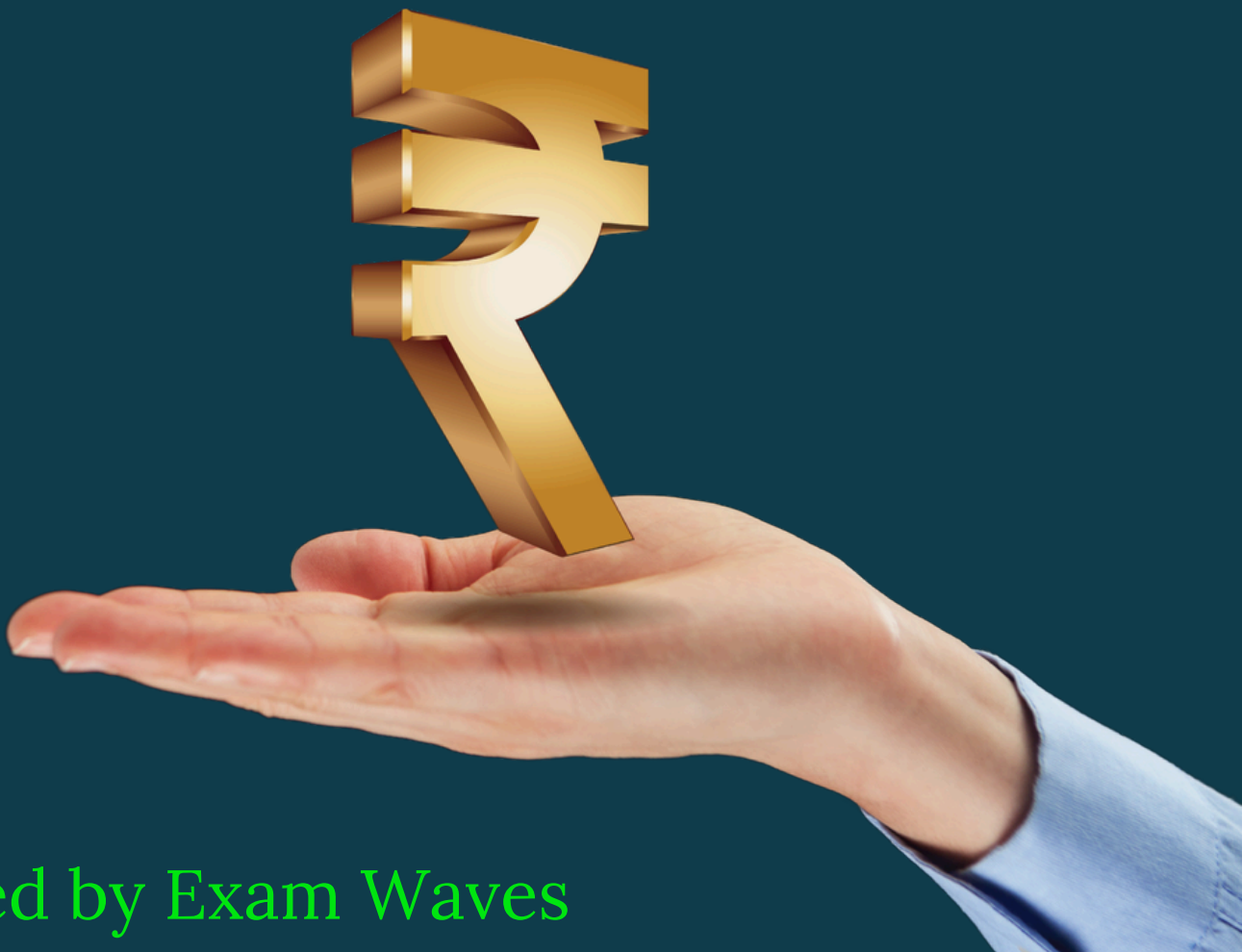
ECONOMICS

Micro and Macro

For

JKSSB Finance Accounts Assistant (FAA) 2026



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ABOUT THIS BOOKLET

This book is carefully prepared by our expert team to support JKSSB Finance Accounts Assistant (FAA) 2026 aspirants. It covers all important topics of Micro and Macro Economics in a simple, easy-to-understand format. Our aim is to make learning effective, improve accuracy, and help students achieve better results.

