externalities (positive or negative) cause market failure and generally lead to deviations from Pareto Optimality because market prices do not reflect the whole social cost or benefit. For Pareto Optimality, externalities must be absent or internal.

5. In a non-cooperative game, Nash equilibrium is achieved when:

(A) Each player chooses the strategy that maximizes the advantage of the other players, regardless of their strategies.
(B) All players collaborate to achieve the best collective result.
(c) Each player chooses his best strategy on the basis of the strategies chosen by the other players, and there is no incentive for any player to change his strategy unilaterally.
(D) One player dominates the game and decides the strategy for the others.

Answer: (c) Each player chooses his best strategy based on the strategies chosen by the other players, and there is no incentive for any player to change his strategy unilaterally.

Explanation:

- **Game Theory:** The Study of Strategic Interactions Between Rational Decision-Makers. **John von Neumann and Oskar Morgenstern are considered pioneers with** their book "Theory of Games and Economic Behavior" (1944).
- **Noncooperative Games:** Games where players make decisions independently without any binding agreement or cooperation.
- **Nash Equilibrium: It is named after John Nash,** who made significant contributions to game theory. Nash equilibrium is a situation in a game where:
  1. Each player has chosen a strategy.
  2. No player can profit by changing their strategy unilaterally, provided that the other players do not make any changes to their strategy.
     - This represents a stable result, as neither player has any immediate incentive to deviate.
- **Option (A) describes a dominant strategy** , which is a strategy that works best for a player, regardless of what other players do. While a game may have Nash Equilibrium where players use major strategies, not all Nash Equilibria involves major strategies.
- **Option (B) describes a cooperative game outcome**, which is different from the concept of Nash equilibrium in non-cooperative games. The "prisoner's dilemma" is a classic example where the Nash equilibrium is a non-cooperative outcome that is worse for both players than it would be if they could have cooperated.
- **Option (D) describes a state of dominance or leadership** , which may occur in some game models (e.g. Stackelberg leadership in oligopoly) but is not the general definition of Nash equilibrium.
- **Survival:** Nash proved that every limited game with a limited number of players and strategies has at least one Nash equilibrium, possibly in mixed strategies.

Assertion (A): Moral hazard occurs when one party in a transaction has more or better information than the other party before the transaction takes place.
Reason (R): In insurance markets, high-risk individuals are more likely to buy insurance, leading to the problem of moral hazard.

Code:
Both (A) and (R) are true, and (R) is the correct explanation of (A).
Both (B) (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is wrong, but (R) is correct.

Answer: (D) (A) is wrong, but (R) is correct. (Correction: (R) describes adverse selection, not moral hazard. Let's rewrite R or A so that it becomes a better A&R for moral hazard or adverse selection, respectively).
Let's re-evaluate this question and correct it so that it becomes a proper A&R question based on moral hazard or adverse selection.

Assertion (A): Adverse selection arises in the marketplace when one party has more information about a relevant feature than the other party before a contract is agreed upon.
Reason **(R):** In the used car market, sellers often know more about car defects than buyers, resulting in a situation where mainly **low-quality** cars **("lemons")** are traded.

Code:
Both (A) and (R) are true, and (R) is the correct explanation of (A).
Both (B) (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is wrong, but (R) is correct.

Answer: Both (A) and (R) are true, and (R) is the correct explanation of (A).

Explanation:

- **Asymmetric information:** A situation in which one party in an economic transaction has more physical knowledge than the other. The concept was specifically explored by George Akerloff, Michael Spence, and Joseph Stiglitz, who shared the Nobel Prize in Economics in 2001 for their analysis of asymmetric information markets.
- Adverse Selection (Hidden Information - **Pre-Contract):**

- **Definition:** It takes place before *a transaction or contract is finally settled*. This occurs when one party has private information about a feature related to the transaction that the other party does not have.
- **Assertion (A) is true:** It correctly defines adverse selection as a pre-contractual information asymmetry.
- **Result:** **The** ignorant party may eventually select an undesirable business partner or product.
- **Example (Used Car Market – "Lemons' Market" by Ackerloff**): Sellers of used cars know more about the quality of their cars than buyers. Buyers, fearing that they might get a "lemon" (bad car), are willing to pay only the average price. This low average price pushes good quality cars ("Peaches") out of the market, leaving most of the lemons behind. This is what **reason (R)** describes.
- **Example (insurance market):** Individuals with high inherent risk (e.g., pre-existing health conditions, risky lifestyles) are more likely to take out insurance because they expect higher claims. The insurer, in the absence of correct information about individual risk levels, may determine premiums based on average exposure, which may be unprofitable for enrolling individuals with very high risk.
- **Reason (R) is true and explains (A):** The "lemon problem" is a classic example of unfavorable selection, where pre-contracted hidden information about the quality of the product leads to an inefficient market outcome.

- **Moral Hazard (Hidden Action - After Contract):**
  - **Definition:** It occurs *when* a transaction or contract is finalized. It occurs when one party, whose actions cannot be seen by the other party or which are costly to monitor, is motivated to behave in a manner harmful to the other party.
  - **Example (insurance market):** Once insured, the person may be less attentive to risk (for example, drive less carefully if fully insured against car damage) because the insurer bears the cost of negative consequences.
  - **Example (employment):** An employee, once hired (and if monitoring is hard), likely won't make a full effort.

7. Match List-I (Theory of Factor Pricing) with List-II (Economist/Hypothesis) and select the correct answer using the code given below:

List-I (Principle of Factor Pricing)	List-II (Economist/Conceptual)
a) Marginal productivity theory of distribution	i) Joan Robinson
b) Ricardian Rental Theory	ii) John Bates Clark
c) Principle of Restraining Interest	iii) Differential fare
c) Exploitation theory of wages	iv) Nassau William Sr.

Code:
(a) a-ii, b-iii, c-iv, d-i
(b) a-i, b-ii, c-iii, d-iv
(c) a-ii, b-iv, c-i, d-iii
(d) a-iv, b-iii, c-ii, d-i

Answer: (a) a-ii, b-iii, c-iv, d-i

Explanation:

- **Factor Pricing:** Deals with the determination of the values of the factors of production (land, labour, capital, entrepreneurship), which are rent, wages, interest and profit, respectively.
- **a) Marginal Productivity Theory of Distribution (ii) John Bates Clarke:**
  - **Concept:** This principle, which **was prominently developed by** John Bates Clark (and also by Philip Wickstead and Leon Walras), holds that under perfect competition, each factor of production receives an equal reward as its marginal product (the additional output produced by another unit of the factor).
  - **Assumptions:** Homogenous factors, factors and products Perfect competition in the market, divisible factors, law of decreasing marginal return.
  - **Importance:** This theory provides how income is distributed among the factors of production based on their contribution to production.
- **b) Ricardian Fare Theory (iii) Differential Fare:**
  - **Concept: Developed by** David Ricardo , this theory explains rents as the surplus earned by lands with more fertile or better

locations than lands with less fertile or less favorable spaces.

- **Differential Rent:** Rent arises due to differences in the fertility of the land or the circumstantial benefits. As farming expands to lower lands to meet growing demand, better land earns rent equal to the difference in its productivity than marginal land (which earns no rent).
- **Rarity rentals:** Ricardo also acknowledged rarity rent for the land as a whole.

- **c) Temperance Principle (iv) Nassau William Sr.:**
  - **Concept: Proposed by** Nassau William Sr ., this theory states that interest is the reward of "sobriety" – the sacrifice involved in abstaining from current consumption in order to make resources available for capital formation (saving).
  - **Criticism: The term** "abstinence" was criticized, especially by socialists such as Karl Marx, because it seemed to imply that wealthy capitalists had made significant sacrifices. Alfred Marshall later used the word "waiting" in place of "abstinence."
  - **Time Preference:** This theory is a precursor to later theories that emphasize time preference as a determinant of interest rates (e.g., Böhm-Bawerk's Agio theory).
- **d) Exploitation of Wages Theory (i) Joan Robinson /Oppressor (Karl Marx too):**
  - **Concept (Marxist): Karl Marx** argued that under capitalism, labor is exploited because workers are paid a wage (value of labor power) that is less than the value of output produced by them (value of labour). The difference is the "surplus value", which the capitalists grab as profit.
  - **Concept (Joan Robinson – Imperfect Competition): Joan Robinson showed** in his work on imperfect competition how labour could be exploited even without a Marxist framework. Monopolistic exploitation occurs when a firm with market power in the labor market pays wages less than the marginal revenue product (MRP) of labor.
  - While Marx is the primary proponent of exploitation theory, Joanne Robinson's work on monopoly power offers another perspective on how wages can be scaled below competitive levels. Looking at the options, Joan Robinson is the most suitable match in terms of factor pricing under imperfect market conditions.

8. A person who prefers a certain outcome with a specific benefit more than a risky prospect with the same expected profit is described as:

(a) Risk-neutral
(b) Risk-savvy (or risk-taker)
(c) Risk averse
(d) Risk-indifferent

Answer: (c) Risk averse

Explanation:

- **Decision Making under Uncertainty:** This field of microeconomics deals with how individuals make choices when the outcomes of those choices are not known for certain but they can be described by probabilities. Key concepts include expected value, expected utility, and attitude towards risk.
- **Expected utility theory: Developed by** John von Neumann and Oskar Morgenstern , this theory assumes that individuals make decisions to maximize their expected utility, not the expected monetary value.
- **Attitude towards Risk:**
  1. **Against Risk:**
     - **Definition:** A risk-averse person prefers a certain outcome (a certain thing) rather than a risky probability (gambling) that has the same expected monetary value. They dislike uncertainty.
     - **Utility Function:** Their utility function of money is concave (decreasing marginal utility of money). This means that the utility gained from an extra dollar is less than the utility gained from losing a dollar.
     - **Certainty Equivalent: The** certainty equivalent (the amount of fixed money that gives the same utility as the risky probability) is less than the expected value of the risky probability for the risk-averse person. The difference is the risk premium they are willing to pay to avoid risk.
     - **Example:** Most people who buy insurance avoid risk.

2. **Risk-averse:**
   - **Definition:** A risk-neutral person is indifferent between a certain outcome and a risky probability with the same expected monetary value.
   - **Utility Function:** The utility function of their property is linear (static marginal utility of the property).
   - **Certainty Equivalent:** Certainty equivalent is equal to the expected value.
3. **Risk taker (risk taker):**
   - **Definition:** A risk-averse preferring a risky prospect rather than a fixed outcome, which has the same expected monetary value. They enjoy taking risks.
   - **Utility Function:** Their utility function of money is convex (increasing marginal utility of money).
   - **Certainty Equivalent:** Certainty equivalence is higher than the expected value.
   - **Example:** Gamblers who are willing to pay for the thrill of gambling, even if the expected payout is negative.

- **Risk-Indifferent**: This term is synonymous with risk-indifferent.

9. According to Walras's law, in an economy with 'n' markets:

(a) If (n-1) markets are in equilibrium, then the nth market must also be in equilibrium.
(b) The total value of excess demand in all markets must be zero.
(c) General equilibrium can be achieved only when all markets are perfectly competitive.
(d) It implies that the sum of individual budget constraints is the same overall.
(e) It was prepared by Alfred Marshall.