About Exam Waves

Exam Waves (EW) is a leading coaching academy dedicated to helping aspirants succeed in competitive exams like JKSSB, SSC, Banking, Railway, and Defence. With a strong focus on concept clarity and exam-oriented preparation, we provide high-quality study material designed according to the latest exam patterns.

Inside this book

- Covers complete Micro and Macro Economics syllabus
- Based on latest JKSSB FAA 2026 exam pattern
- Simple and easy language for quick understanding
- Important concepts explained in short form
- Useful for revision and last-minute preparation
- Includes exam-oriented topics and content
- Helps improve accuracy and speed
- Suitable for beginners as well as advanced students
- Designed by expert team of Exam Waves

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TOPIC 1 – INTRODUCTION

TERM ECONOMICS

- Derived from Greek word **Oikonomikos** **Oikos** means Household **Nomos** means Management Thus means "Management
- of Household" Earlier was called as Political
- Economy Renamed as Economics by Alfred
- Marshall in 19th century

Definitions

Wealth Definition (Classical Era)

- Given by Adam Smith
- Adam Smith – Father of economics in hid
- **Book: An Inquiry into the Nature and Causes of Wealth of Nations – 1776**

Welfare Definition (Neo-Classical Era)

- Given by Alfred Marshall
- Father of Macro economics
- **Book: Principles of Economics – 1890**

Scarcity Definition (New Age)

- Given by Lionel Robbins
- Book: An Essay on the Nature and Significance of Economic Science – 1932

Growth Definition (Modern Age)

- Given by Paul Samuelson
- Book: Foundations of Economic Analysis

Terms " Micro and Macro"

- Coined by Ragnar Frisch
- in 1933

What is Economy

- It is the study of human behaviour, what activities a person does for his livelihood

Economics

- It is the study of economic issues arising out of the scarce resources in relation to our needs

Scarcity

- When demand is more for a commodity than its supply

Micro

- Study human behaviour at individual level

Tools

- Demand & Supply

Objective

- Determine price of commodity
- Also known as **Price theory**
- **Example:** individual demand & supply

Macro

- Study aggregate behaviour of an economy

Tools

- Aggregate demand and aggregate supply

Objective

- Determine income and employment as whole
- Also Known as **income and employment theory**
- **Example :** National income

Central problems of economy

- Scarce resources
- Unlimited wants
- Alternative uses

Economizing of Resources

- Means optimum utilisation of resources

Micro Level Problems

1) **What to produce**

- Consumer goods –Bread, Butter
- Capital goods – Machines

2) How to produce

- Labour intensive technique – To use more labour
- Capital intensive technique – More machines

3) Whom to produce

- Rich people – High price (GDP growth)
- Poor people – Low price (Social Equality)

Conditions

- Under IC analysis Consumer Equilibrium must meet following Two conditions
- MRSxy = Ratio of prices or Px / Py = MRE

or

Slope of IC = Slope of BL

- If MRSxy > Px / Py
- Means consumer is willing to sacrifice more of Y to obtain one more unit of X (i.e. MRS > MRE)
- So consumer will consume more of X and less of Y

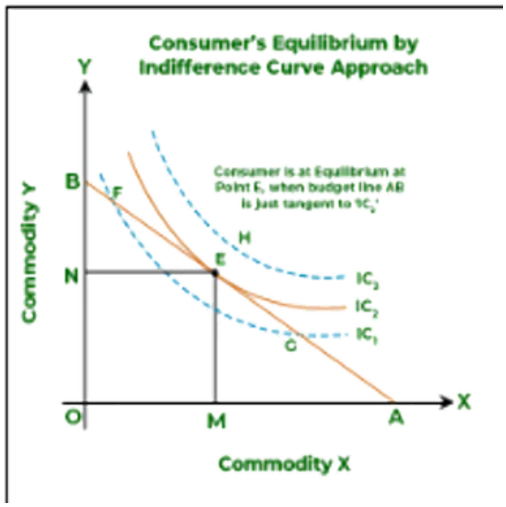
  If MRSxy < Px / Py
- means to obtain one more unit of X
- consumer is willing to sacrifice less units of Y

  So consumer will consume less of X and
- more of Y

  As a result MRS will fall and become equal to price ratio and equilibrium is
- established

2) **MRS continuously falls**

- MRS must be diminishing at the point of equilibrium
- i.e. IC must be convex to origin at point of equilibrium



- At E, BL is tangent to IC_2
- It is equilibrium

Demand

- It refers to quantity of a commodity that a consumer is willing and able to buy at possible price during a given period of time

Elements of Demand

- Quantity of commodity
- Willingness to buy
- Price of commodity
- Period of time

Quantitative Demand

- It refers to specific quantity which buyers are willing to buy against specific price during a give period of time

Individual Demand

- Quantity of a good that a consumer is willing and able to buy at given price during a given period of time

Market Demand

- It refers to quantity of commodity that all consumers together are willing and able to buy at given price during a given period of time

Determinants of Individual Demand

1) Price of the commodity

- It shows inverse relationship between price and quantity demanded
- If price increases, demand of the commodity decreases

2) Price of related goods

(a) Substitute goods – Are those which can be easily used in place of one another

- They show positive relationship
- If price of one rises, demand for other increases

Example: Tea & coffee, Pepsi & coke

(b)Complementary Goods

- Are those goods which are used jointly to satisfy a particular want
- They show negative relationship
- Increase in the price of one, demand falls for another good

Example : Car & Petrol, Tea & Sugar

3) Income of the Consumers

- It also affects the demand
- It depends on the nature of the commodity

(a)Normal Goods

- Whoes demand increases with rise in Income
- Decrease in income leads to decrease in demand
- Price effect – Negative
- Income effect – Positive

Example: Rice, wheat and books

(b)Inferior Goods

- Whose demand falls with rise in income
- Price effect – Positive
- Income effect – Negative

Example : Bajra, Jowar

4) Taste and Preference

- Like fashion, habits etc
- Favourable change – Demand increases
- Unfavourable change – Demand decreases

5) Expectation of change in prices in future

Example : Prices of petrol

6) Government policy

7) Advertisement

Determinants of Market Demand

1.Size of population
2.Distribution of income
3.Season and weather

Change in Demand

- When change in demand for a commodity comes due to factors other than price
- If the change in demand of Pepsi comes due to change in the price of Coke

Change in Quantity Demanded

- When change in the demand for a commodity occurs due to change in its own price
- Change in the demand for Pepsi due to change in its own price

Types of Demand

Direct Demand

- It is the demand by the consumer for goods
- which satisfy his wants directly
- **Example :** Cloth

Indirect or Derived Demand

- It is the demand for those goods
- which are needed for further production
- It is the demand for producer goods
- Example : Labour in sugar factory

Composite Demand

- Demand for a commodity which can be put to several uses
- **Example :** Electricity

Competitive Demand

- Demand for those goods which are substituted for each other
- **Example :** Tea and coffee

Demand Schedule

- It is the tabular representation of functional relationship between price and quantity demanded for a particular commodity
- **It may be:** Individual Demand Schedule and Market Demand Schedule

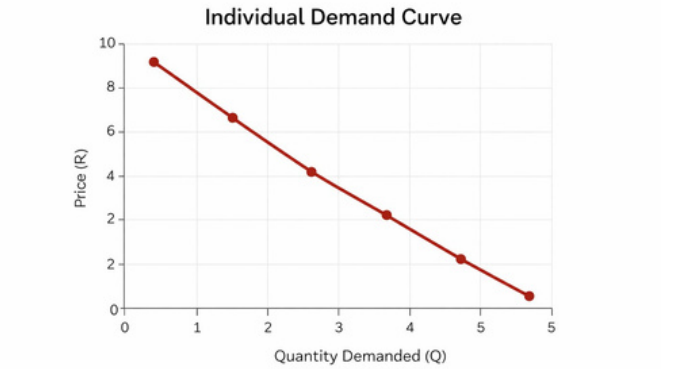
IDS (Individual Demand Schedule)