Choose the correct answer from the options given below:
(a) (a), (b), and (c) only
(b) (a), (b), and (d) only
(c) (c), (d), and (e) only
(d) (a), (d), and (e) only

ANSWER: (B) (A), (B), AND (D) ONLY

Explanation:

- **General equilibrium analysis:** **studies the behavior of supply**, demand, and prices throughout an economy with many or many interoperable markets, trying to prove that there exists a set of prices that will result in an overall equilibrium. **Leon Walras** is a pioneer of general equilibrium theory.
- **Walras's Law:**
  - **Statement: Named after** Leon Walras , this rule states that at any value set, the total value of excess demands in all markets in any economy should be zero.
  - **Mathematical representation:** If pi is the price of commodity i, di is the demand for commodity i, and si is the supply of commodity i, then Walras' law states: Σ pi (di - si) = 0, where the sum is from all items i=1 to n.
  - **(b) The total value of excess demand in all markets should be zero:** This is a straightforward statement of Walras's law. There is an excess demand (Di - Si) for a commodity.
  - **(d) It implies that the sum of personal budget constraints occurs in aggregation:** Walras's law is derived from the assumption that all individuals are at their budget constraints (i.e., they spend all their income). When aggregated in all individuals, it implies that the total value of the goods demanded is equal to the total value of the goods supplied (when the initial endowment and production are considered).
- **Implications for Market Clearing:**
  - **(a) If (n-1) markets are in equilibrium, then the N-1 markets must also be in equilibrium:** This is an important implication of Walras's law. If the sum of additional demands in the first (n-1) markets is zero (because they are in equilibrium), and the sum total of excess demands in all 'n' markets should be zero, then the excess demand in the nth market should also be zero. This simplifies the task of finding a common balance; One only needs to make sure that the (N-1) markets are clear.
- **Other Points:**

- **(c) General equilibrium can be achieved only when all markets are perfectly competitive:** While Walras's original model assumed perfect competition, general equilibrium analysis can be extended to economies with imperfections. However, the existence of equilibrium and proper relationships can change. Walras's law remains in force as long as budget constraints are met.
- **(e) It was formulated by Alfred Marshall:** This is incorrect. Walras' law is given to Leon Walras. Alfred Marshall is known for partial equilibrium analysis and the development of supply and demand concepts in that framework.

- **Existence of Normal Equilibrium:** The existence of a common equilibrium set of prices was later **rigorously proven under specific conditions by economists such as Kenneth Arrow and Gérard DeBrough**.

10. The objective of Social Welfare Work (SWF) is:

(a) Maximizing the utility of the poorest person in the society.
(b) Aggregate individual utilities in the measure of overall social well-being, leading to rankings of different social statuses.
(c) Ensure that all resources are allocated with full efficiency.
(d) To determine the optimum level of government intervention in the economy.

Answer: (b) Aggregate individual utilities in the measure of overall social well-being, leading to the ranking of different social statuses.

Explanation:

- **Welfare economics:** A branch of economics that uses microeconomic techniques to evaluate well-being (welfare) at an overall (social) level. It deals with issues of efficiency and equity.
- **Social Welfare Activities (SWF):**
  - **Concept: Presented by** Abram Bergson (in a paper of 1938) and **further developed by Paul Samuelson**. SWF is a function that ranks

different social situations (allocation of resources and distribution of utility among individuals) based on certain ethical norms.
    - **Purpose:** It provides a way to make social choices by combining the utility level or preferences of all individuals in the society into a single measure of social welfare.
    - **Form:** W = W(U1, U2, ..., Un), where W is social welfare and UI is the utility of individual i.
    - **Ranking of Social Conditions:** Its primary purpose is to allow policymakers or society to compare different economic outcomes and choose the outcome that maximizes social well-being according to the specific nature of the SWF.
- **Different Forms of SWF:**
    - **Utilitarian (Benthamite):** W = ΣUi. Aims to maximize the sum of personal utilities. The cardinal values utility and mutual comparison.
    - **Rawlsian (Maximin):** W = min(U1, U2, ..., Un). The aim is to maximize the usefulness of the worst-case person in society (as explained in option A, but this is a specific type *of SWF*, not a general definition). It **reflects John Rawls**' "principle of justice."
    - **Weighted sum of utilities:** W = ΣaiUi, where ai are the weights reflecting the importance given to each individual's utility.
- **Option (A) describes the Rollsion SWF**, which is a specific form, not a general purpose of any SWF.
- **Option (c) relates to Pareto efficiency**, which is a criterion for evaluating social situations, but the SWF goes even further and allows rankings, even when certain conditions are non-comparable to Pareto's or when the options involve a compromise between efficiency and equality.
- **Option (D) is a potential application or implication of the use of** SWF (e.g., evaluating the welfare effects of government policies), but it is not the fundamental definition or purpose of SWF.
- **Arrow's impossibility theorem: Kenneth Arrow** showed that it is impossible to construct a social welfare function if it relies only on successive personal preferences that are based on seemingly reasonable axioms (e.g. unrestricted domains, the Pareto principle, freedom of irrelevant choices, and non-dictatorship). Satisfies a set of. This highlights the difficulties in converging personal preferences into a coherent social choice.

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UGC NET ECONOMICS ONELINER SAMPLE

1. **Question:** In what year did Adam Smith publish his monumental work, An Inquiry into the Nature and Causes of the Wealth of Nations, laying the foundation for classical economics?
   Answer: 1776.
2. **Question:** The principle of 'Comparative Advantage', which is a cornerstone of international trade theory, was first fully developed by which economist in his 1817 book On the Principles of Political Economy and Taxation?
   Answer: David Ricardo.
3. **Question:** Which economist, in his 1936 book The General Theory of Employment, Interest and Money, challenged classical economics and introduced the concept of aggregate demand?
   Answer: John Maynard Keynes.
4. **Question:** The concept of the 'Phillips Curve', which suggests an inverse relationship between inflation and unemployment, is named after which economist?
   Answer: A.W. Phillips.
5. **Question:** Who introduced the 'Capability Approach' to welfare economics, arguing that development should be seen as an expansion of real freedoms?
   Answer: Amartya Sen.
6. **Question:** The IS-LM model, a key macroeconomic tool representing investment-saving and liquidity preference-money supply, was first introduced by which economist in 1937?

Answer: John Hicks.

7. **Question:** Which economist, a leader of the Chicago school, is most closely associated with the theory of 'Monetarism'?
   Answer: Milton Friedman.
8. **Question:** The 'Kuznets Curve', which graphs the hypothesis that economic inequality first increases and then decreases with development, is named after whom?
   Answer: Simon Kuznets.
9. **Question:** The law of markets, famously summarized as "supply creates its own demand," is attributed to which French economist?
   Answer: Jean-Baptiste Say.
10. **Question:** In game theory, what is the term for a stable state where no player can gain by unilaterally changing their strategy, a concept developed by John Nash?
    Answer: Nash Equilibrium.
11. **Question:** The 'Liquidity Trap' is a situation, described by Keynes, where monetary policy becomes ineffective because the nominal interest rate is at or near what level?
    Answer: Zero.

12. **Question:** The 'Harrod-Domar Model' of economic growth emphasizes the dual role of what economic activity?
Answer: Investment.
13. **Question:** The Human Development Index (HDI) was devised by which Pakistani economist for the UNDP in 1990?
Answer: Mahbub ul Haq.
14. **Question:** The concept of 'Creative Destruction', describing how new innovations replace old industries, was put forward by which economist in his book Capitalism, Socialism and Democracy (1942)?
Answer: Joseph Schumpeter.
15. **Question:** What is the name of the production function, developed by Charles Cobb and Paul Douglas, that is widely used to represent the technological relationship between inputs and output?
Answer: Cobb-Douglas Production Function.
16. **Question:** The 'Heckscher-Ohlin model' of international trade posits that countries export products that use their abundant and cheap factors of what?
Answer: Production.
17. **Question:** In his 1798 work An Essay on the Principle of Population, which thinker argued that population growth would outstrip food supply?
Answer: Thomas Robert Malthus.
18. **Question:** The concept of 'conspicuous consumption', where goods are bought to display wealth, was introduced by which economist in his 1899 book The Theory of the Leisure Class?
Answer: Thorstein Veblen.
19. **Question:** What statistical measure, represented graphically by the Lorenz curve, is used to gauge income or wealth inequality within a nation?
Answer: Gini Coefficient.
20. **Question:** The 'Coase Theorem', which deals with economic

efficiency in the presence of externalities, is named after which Nobel laureate?
Answer: Ronald Coase.

21. **Question:** In India, the major economic reforms, including liberalization, privatization, and globalization (LPG), were launched in which year?
Answer: 1991.
22. **Question:** A state of resource allocation where it is impossible to make any one individual better off without making at least one individual worse off is known by what name?
Answer: Pareto Optimality (named after Vilfredo Pareto).
23. **Question:** The Bretton Woods Conference, which led to the creation of the IMF and the World Bank, was held in which year?
Answer: 1944.
24. **Question:** The Laffer Curve illustrates a theoretical relationship between tax rates and the resulting levels of what?
Answer: Government tax revenue.
25. **Question:** In Indian planning, the 'Mahalanobis Model', which emphasized heavy industries, was adopted during which Five-Year Plan?
Answer: Second Five-Year Plan (1956-61).
26. **Question:** The economic growth model which incorporated technological progress as an exogenous factor was developed by which economist in the 1950s?
Answer: Robert Solow.
27. **Question:** The concept of 'Rational Expectations', which assumes that people make choices based on all available information and past experiences, is most associated with which economist?
Answer: Robert Lucas Jr.

28. **Question:** What committee, appointed in 1991, made comprehensive recommendations for reforms in the Indian banking sector?
Answer: Narasimham Committee.
29. **Question:** The law stating that, with all else equal, as consumption increases, the marginal utility derived from each additional unit declines is known by what name?
Answer: Law of Diminishing Marginal Utility.
30. **Question:** India's Planning Commission was replaced by which institution on January 1, 2015?
Answer: NITI Aayog (National Institution for Transforming India).
31. **Question:** Who, in his book Poverty and Un-British Rule in India, put forward the 'Drain of Wealth' theory?
Answer: Dadabhai Naoroji.
32. **Question:** The theory of 'Permanent Income Hypothesis', which suggests consumption depends on long-term expected income, was proposed by whom?
Answer: Milton Friedman.
33. **Question:** What economic rule, observed by Ernst Engel in 1857, states that as income rises, the proportion of income spent on food falls?
Answer: Engel's Law.
34. **Question:** The 'Impossible Trinity' (or Trilemma) in international economics states that it's impossible to have a fixed foreign exchange rate, free capital movement, and what else, all at the same time?
Answer: An independent monetary policy.
35. **Question:** What is the term for goods for which demand increases as the price increases, defying the law of demand, first identified by Sir Robert Giffen?
Answer: Giffen Goods.
36. **Question:** The 'Leontief Paradox', identified by Wassily

Leontief in 1953, contradicted the predictions of which international trade model?
Answer: Heckscher-Ohlin Model.

37. **Question:** The concept of the 'Vicious Circle of Poverty' was put forward by which economist in his 1953 book Problems of Capital Formation in Underdeveloped Countries?
Answer: Ragnar Nurkse.

38. **Question:** In India, the Fiscal Responsibility and Budget Management (FRBM) Act was enacted in which year to ensure fiscal discipline?
Answer: 2003.

39. **Question:** The two-sector model of economic development based on the concept of 'unlimited supplies of labour' was proposed by which economist?
Answer: W. Arthur Lewis.

40. **Question:** 'Arrow's Impossibility Theorem', a key finding in social choice theory, was demonstrated by which economist?
Answer: Kenneth Arrow.

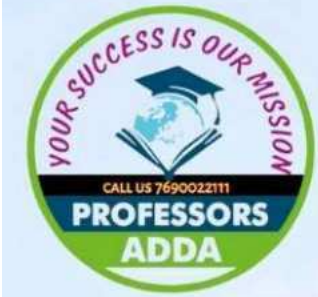
41. **Question:** The term 'Stagflation', describing a situation of high inflation and high unemployment, was popularized in the UK by which politician in 1965?
Answer: Iain Macleod.

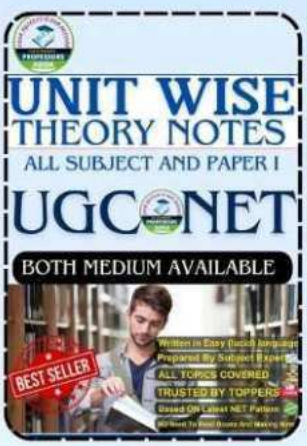
42. **Question:** Goods and Services Tax (GST) was implemented across India from which date?
Answer: July 1, 2017.

43. **Question:** The 'Principle of Maximum Social Advantage', which determines the optimal level of public expenditure and taxation, is primarily associated with which two economists?
Answer: Hugh Dalton and Richard Musgrave.

44. **Question:** The 'Infant Industry Argument' for trade protectionism is most famously associated with which 19th-century economist?
Answer: Friedrich List.

45. **Question:** What is the full form of 'NAIRU', a key concept in understanding the relationship between inflation and unemployment?
Answer: Non-Accelerating Inflation Rate of Unemployment.
46. **Question:** The concept of 'Opportunity Cost', the value of the next-best alternative forgone, was first fully developed by which economist?
Answer: Friedrich von Wieser.
47. **Question:** The 'Public Choice Theory', which applies economic analysis to political decision-making, was pioneered by which two economists?
Answer: James M. Buchanan and Gordon Tullock.
48. **Question:** The 'Random Walk Hypothesis', applied to stock market prices, suggests that future price changes are what?
Answer: Unpredictable (independent of past changes).
49. **Question:** Which committee was constituted by the Government of India in 2007 to look into reforms in the financial sector?
Answer: Raghuram Rajan Committee.
50. **Question:** The base year for the calculation of the Consumer Price Index for Industrial Workers (CPI-IW) in India was updated to what year in 2020?
Answer: 2016.





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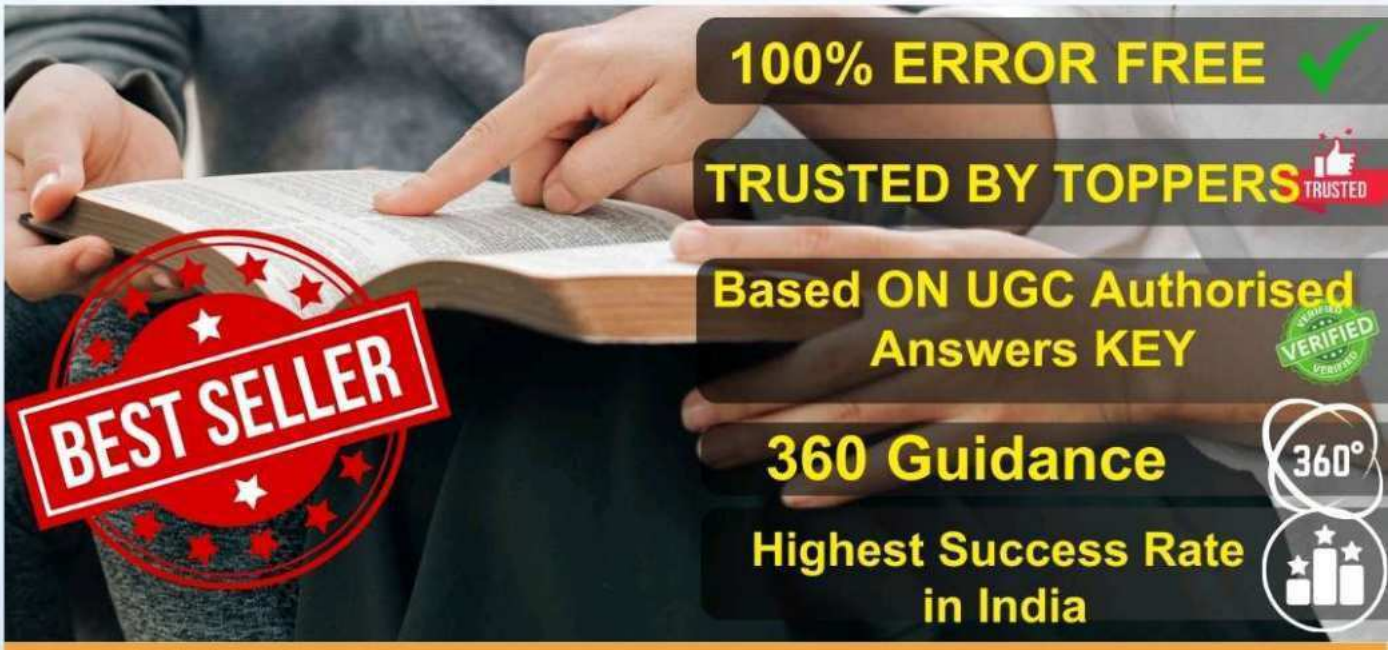

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Economics JUNE-2024

51. There are several reasons why serial correlation occurs. The reason which does not cause serial correlation is:
(A) Most time-series data exhibit business cycles
(B) Researchers may have excluded some important variable from the regression
(C) Some variables react with a lag
(D) Large variation in the observed explanatory variables
Answer: (4)

52. Which of the following, correctly depicts the intra industry trade index (T)?
(A) $T=1-|X+M|\ X-M$
(B) $T=1-X+M|\ X-M|$
(C) $T=1-X-M|\ X+M|$
(D) $T=1-|\ X-M|\ X^{\cdot}+M$
Answer: (2)

53. If the marginal propensity to import is high, then which of the following will be true?
(a) The IS curve is steeper
(b) It will create currency appreciation
(c) It will make the LM curve flatter
(d) For each level of income, the interest rate must be high to achieve external balance
(e) For each level of interest rate, higher income will be generated to achieve BOP equation
Choose the correct answer from the options given below:
(A) (a) and (d) only
(B) (a) and (b) only
(C) (a), (b), (c) and (d) only
(D) (a), (d) and (e) only
Answer: (3)

54. Match List - I with List - II.

List-I	**List-II**
(a) Inflation targeting	(I) Milton Friedman
(b) Natural rate of employment	(II) Kydland and Prescott
(c) Time inconsistency problem	(III) Robert Lucus Jr.

(d) Rational Expectation	(IV) J.B. Taylor

Choose the correct answer from the options given below:
(A) (a)-(IV), (b)-(I), (c)-(II), (d)-(III)
(B) (a)-(I), (b)-(IV), (c)-(II), (d)-(III)
(C) (a)-(IV), (b)-(II), (c)-(III), (d)-(1)
(D) (a)-(II), (b)-(III), (c)-(IV), (d)-(1)
Answer: (1)

55. In the two variable regression model, where the number of observation is 13, the variance of error term is 0.893652 and TSS is 105.1188. Find the coefficient of determination (r2).
(A) 0.9521
(B) 0.9065
(C) 0.8681
(D) 0.9345
Answer: (2)

56. Match List - I with List - II.

List-I	**List-II**
(a) Specific Factor Model	(1) Staffan B. Linder
(b) Product life cycle hypothsis	(III) Raymond Vernon
(c) Preference similarity hypothesis	(I) Staffan B. Linder
(d) Price magnification effect	(II) Stolper Samuelson theorem

Choose the correct answer from the options given below:
(A) (a)-(IV), (b)-(III), (c)-(II), (d)-(I)
(B) (a)-(IV), (b)-(III), (c)-(I), (d)-(II)
(C) (a)-(III), (b)-(IV), (c)-(II), (d)-(I)
(D) (a)-(III), (b)-(II), (c)-(I), (d)-(IV)
Answer: (2)

57. Arrange the following states with respect to estimates of yield of coarse cereals (kg per hectare) in the year 2021-22, in ascending order:
(a) Bihar
(b) Punjab
(c) Tamil Nadu
(d) Assam
(e) Gujarat
Choose the correct answer from the options given below:

(A) (d), (c), (e), (b), (a)
(B) (e), (d), (c), (b), (a)
(C) (d), (c), (b), (e), (a)
(D)), (d),
Answer: (E) (Note: The provided answer key has 'E' which is not among the options A-D. Please refer to the original document for clarification if needed.)

58. Arrange the following rounds of tariff negotiations of GATT sequentially (oldest being the first):
(a) Dillon Round
(b) Torquay Round
(c) Kennedy Round
(d) Geneva Round
(e) Tokyo Round
Choose the correct answer from the options given below:
(A) (d), (b), (e), (a), (c)
(B) (b), (d), (c), (a), (e)
(C) (d), (b), (a), (c), (e)
(D) (b), (d), (a), (c), (e)
Answer: (3)

59. Arrange the following environment meet according to their years of occurrences (oldest being first)
(a) The Paris Agreement (COP 21)
(b) Stockholm +50
(c) Earth Summit
(d) United Nations Conference on the Human Environment in Stockholm
(e) Rio +20
Choose the correct answer from the options given below:
(A) (d), (c), (a), (b), (e)
(B) (d), (c), (e), (a), (b)
(C) (c), (d), (a), (b), (e)
(D) (c), (d), (b), (a), (e)
Answer: (2)

60. Which of the following is not a features of the Coase Theorem?
(A) Everyone has perfect information
(B) Costless transaction
(C) Producers maximizes profit and consumers maximizes utility
(D) There exists wealth/income effects
Answer: (4)

61. Arrange the following Nobel Laureates according to their year of Award (latest being the first):
(a) Sir Arthur Lewis
(b) Simon Kuznet
(c) Douglas C. North
(d) Claudia Goldin
(e) Ronald Coase
Choose the correct answer from the options given below:
(A) (d), (e), (c), (a), (b)
(B) (d), (e), (c), (b), (a)
(C) (d), (c), (e), (a), (b)
(D) (d), (c), (e), (b), (a)
Answer: (3)

62. In a random arrangement of the letters of the word 'VIOLENT', find the chance of that the vowels I, O, E occupy odd positions only.
(A) 353
(B) 354
(C) 424
(D) 423
Answer: (2)

63. A firm's production function is q=12−LK1(L+K). The prices of labour, capital and output are ₹1,4 and 9 respectively. Find the maximum profit.
(A) 80
(B) 45
(C) 90
(D) 105
Answer: (3)

64. Which of the following states the Gravity model correctly?
(A) Tij=A+Yi+DijYj
(B) Tij=A×Yi×YjDij
(C) Tij=A×Yi×DijYj′
(D) Tij=A×Yi×Dij| Yj|
Answer: (3)

65. Arrange the following countries with respect to their value added from Agriculture, forestry and fishing as percent to GDP for the year 2022, in descending order:
(a) China
(b) Bangladesh

(c) India
(d) Nepal
(e) Sri Lanka
Choose the correct answer from the options given below:
(A) (d), (c), (a), (e), (b)
(B) (a), (c), (b), (e), (d)
(C) (d), (c), (b), (e), (a)
(D) (e), (d), (b), (a), (c)
Answer: (3)

66. For a regression through the origin, state which of these statement is not true?
(A) The Σul^ need not be equal to zero.
(B) The raw r2 computed satisfies 0<r<1 and is directly comparable to the conventionally computed r2.
(C) In estimating the model, we use raw sum of squares and cross products.
(D) The conventionally computed r2 may give negative value.
Answer: (2)

67. Which of the following is true for Environmental Kuznet Curve?
(A) As the percapita GNP increases, pollution increases throughout.
(B) As the percapita GNP increases, pollution increases upto a point and then start declining.
(C) As the percapita GNP increases, pollution decreases throughout.
(D) Percapita GNP has no relation with pollution.
Answer: (2)

68. Match List - I with List - II.

List-I	List-II
(a) Economics of Idea	(IV) Paul Romer
(b) Learning by doing	(III) K.J. Arrow
(c) Animal Spirit	(II) John Maynard Keynes
(d) Invisible Hand	(I) Milton Friedman

Choose the correct answer from the options given below:
(A) (a)-(III), (b)-(IV), (c)-(I), (d)-(II)
(B) (a)-(IV), (b)-(III), (c)-(II), (d)-(1)
(C) (a)-(III), (b)-(IV), (c)-(II), (d)-(I)
(D) (a)-(I), (b)-(IV), (c)-(II), (d)-(III)
Answer: (2)

69. As per Union budget 2023-24 arrange the following components on the basis of their revenue share to total revenue generation, starting from the highest:

UGC-NET ECONOMICS 21-06-2023

1. Suppose good 1 is taken on horizontal axis and good 2 on vertical axis, then what happens to the budget line if the price of good 1 doubl and price of good 2 triples?
   (a) The budget line becomes steeper
   (b) The budget line becomes flatter
   (c) The budget line become vertical
   (d) The budget line remains unchanged

2. Suppose that a scarce resource, facing a constant demand, will be exhausted in 10 years. If an alternative resource will be available at a price of $40 and if the interest rate is 10%, what must be the price of the scarce resource today -
   (a) $55.50
   (b) $35.60
   (c) $24.40
   (d) $15.42

3. Which one of the following is not a characteristic of market structure?
   (a) Degree of buyers' concentration
   (b) Degree of Sellers' concentration
   (c) Conditions of entry
   (d) Vertical integration

4. Which of the following is not true in the case of second theorem of welfare economics?
   (a) If consumers exhibit convex preferences, every pareto efficient allocation is a possible competitive equilibrium in a pure exchange economy.
   (b) In an economy involving production, the convexity of production sets ensures that a pareto efficient allocation can be achieved as a market equilibrium.
   (c) It holds when there are increasing returns to scale.
   (d) It implies that in the market system, the allocative role and the distributive role can be separated from each other.

5. Taylor's Rule tells,
   (a) how monetary authority sets interest rate in response to economic activity
   (b) how monetary authority maintains bank rate
   (c) how monetary authority maintains exchange rate
   (d) how government decides the tax rate to increase the tax base.

6. Monetary base of an economy is,
   (a) Amount of currency held by public and by the banks as reserves.
   (b) Amount of currency held by public and demand deposits.
   (c) Amount of currency held by public and time deposits.
   (d) Currency deposit ratio.

7. Given the income multiplier formula $m=\frac{1}{1-MPC}$, lower the marginal propensity to save,
   (a) Higher will be the multiplier effect
   (b) Lower will be the multiplier effect
   (c) Multiplier will become infinite
   (d) Multiplier will become zero

8. In the national income identity Y = C + I + G. investment (I) is a function of.
   (a) Real Income

(b) Nominal Income
(c) Real Interest Rate
(d) Nominal Interest Rate

9. Which one of the following is not correct about LM schedule?
(a) The LM schedule slopes upward to the right.
(b) The LM schedule will be relatively flat (steep) if the interest elasticity of money demand is relatively high (low).
(c) The LM schedule will shift downward (upward) to the right (left) with an increase (decrease) in the quantity of money.
(d) The LM schedule is the schedule giving the combinations of values of investment and interest rate that produce equilibrium in the money market.

10. The merchant's file of 20 accounts contains 6 delinquent and 14 non-delinquent accounts. An auditor randomly selects 5 of these accoun for examination. What is the probability that the auditor finds exactly 2 delinquent cases?
(a) 0.2562
(b) 0.3
(c) 0.3087
(d) 0.4526

11. A company has 140 employees, of which 30 are supervisors, 80 of the employees are married, and 20% of the married employee are supervisors. If a company employee is randomly selected, what is the probability that the employee is married and is a supervisor?
(a) 0.1531
(b) 0.1253
(c) 0.0923
(d) 0.1143

12. The Hausman's specification error test is used to test whether
(a) An exogenous variable is correlated with the error term.
(b) An endogenous variable is correlated with the error term.
(c) Both an exogenous variable is correlated with the error term and an endogenous variable is correlated with the error term.
(d) OLS method is appropriate to estimate the SEM.

13. In random walk without drift.
(a) The effect of shock persists throughout the time period.
(b) The effect of shock in the past dies out over time.
(c) The effect of shock drifts away quickly.
(d) There is no effect of past shock.

14. Given below are the alternative formulae for F-test statistics. We are interested in testing the statistical significance of the incremental contribution of X3 at 5% level of significance to $Y = \beta_0 + \beta_2 X_1 + \beta_2 X_2 + U$. Which of these is not appropriate? Where RSS is residual sur of square and ESS is explained sum of square.

1. $F = \frac{R^2_{yx} - R^2_{yx} / d.f.}{\left(1 - R^2_{yx}\right) / d.f.}$
2. $F = \frac{ESS / d.f.}{RSS / d.f.}$
3. $F = \frac{ESS_{new} - ESS_{old} / d.f.}{ESS_{new} / d.f.}$
4. $F = \frac{R^2 / d.f.}{\left(1 - R^2\right) / d.f.}$

(a) guide ecologically optimal sustainable scale
(b) serve as an indicator of unsustainability
(c) replace GDP as a measure of economic progress
(d) None of the above

ANSWERS

1	B	21	B	41	A	61	C	81	B
2	D	22	B	42	D	62	D	82	B
3	D	23	C	43	C	63	C	83	A
4	C	24	C	44	D	64	D	84	B
5	A	25	C	45	C	65	D	85	C
6	A	26	B	46	D	66	D	86	A
7	A	27	A	47	D	67	A	87	A
8	C	28	D	48	A	68	D	88	C
9	D	29	A	49	A	69	B	89	D
10	C	30	D	50	A	70	D	90	A
11	D	31	D	51	D	71	C	91	D
12	B	32	A	52	A	72	B	92	C
13	A	33	C	53	C	73	A	93	B
14	C	34	D	54	D	74	C	94	D
15	B	35	D	55	C	75	C	95	A
16	D	36	C	56	D	76	B	96	C
17	C	37	A	57	D	77	D	97	D
18	A	38	B	58	D	78	A	98	B
19	C	39	A	59	B	79	*	99	D
20	A	40	B	60	B	80	B	100	B

UGC NET Economics PYQ Question Paper Analysis and Trend Pattern (2016-JAN 2025)

1. Variety in Question Formats:

- **Multiple Choice Questions (MCQs):** All questions are in this format. These include direct factual, concept-based, application-based and numerical questions.
- **Match based questions (Match List):** This format is very important in economics. In this, questions matching the theories, economists, concepts, models, committees, schemes, indices etc. are asked in abundance.
- **Assertion & Reason - A/R:** These questions test a deep understanding of economic principles and concepts and the ability to establish logical connections between them. These are especially important in micro, macro, international economics, public finance and development economics.
- **Statement-based questions:** A number of statements (True/False) are given and asked to select the combination of true/false statements. It tests detailed knowledge of the subject and ability to understand subtle differences.
- **Chronological/Sequential Order:** Questions are asked relating to events, formulation of principles, launch of plans, establishment of committees, publication of books or arranging the stages of economic processes in the correct order.

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- **Numerical/Mathematical Questions:** Computational questions are asked related to macroeconomics (consumer/producer balance, elasticity, cost, revenue), macroeconomics (multiplier, national income calculation), mathematical economics (differential, integration, optimization), statistics (probability, index) and international economics (effective conservation rate).
- **Passage-based questions:** Two passages (5 questions each) are given, often based on contemporary economic issues, reports (e.g. economic surveys, Nobel Prize references) or specific economic concepts. These test the ability to understand, analyze and draw conclusions.

2. Balance of conceptual/theoretical versus applied/factual questions:

- The question papers contain a mixture of Theoretical Clarity and Applied Knowledge.
- Requires a deep understanding of theories, models, and concepts in micro, macro, international economics, public economics, money and banking, and development economics.
- Emphasis is placed on formulas, techniques, and their applications in statistics, econometrics, and mathematical economics.
- In the Indian Economy unit, factual and analytical questions are asked related to latest data, schemes, policies, recommendations of committees and contemporary issues.

3. Difficulty Level:

- The level of questions is moderate to difficult, requiring analytical and application skills. Good practice is necessary for numerical questions and econometrics/statistics based questions. Current information is important for the Indian economy.

conclusion:
Success in the UGC NET Economics exam requires a strong grasp of all the units of the syllabus, clear understanding of the concepts, critical evaluation of theories and knowledge of application of numerical and statistical techniques. It is also important to stay updated with the latest data and policies of the Indian economy. It is beneficial to practice different types of questions, especially matching, assertion-reason, statement-based and numerical questions.

Major Focus Areas (Recurring Themes):

- **Micro economics:** Consumer behavior (indifference curves, utility analysis), production functions (CES, Cobb-Douglas), cost and revenue curves, market structures (perfect competition, monopoly, monopolistic competition, oligopoly models – Courno, Bertrand, Stackelberg, Sweezy), welfare economics (Pareto optimality, compensatory theory).

- **Macroeconomics:** National Income Accounting, Keynesian Model (Consumption Function, Multiplier – Taxes, Expenditure, Balanced Budget), IS-LM Model, Inflation (Phillips Curve), Business Cycle, Rational Expectations, Money Demand (Keynes, Baumol-Tobin, Friedman).

- **Statistics and Econometrics:** Probability theory, hypothesis testing (t-test, F-test, chi-square), regression analysis (OLS properties, problems – multicollinearity, heteroscedasticity, autocorrelation; dummy variables, logit/probit models), time series analysis (stationarity tests – ADF, KPSS; cointegration).

- **Mathematical Economics:** Applications of differentiation and integration, optimization, matrix algebra (rank), input-output analysis.

- **International Economics:** Trade theory (Adam Smith, Ricardo, Heckscher-Ohlin, Leontief paradox, product cycle theory), terms of trade, tariffs and non-tariff barriers (effective protection rate), balance of payments, exchange rate determination, international organizations (IMF, World Bank, WTO, ADB).

- **Public Economics:** Public goods, externalities, tax system (theory, taxation, tax multiplier), public expenditure (Wagner, Peacock-Wiseman), public debt, fiscal policy, concepts of deficit (revenue, fiscal, primary), Finance Commission.

- **Currency and Banking:** Measures of money supply (M1, M2, M3, M4), money multipliers, monetary policy (instruments, objectives, effectiveness, inflation targeting), banking sector reforms (Narasimham Committee), money market and capital market instruments (Treasury Bill).

- **Growth and Development:** Theories of economic development (Adam Smith, Marx, Schumpeter, Harrod-Domar, Solow, Lewis, Rostow, Rodan, Nurkse, Lebenstein, Endogenous growth), poverty and inequality (measurement – Gini coefficient, Lorenz curve, Kuznets curve, HDI, MPI), cost-benefit analysis.

- **Environmental Economics and Demography:** Externalities, Public Goods, Environmental Assessment Methods, Kyoto Protocol, Population Theory (Malthus), Demographic Transition, Life Table, Migration.

- **Indian Economy:** National Income figures, recent trends in Agriculture (IADP), Industry, Foreign Trade Policy, Fiscal and Monetary Policy, Poverty and Unemployment figures (CMIE, NITI Aayog), Major Schemes (PMJDY, Ujjwala, Ayushman Bharat, Gatishakti, Jal Jeevan Mission etc.), Highlights of Economic Survey and Budget, G-20 Chairmanship.

Unit I: Micro Economics

- **Broad Concepts:**
  - **Consumer Behavior Theory:** Utility analysis (cardinal, ordinal), indifference curves (characteristics, slope/MRS, shape for perfect substitutes and complements), budget line (effect of price and income changes, slope), consumer equilibrium (MRS=Px/Py), price effects, income effects and substitution effects (for normal, inferior and Giffen goods, Slutsky equation), elasticity of demand (price, income, skew), consumer surplus.

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Economics Thinker Tool Kit Sample

1. Adam Smith (1723–1790)

1. Introduction

- **Identity**: A pivotal Scottish economist and moral philosopher, widely regarded as the **father of modern economics**.
- **Intellectual Context**: He was a leading figure in the Scottish Enlightenment, which emphasized reason and empirical study.
- **Academic Career**: Educated at the University of Glasgow and Oxford, he later became the Professor of Moral Philosophy at Glasgow.
- **Philosophical Foundation**: His work on ethics, The Theory of Moral Sentiments, explored human sympathy and provided the moral framework for his later economic ideas.
- **Legacy**: His magnum opus, The Wealth of Nations, effectively established economics as an independent discipline and provided the intellectual blueprint for classical economics and free-market capitalism.

2. Key Concepts / Contributions

Concept / Theory	Description / Significance in Microeconomics
Invisible Hand	A core microeconomic concept suggesting that individuals pursuing their own self-interest unintentionally promote the good of society. It describes the self-regulating nature of the marketplace, where competition and self-interest lead to an efficient allocation of resources.
Division of Labour	Smith argued that specializing tasks and roles (e.g., in a pin factory) leads to a massive increase in productivity. This is a foundational concept in the theory of the firm and production efficiency.
Theory of Value	Introduced the "Water-Diamond Paradox" (paradox of value), distinguishing between 'value in use' and 'value in exchange'. He proposed a labour theory of value, where the value of a good is determined by the amount of labour required to produce it.
Absolute Advantage	A foundational theory in trade, stating that a country should specialize in and export goods that it can produce more efficiently (using fewer resources) than other countries. This is a key microeconomic rationale for free trade.
Laissez-Faire	Advocated for minimal government intervention in economic

	affairs. He believed that markets, left to themselves, would produce the most efficient and desirable outcomes for society.

3. Key Books / Publications

- **The Theory of Moral Sentiments (1759)**: His first major work, laying the philosophical and psychological foundation for his later economic theories by exploring concepts like sympathy and human behaviour.
- **An Inquiry into the Nature and Causes of the Wealth of Nations (1776)**: Considered the first modern work of economics, it systematically covers topics from division of labour and prices to markets and policy. It is a foundational text for classical economics.

4. Notable Facts

- Widely regarded as the **"Father of Modern Economics"** or the **"Father of Capitalism."**
- His work marks the beginning of the **Classical School** of economic thought.
- The Wealth of Nations was published in the same year as the American Declaration of Independence, and both documents share themes of liberty and freedom from excessive control.

2. Alfred Marshall (1842–1924)

1. Introduction

- **Identity**: An English economist who was the most dominant figure in British economics at the turn of the 20th century.
- **Academic Powerhouse**: As Professor of Political Economy at the University of Cambridge, he founded the influential **"Cambridge School"** of economics.
- **The Great Synthesizer**: His primary achievement was to synthesize the theories of classical economists with the new concepts of the marginalist revolution, creating the foundation of neoclassical economics.
- **Methodology**: With a background in mathematics, he brought a new level of analytical rigor to the discipline.
- **Legacy**: He developed and popularized the tools of **supply and demand analysis** (the "Marshallian Cross"), which remain the cornerstone of microeconomic education today.

2. Key Concepts / Contributions

Concept / Theory	Description / Significance in Microeconomics
Demand and	He is credited with synthesizing previous ideas on utility and

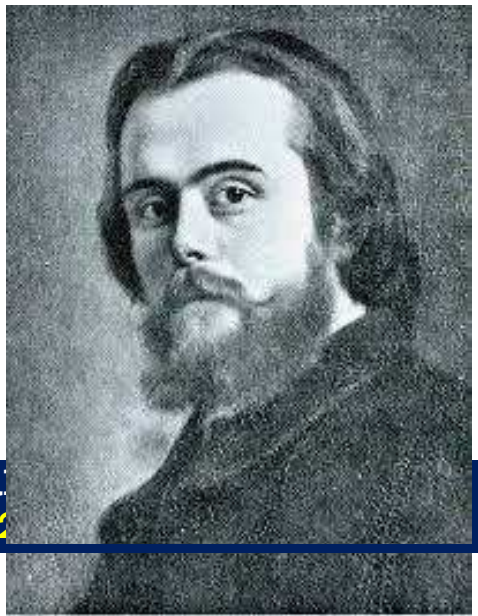
Supply Model	costs of production into the familiar **demand and supply diagram** (the "Marshallian Cross"). He showed how the interaction of the demand curve (representing marginal utility) and the supply curve (representing marginal cost) determines the equilibrium price.
Price Elasticity of Demand	Marshall formalized the concept of price elasticity, which measures the responsiveness of quantity demanded to a change in price. This is a fundamental tool in microeconomic analysis for firms and policymakers.
Consumer Surplus	He defined and popularized the concept of consumer surplus—the difference between what a consumer is willing to pay for a good and what they actually pay. This is a key measure of consumer welfare.
Quasi-Rent	A term Marshall coined to describe the short-term earnings of a fixed factor of production (like capital equipment). In the short run, these earnings are similar to rent, as the supply is fixed.
Ceteris Paribus	While not inventing the term, he institutionalized its use in economics. The method of holding "other things equal" is central to **partial equilibrium analysis** and allows for the isolation and study of individual economic variables.
Time Periods in Analysis	He introduced the distinction between the **market period, short period, and long period**, which became a standard framework for analyzing costs, production, and market equilibrium.

3. Key Books / Publications

- **Principles of Economics (1890)**: This became the dominant economics textbook in England for decades. It brought the ideas of supply and demand, marginal utility, and costs of production into a coherent whole and is a cornerstone of **Neoclassical economics**.

4. Notable Facts

- He is considered one of the founders of the **Neoclassical School** of thought, which blended classical economics with the new ideas of the "marginalist revolution."
- He sought to make economics more rigorous and mathematical while still being accessible to the layman, using footnotes for complex mathematical derivations.



3. Léon Walras (1834–1910)

1. Introduction

- **Identity**: A French economist celebrated as one of the three founding fathers of the **"Marginalist Revolution."**
- **Academic Home**: He was the Professor of Political Economy at the University of Lausanne, where he founded the **Lausanne School** of economic thought.
- **Grand Vision**: His life's work was the development of **General Equilibrium Theory**—a comprehensive mathematical model of an entire economy.
- **Unique Approach**: Unlike his contemporaries, he sought to show how all markets could clear simultaneously, a task of immense mathematical complexity.
- **Legacy**: Though his highly abstract work was largely ignored during his lifetime, it provided the essential foundation for much of 20th-century mathematical economics and economic theory.

2. Key Concepts / Contributions

Concept / Theory	Description / Significance in Microeconomics
General Equilibrium Theory	Walras's most significant contribution. Unlike Marshall's partial equilibrium, which looks at one market at a time, **General Equilibrium** analyzes all markets in an economy simultaneously. It attempts to prove that a set of prices exists that will clear all markets (i.e., supply equals demand for every single commodity and factor).
Tâtonnement (Groping)	A theoretical process for reaching equilibrium. Walras envisioned a "Walrasian auctioneer" who calls out prices. Based on these prices, agents report their intended demands and supplies. The price is then adjusted until a vector of prices is found where aggregate demand equals aggregate supply in all markets.
Marginalist Revolution	Along with William Stanley Jevons and Carl Menger, Walras was one of the three leaders of the Marginalist Revolution. He independently developed the theory that the value of a commodity is determined by its **marginal utility**.
Walras's Law	A principle stating that if all but one market in a general equilibrium system are in equilibrium, then the last market must also be in equilibrium. This follows from the budget constraints of individuals, where the total value of excess demands must be zero.

3. Key Books / Publications

- **Éléments d'économie politique pure (Elements of Pure Economics)**

(1874): This work laid out his general equilibrium model in a highly mathematical form, marking a major step in the mathematization of economics.

4. Notable Facts

- He is a founder of the **Lausanne School** of economic thought, known for its focus on general equilibrium and mathematical methods.
- His work was highly abstract and mathematical for its time and was not fully appreciated until the 20th century by economists like John Hicks and Paul Samuelson.

4. Vilfredo Pareto (1848–1923)

1. Introduction

- **Identity**: An influential Italian engineer, sociologist, and economist with a diverse intellectual background.
- **Academic Succession**: He was the intellectual heir to Léon Walras, succeeding him as the Chair of Political Economy at the University of Lausanne and continuing the **Lausanne School** tradition.
- **Career Path**: He transitioned from a successful career in civil engineering to become a pioneering social scientist.
- **Key Contribution**: In microeconomics, he was instrumental in moving the field away from psychological assumptions by helping to replace **cardinal utility** with the more robust concept of **ordinal utility**.
- **Methodology**: He refined the use of **indifference curves**, providing the analytical tools for modern consumer theory and welfare economics.

2. Key Concepts / Contributions

Concept / Theory	Description / Significance in Microeconomics
Pareto Optimality / Efficiency	A state of resource allocation where it is impossible to make any one individual better off without making at least one individual worse off.[1] This became the standard definition of efficiency in welfare economics and a benchmark for evaluating market outcomes and public policies.
Pareto Improvement	A change in resource allocation that makes at least one person better off without making anyone worse off. An allocation is Pareto Optimal when no more Pareto Improvements can be made.
Indifference Curve Analysis	While developed by Francis Edgeworth, Pareto was instrumental in developing and popularizing the use of **indifference curves** to represent consumer preferences. This allowed for the study of consumer choice based on ordinal utility (ranking preferences) rather than cardinal utility (measuring the amount of utility).
Pareto Distribution	An observation, now often called the **"80/20 Rule"** or Pareto Principle, that in many systems, roughly 80% of the effects come from 20% of the causes. He first observed this in relation to wealth distribution in Italy, where about 80% of the land was owned by 20% of the population.

3. Key Books / Publications

- **Cours d'économie politique (Course of Political Economy) (1896)**: His first major economic work where he introduced his concept of the Pareto distribution.
- **Manuale d'economia politica (Manual of Political Economy) (1906)**: His seminal work where he refined his theories on Pareto optimality and laid out the foundations of modern microeconomic theory based on ordinal utility and indifference curves.

4. Notable Facts

- He succeeded Léon Walras at the University of Lausanne, continuing the legacy of the **Lausanne School**.
- His later work shifted towards sociology, where he developed the theory of "elite circulation."

5. Paul Samuelson (1915–2009)

1. Introduction

- **Identity**: A towering American economist of the 20th century and the **first American to win the Nobel Prize in Economic Sciences**.
- **Revolutionary Work**: His Ph.D. dissertation, published as **Foundations of Economic Analysis**, fundamentally changed the profession by applying a common mathematical structure of constrained optimization to all fields of economics.
- **Academic Home**: He spent his career at the **Massachusetts Institute of Technology (MIT)**, transforming its economics department into one of the world's best.
- **Dual Influence**: He dominated the field through both his advanced theoretical work and his landmark textbook, **Economics**, which became the best-selling economics textbook of all time.
- **Legacy**: Samuelson is credited with raising the level of mathematical and analytical rigor across the entire discipline of economics.

2. Key Concepts / Contributions

Concept / Theory	Description / Significance in Microeconomics
Revealed Preference Theory	Developed as an alternative to utility theory. Samuelson argued that consumer preferences can be "revealed" by observing their purchasing behavior under different price and income conditions, rather than by assuming an unobservable utility function. This provided a more empirical basis for consumer theory.
Foundations of Economic Analysis	His doctoral dissertation turned book applied mathematical methods to various fields of economics, showing that a core set of principles (like maximization) underpinned them all. He famously stated that all economic questions could be understood through solving a maximization problem subject to constraints.
Theory of Public Goods	He formalized the theory of public goods (which are non-rivalrous and non-excludable). He derived the **Samuelson Condition**, which defines the efficient level of provision for a public good as the point where the sum of the marginal rates of substitution equals the marginal rate of transformation.
Neoclassical-	While this also relates to macroeconomics, it integrated the

Keynesian Synthesis	microeconomic foundations of neoclassical economics with the Keynesian framework, creating the dominant post-war paradigm in economics education.

3. Key Books / Publications

- **Foundations of Economic Analysis (1947), Harvard University Press**: A landmark work that provided mathematical foundations for much of modern microeconomics and established the language of comparative statics.
- **Economics (1948, first edition), McGraw-Hill**: The best-selling economics textbook of all time. It educated generations of students and was instrumental in spreading the Neoclassical-Keynesian Synthesis worldwide.

4. Notable Facts

- He was the **first American to win the Nobel Memorial Prize in Economic Sciences** (1970) "for the scientific work through which he has developed static and dynamic economic theory and actively contributed to raising the level of analysis in economic science."[2]

1. Adam Smith (1723–1790)

Category	Details
Short Introduction	Scottish economist and philosopher, known as the "Father of Economics"; pioneer of classical economics.
Key Concepts	- Invisible Hand - Division of Labor - Self-interest as market driver - Free Markets
Key Books (with Year)	- The Theory of Moral Sentiments (1759) - An Inquiry into the Nature and Causes of the Wealth of Nations (1776)
Notable Facts	- Advocated minimal government intervention - Coined the term “invisible hand” for market equilibrium

2. Alfred Marshall (1842–1924)

Category	Details
Short Introduction	British economist; foundational figure in neoclassical economics.
Key Concepts	- Price Elasticity - Consumer Surplus - Marginal Utility - Partial Equilibrium
Key Books (with Year)	- Principles of Economics (1890)
Notable Facts	- Integrated mathematics into economics - Laid the groundwork for supply-demand curves taught today

3. Léon Walras (1834–1910)

Category	Details

Short Introduction	French economist; founder of general equilibrium theory.
Key Concepts	- General Equilibrium - Walrasian Auctioneer - Mathematical Formalization
Key Books (with Year)	- Elements of Pure Economics (1874)
Notable Facts	- Emphasized the use of mathematical equations in market theory - Inspired formal economic modeling

4. Vilfredo Pareto (1848–1923)

Category	Details
Short Introduction	Italian economist and sociologist; key figure in welfare economics.
Key Concepts	- Pareto Efficiency - Pareto Optimality - Income Distribution - Welfare Economics
Key Books (with Year)	- Manual of Political Economy (1906)
Notable Facts	- Proposed the famous 80/20 rule (Pareto Principle) - Linked economic theory with social analysis

5. Paul Samuelson (1915–2009)

Category	Details
Short Introduction	American economist; instrumental in formalizing economic theory mathematically.
Key Concepts	- Neoclassical Synthesis - Revealed Preference Theory - Dynamic Analysis - Welfare Theorems
Key Books (with Year)	- Foundations of Economic Analysis (1947) - Economics: An Introductory Analysis (1948)
Notable Facts	- First American Nobel Laureate in Economics (1970) - His textbook educated generations of economists

Economics Important Books & Table

1. **An Inquiry into the Nature and Causes of the Wealth of Nations** (1776) - **Adam Smith:** The foundational text of classical economics, introducing concepts like the division of labour, the "invisible hand," and absolute advantage.
2. **On the Principles of Political Economy and Taxation** (1817) - **David Ricardo:** A cornerstone of classical economics that introduced the theory of comparative advantage and the labor theory of value.
3. **The General Theory of Employment, Interest and Money** (1936) - **John Maynard Keynes:** The book that launched the Keynesian revolution in macroeconomics, arguing for government intervention to manage aggregate demand.
4. **Principles of Economics** (1890) - **Alfred Marshall:** A foundational text of neoclassical economics that introduced concepts like supply and demand, elasticity, and marginal utility.
5. **Value and Capital** (1939) - **John R. Hicks:** A seminal work that synthesized neoclassical and Keynesian ideas and introduced key microeconomic tools like the indifference curve and the IS-LM model.
6. **Capitalism, Socialism, and Democracy** (1942) - **Joseph Schumpeter:** Introduces the concept of "creative destruction" as the driving force of capitalism and analyzes the dynamics of entrepreneurship.
7. **The Theory of Monopolistic Competition** (1933) - **Edward Chamberlin:** A groundbreaking work that developed a model of market structure between perfect competition and monopoly.
8. **A Monetary History of the United States, 1867–1960** (1963) - **Milton Friedman & Anna Schwartz:** The key text of Monetarism, arguing that changes in the money supply are the primary cause of economic fluctuations.
9. **Development as Freedom** (1999) - **Amartya Sen:** Argues that development should be viewed as an expansion of real freedoms and capabilities, not just economic growth.
10. **Asian Drama: An Inquiry into the Poverty of Nations** (1968) - **Gunnar Myrdal:** A classic study on the development challenges faced by South Asian countries, introducing the concept of "soft state."
11. **Lewis Model of Economic Development** (Paper, 1954) - W**. Arthur Lewis:** A foundational model in development economics explaining how a developing economy can grow by transferring labor from a traditional agricultural sector to a modern industrial sector.
12. **Harrod-Domar Growth Model** (Papers, 1939, 1946) - **Roy Harrod & Evsey Domar:** A key post-Keynesian model that explains economic growth in terms of the savings rate and the capital-output ratio.
13. **Basic Econometrics** - **Damodar N. Gujarati:** A standard and widely used textbook for learning the principles and techniques of econometrics.
14. **Poverty and Un-British Rule in India** (1901) - **Dadabhai Naoroji:** A pioneering work that introduced the "drain theory," explaining how British colonial policies

impoverished India.

15. **The Economics of Welfare** (1920) - **A.C. Pigou:** The foundational text of welfare economics, introducing the concepts of externalities and Pigouvian taxes.
16. **Input-Output Economics** (1951) - **Wassily Leontief:** Developed the input-output model, a quantitative economic technique that represents the interdependencies between different[1] sectors of a national economy.[2]
17. **Kaldor-Hicks Compensation Criterion** (Papers, 1939) - **Nicholas Kaldor & John Hicks:** A criterion in welfare economics to determine if a policy change results in a social improvement.
18. **Arrow's Impossibility Theorem** (1951) - **Kenneth Arrow:** A social choice theory theorem stating that no ranked-voting electoral system can convert the ranked preferences of individuals into a community-wide ranking while also meeting[3] a specific set of fairness criteria.
19. **An Essay on the Principle of Population** (1798) - **T.R. Malthus:** A famous work that argued that population growth tends to outrun the food supply, leading to poverty and famine.
20. **Revealed Preference Theory** (Paper, 1938) - **Paul Samuelson:** A method of analyzing consumer choice which asserts that the best way to measure consumer preferences is to observe their purchasing behavior.
21. **The Stages of Economic Growth: A Non-Communist Manifesto** (1960) - **W.W. Rostow:** Proposes a model where economic development occurs in five basic stages of varying length.
22. **Heckscher-Ohlin Theory** (1933) - **Eli Heckscher & Bertil Ohlin:** A major international trade theory stating that countries export products that use their abundant and cheap factors of production.
23. **The Solow-Swan Growth Model** (Papers, 1956) - **Robert Solow & Trevor Swan:** A standard neoclassical growth model that explains long-run economic growth by looking at capital accumulation, labor or population growth, and increases in productivity.[4]
24. **Phillips Curve** (Paper, 1958) - **A.W. Phillips:** An economic model, named after A. W. H. Phillips, positing a stable and inverse relationship between rates of unemployment and corresponding rates of inflation.
25. **Rational Expectations Hypothesis** (Paper, 1961) - **John Muth:** A theory suggesting that economic agents make decisions based on the best available information and therefore do not make systematic errors. Central to New Classical Macroeconomics.
26. **The Affluent Society** (1958) - **John Kenneth Galbraith:** A book that critiqued the focus on GDP and argued for more public investment in infrastructure and education.
27. **The Road to Serfdom** (1944) - **Friedrich Hayek:** A classic work of the Austrian School of economics that argues against central planning and in favor of classical liberalism.
28. **Report of the Taxation Enquiry Commission (Kalekar Commission)** (1953-

54)**:** A key report on the Indian tax system.

29. **Report of the Committee on Financial System (Narasimham Committee I)** (1991)**:** The seminal report that guided India's financial and banking sector reforms.
30. **The General Agreement on Tariffs and Trade (GATT)** (1947)**:** The legal agreement that minimized barriers to international trade, which was succeeded by the WTO.

Table 1: Theories of Consumer Behavior

Theory	Main Proponent(s)	Core Idea	Key Concepts
Cardinal Utility Analysis	Alfred Marshall	Utility is measurable in numerical units called 'utils'. Consumers aim to maximize total utility.	Total Utility (TU), Marginal Utility (MU), Law of Diminishing Marginal Utility, Law of Equi-Marginal Utility.
Ordinal Utility Analysis	J.R. Hicks & R.G.D. Allen	Utility is not measurable but can be ranked in order of preference. Consumers aim to reach the highest possible indifference curve.	Indifference Curve, Indifference Map, Marginal Rate of Substitution (MRS), Budget Line, Consumer's Equilibrium.
Revealed Preference Theory	Paul Samuelson	Consumer preferences can be 'revealed' by observing their purchasing choices under varying prices and income levels.	Strong Ordering, Consistency, Transitivity. It is a behaviorist approach.

Table 2: Market Structures – A Comparison

Feature	Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
Number of Firms	Very large number	Single seller	Large number of firms	Few firms
Nature of Product	Homogeneous (identical)	Unique product with no close substitutes	Differentiated product (branding, quality)	Homogeneous or differentiated
Entry/Exit Barriers	No barriers; free entry and exit	Strong barriers (legal, natural)	Free entry and exit	Significant barriers to entry
Price Control	None; firm is a 'price taker'	Considerable control; firm is a 'price maker'	Some control due to product differentiation	Some control; price rigidity (kinked demand)
Demand Curve	Perfectly elastic (horizontal straight line)	Downward sloping (AR curve)	Downward sloping and more elastic	Indeterminate (kinked demand curve model)

Table 3: Cost Concepts and Curves (Short-Run)

Cost Concept	Description	Shape of the Curve	Reason for Shape
Average Fixed Cost (AFC)	Total Fixed Cost (TFC) per unit of output.	Rectangular hyperbola; continuously falls.	TFC is spread over an increasing number of units.
Average Variable	Total Variable Cost	U-shaped.	Initially falls due to

Cost (AVC)	(TVC) per unit of output.		increasing returns, then rises due to diminishing returns (Law of Variable Proportions).
Average Total Cost (ATC)	Total Cost (TC) per unit of output (AFC + AVC).	U-shaped.	The sum of AFC and AVC. The gap between ATC and AVC narrows as output increases because AFC falls.
Marginal Cost (MC)	The addition to total cost from producing one more unit of output.	U-shaped.	Falls initially due to increasing returns and then rises steeply due to diminishing returns. It cuts AVC and ATC at their minimum points.

Table 4: Theories of Distribution (Factor Pricing)

Theory	Proponent	Factor of Production	Core Idea
Marginal Productivity Theory	J.B. Clark	All factors (Land, Labour, Capital, Enterprise)	The price of a factor of production is determined by its marginal productivity. Each factor receives a reward equal to its marginal product.
Ricardian Theory of Rent	David Ricardo	Land	Rent is the surplus paid to the landlord for the use of the "original and indestructible powers of the soil." It arises due to differences in fertility.
Liquidity Preference Theory	J.M. Keynes	Capital (Money)	The rate of interest is a purely monetary phenomenon, determined by the demand for money (liquidity preference) and the supply of money.
Risk-Bearing Theory of Profit	F.B. Hawley	Enterprise	Profit is the reward for the entrepreneur for taking risks in the business. Higher the risk, higher the expected profit.
Innovation Theory of Profit	Joseph Schumpeter	Enterprise	Profit arises due to successful innovation by an entrepreneur, which gives them a temporary monopoly.

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UGC NET Economics (Paper 2) - Easy Level Model MCQs

Unit 1: Micro Economics

1. The basic economic problem of scarcity arises because:
(A) Resources are unlimited, but wants are limited.
(B) Both resources and wants are unlimited.
(C) Resources are limited, but wants are unlimited.
(D) Both resources and wants are limited.

Answer: (C)
Explanation:

1. The fundamental economic problem stems from the conflict between limited resources and infinite human desires.
2. Lionel Robbins provided a widely accepted definition focusing on scarcity in his 1932 essay.
3. Scarcity necessitates making choices about resource allocation, leading to opportunity costs for decisions made.
4. Economics studies how societies manage these scarce resources like land, labor, and capital effectively.
5. If resources were unlimited, like air (historically), there would be no economic problem associated.
6. This core issue applies universally, affecting individuals, businesses, and entire nations across time.
7. Understanding scarcity is the foundational first step in analyzing microeconomic and macroeconomic behavior.

2. An indifference curve represents:
(A) Different combinations of two goods yielding the same cost.
(B) Different combinations of two goods yielding the same satisfaction.
(C) Different combinations of two inputs yielding the same output.
(D) Different levels of satisfaction from one good.

Answer: (B)
Explanation:

1. An indifference curve graphically shows bundles of two goods giving a consumer equal utility.
2. The concept was developed by Francis Ysidro Edgeworth and later refined by Vilfredo Pareto.
3. Consumers are indifferent among any combination of points lying on the same indifference curve.
4. These curves are typically convex to the origin, reflecting diminishing marginal rate of substitution.
5. Higher indifference curves represent higher levels of satisfaction or utility for the consumer.
6. Indifference curves never intersect each other due to the assumption of transitivity in preferences.
7. This tool is central to ordinal utility analysis in modern microeconomic consumer theory.

3. The Law of Diminishing Marginal Utility states that:
(A) Total utility decreases as consumption increases.
(B) Marginal utility decreases as consumption increases.
(C) Marginal utility increases as consumption increases.
(D) Total utility remains constant as consumption increases.

Answer: (B)
Explanation:

1. The Law of Diminishing Marginal Utility posits that added satisfaction declines with more consumption.
2. Hermann Heinrich Gossen first systematically explained this principle, often called Gossen's First Law (1854).
3. It assumes consumption occurs continuously and units of the good consumed are homogeneous always.
4. This psychological law forms the basis for the downward-sloping demand curve in economics.
5. While marginal utility decreases, total utility generally increases until marginal utility becomes zero/negative.
6. Alfred Marshall significantly incorporated this law into his neoclassical framework of economics later.
7. Exceptions might exist, like collecting rare items, but it holds for most goods generally.

4. In perfect competition, a firm's demand curve is:
(A) Perfectly inelastic.
(B) Perfectly elastic.
(C) Downward sloping.
(D) Upward sloping.

Answer: (B)
Explanation:

1. Under perfect competition, an individual firm faces a perfectly elastic horizontal demand curve always.
2. This occurs because the firm is a price taker, accepting the market-determined price level.
3. Many buyers and sellers exist, with homogeneous products, ensuring no single firm influences price.
4. The firm can sell any quantity it wishes at the prevailing market price effectively.
5. Therefore, its Average Revenue (AR) and Marginal Revenue (MR) curves coincide with the demand curve.
6. This market structure, though theoretical, serves as a benchmark for analyzing market efficiency always.
7. Real-world examples like agricultural markets sometimes approximate perfect competition conditions closely sometimes.

5. Opportunity cost is best defined as:
(A) The monetary cost of an input.
(B) The value of the next best alternative foregone.

(C) The total cost of production.
(D) The cost incurred in the past.

Answer: (B)
Explanation:

1. Opportunity cost represents the benefits missed when choosing one alternative over another option available.
2. It is a fundamental concept in economics, highlighting the reality of scarcity and choice always.
3. Austrian economist Friedrich von Wieser is often credited with coining the term around 1914.
4. This cost is not always monetary; it can include time or satisfaction foregone also.
5. Rational decision-making involves comparing the benefits of a choice against its opportunity cost always.
6. For example, the opportunity cost of attending college includes wages you could have earned working.
7. Understanding opportunity cost helps in efficient resource allocation for individuals and firms constantly.

6. A production function shows the relationship between:
(A) Cost and revenue.
(B) Inputs and output.
(C) Price and quantity demanded.
(D) Wages and employment.

Answer: (B)
Explanation:

1. A production function mathematically describes the technical relationship between physical inputs and physical output.
2. It specifies the maximum output achievable from a given set of inputs efficiently used.
3. Common inputs include labor (L), capital (K), land, and raw materials typically used.
4. The concept is central to the theory of the firm in microeconomics always studied.
5. Economists like Cobb and Douglas developed specific functional forms, like Q = AL^α K^β.
6. Short-run production functions hold at least one input fixed, unlike long-run functions always.
7. It helps firms determine the least-cost combination of inputs for producing desired output levels.

7. Which market structure is characterized by a few large firms dominating the market?
(A) Perfect Competition
(B) Monopoly
(C) Monopolistic Competition
(D) Oligopoly

Answer: (D)

Explanation:

1. Oligopoly is a market structure dominated by a small number of large interdependent sellers.
2. Firms in an oligopoly are highly aware of each other's actions and strategies often.
3. Examples include the automobile industry, airline industry, and telecommunications sectors in many countries globally.
4. Barriers to entry, such as economies of scale or patents, are typically high here.
5. Firms may compete on price, advertising, or product differentiation, leading to strategic interactions always.
6. Game theory, developed by von Neumann and Morgenstern (1944), is often used to analyze oligopolies.
7. Behavior can range from intense competition (price wars) to collusion (cartels like OPEC sometimes).

8. Pareto Optimality occurs when:
(A) One person can be made better off without making anyone worse off.
(B) Resources are allocated efficiently, and no one can be made better off without making someone else worse off.
(C) Total welfare is maximized regardless of distribution.
(D) All individuals have equal income.

Answer: (B)
Explanation:

1. Pareto Optimality describes an allocation where improving one person's situation requires harming another's situation.
2. It is a concept of efficiency in resource allocation, central to welfare economics analysis.
3. Named after Italian economist Vilfredo Pareto, who developed the concept around the early 1900s.
4. A Pareto improvement is a change that makes at least one person better off without worsening anyone.
5. An allocation is Pareto optimal or efficient if no further Pareto improvements are possible anymore.
6. It does not comment on the fairness or equity of the resource distribution itself however.
7. The First Fundamental Theorem of Welfare Economics links competitive equilibrium to Pareto efficiency often stated.

9. Adverse selection is a problem associated with:
(A) Symmetric information.
(B) Asymmetric information before a transaction.
(C) Asymmetric information after a transaction.
(D) Perfect information.

Answer: (B)
Explanation:

1. Adverse selection arises from asymmetric information *before* a contract or transaction is finalized usually.

2. One party has more or better information than the other party involved in negotiations.
3. George Akerlof's 1970 paper "The Market for Lemons" famously illustrated adverse selection using used cars.
4. In insurance markets, individuals with higher risks are more likely to purchase insurance policies often.
5. This can lead to higher average claims, potentially making the insurance market unsustainable eventually sometimes.
6. Screening (by the uninformed party) and signaling (by the informed party) are potential remedies tried.
7. It represents a type of market failure where bad products or risks drive out good ones.

10. The short-run cost curve that continuously declines as output increases is the:
(A) Average Variable Cost (AVC)
(B) Average Fixed Cost (AFC)
(C) Marginal Cost (MC)
(D) Average Total Cost (ATC)

Answer: (B)
Explanation:
1. Average Fixed Cost (AFC) is calculated as Total Fixed Cost (TFC) divided by output (Q).
2. Since Total Fixed Costs remain constant in the short run regardless of output level produced.
3. AFC continuously declines as output increases because the fixed cost is spread over more units.
4. Graphically, the AFC curve is a rectangular hyperbola, asymptotically approaching both axes always shown.
5. It is a component of Average Total Cost (ATC), where ATC = AFC + AVC always.
6. Understanding AFC helps firms analyze their cost structure and breakeven points in production planning.
7. Unlike AFC, AVC and MC curves are typically U-shaped due to diminishing marginal returns eventually.

Unit 2: Macro Economics

11. Gross Domestic Product (GDP) measures the total:
(A) Income received by residents of a country.
(B) Value of goods and services produced within a country's borders.
(C) Value of goods and services produced by a country's citizens, regardless of location.
(D) National wealth accumulated over time.

Answer: (B)
Explanation:
1. GDP quantifies the total market value of all final goods and services produced domestically.
2. It measures production occurring within a country's geographical boundaries during a specific time period usually.
3. This concept became widely used after the Bretton Woods conference in the

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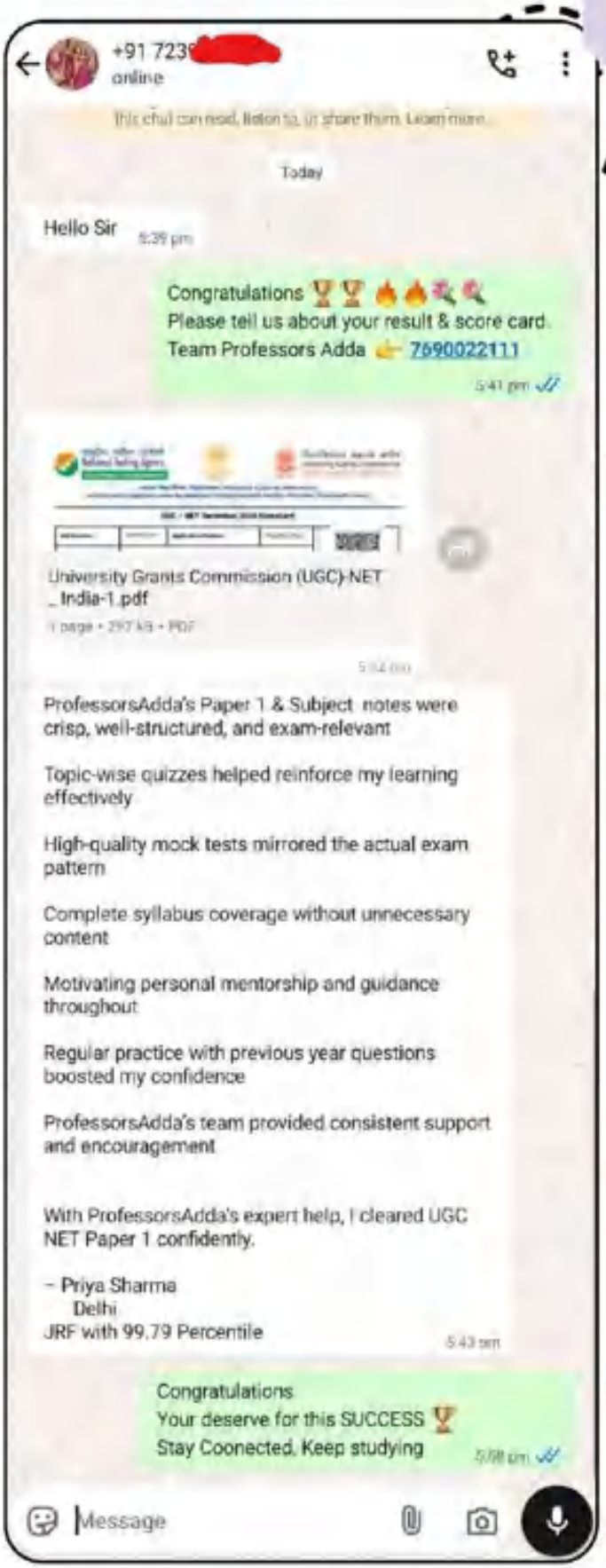

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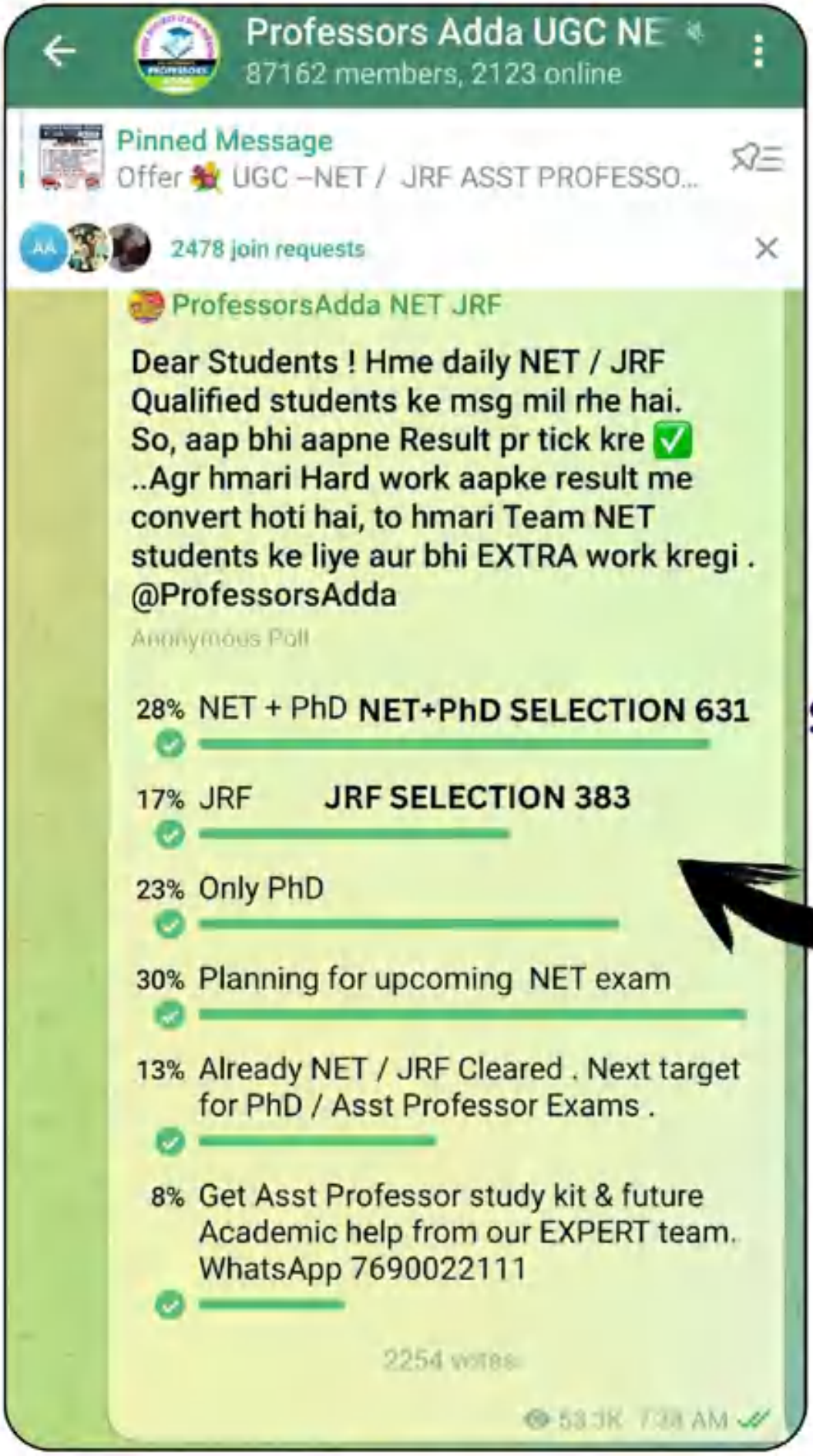

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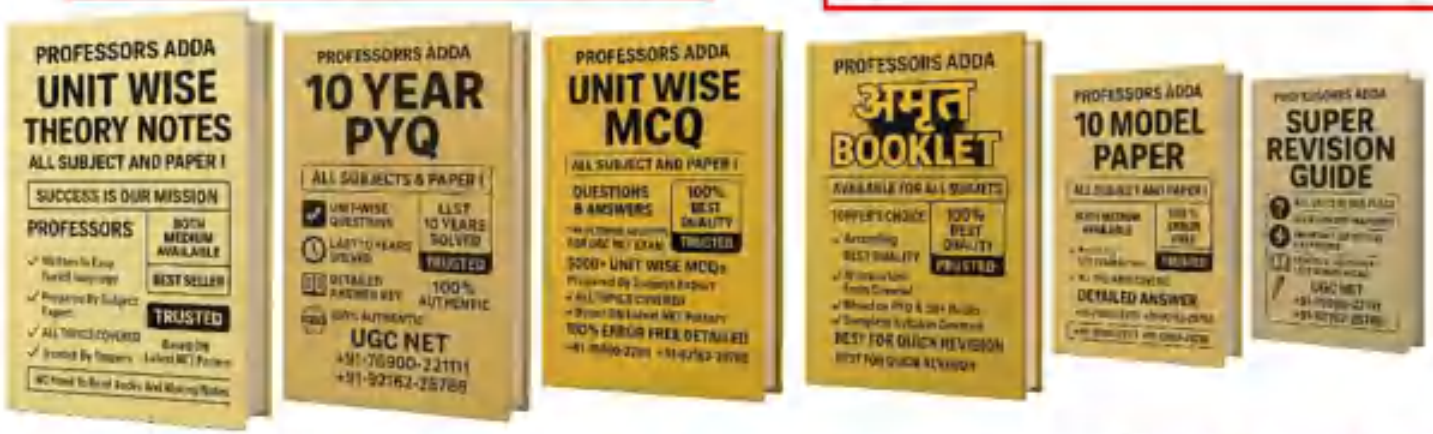

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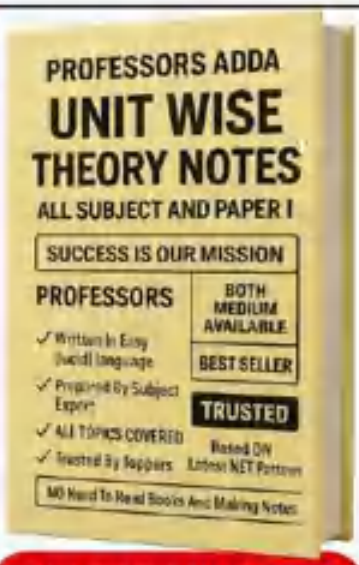

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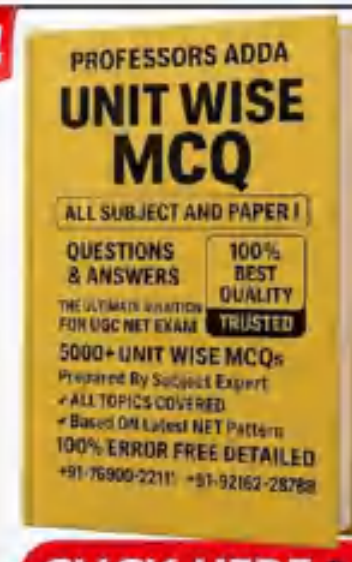

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