- It is a tabular representation showing different quantities of a commodity that an individual consumer is willing to buy at various prices over a given period of time

Price	QD
10	1
8	2
6	3
4	4
2	5

Individual Demand Curve

- It is the graphical representation of Individual Demand Curve
- It shows inverse relationship between price and quantity demanded
- It is downward slopping



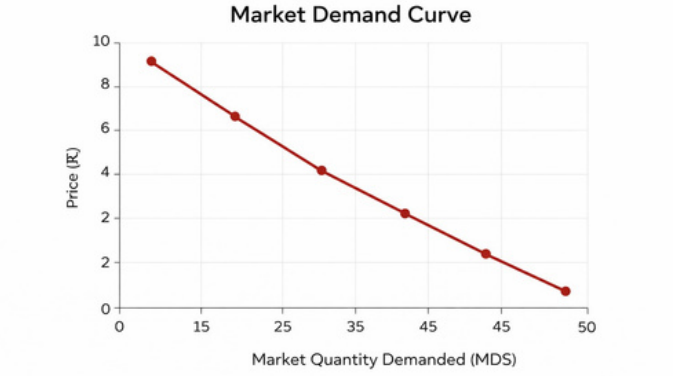
MDS (Market Demand Schedule)

- Total demand for a commodity from all consumers at a given price during a given period of time

Price	QD (a)	QD (b)	MDS (a+b)
10	5	10	15
8	10	15	25
6	15	20	35
4	20	25	45
2	25	30	55

MDC (Market Demand Curve)

- Graphical representation of the sum of all individual demand curves
- It is flatter



Movements along Demand Curve

1) Downward Movement

- Also called Expansion of Demand
- It occurs due to fall in price
- Demand increases

Px	Qd
10	5
5	10

2) Upward Movement

Also called Contraction of Demand

- It occurs due to increase in price
- Demand decreases

Px	Qd
5	10
10	5

3) Shift in DC

- It is caused by change in any factor other than price **Rightward** (Left to Right) –
- Increase in demand because of other factors **Leftward** (Right to Left) – Increase
- in demand because of factors other than price

Demand Function

- It shows relationship between quantity demanded for a particular commodity and factors affecting it
- Individual Demand Function
- Dx = f (Px, P, Y, T, F)

TOPIC- 5 PRODUCTION AND LAWS

Production

- It is the process in which inputs are converted into outputs

Factors of Production

- Land
- Labour
- Capital
- Entrepreneur

Production Function

- It shows the relationship between
- Physical inputs and physical output of a commodity

Expressed as:

- Q = f (N, L, K, T)
- Q = Quantity of output
- N = Land
- L = Labour
- K = Capital
- T = Technology

Variable Factors

- Which can be changed in short run
- They vary with level of output
- **Example :** Labour, raw material

Fixed Factors

- Which cannot be changed in short run
- They do not vary with level of output
- **Example :** Building

Types

Short Run

- In short run some factors are variable factors, some are fixed
- It is explained by **Law of Variable Proportions**

Long Run

- In long run all factors are variable factors
- It is explained by **Law of Returns to Scale**

Total Product

- Total quantity of a good produced by a firm during a given period of time with number of inputs
- TP = Σ MP

Average Product

- It is the output per unit of variable input
- AP = TP / L

Marginal Product

- It refers to the addition to total product when one more unit of variable factor is employed
- $MP_n = TP_n - TP_{n-1}$

or MP = ΔTP / ΔL

Relationship between TP and MP

- When TP Increases, MP Increases
- When TP Increases at diminishing rate MP starts falling but remains positive
- when TP is maximum MP becomes zero
- when TP declines but MP becomes negative

Law of Variable Proportions

- It states that if all other factors are fixed and one input is variable in short run, total product will increase at an increasing rate at first, at decreasing rate and finally at negative rate

Assumptions

- Homogeneous factors
- Operates in short run only
- Only one factor is variable (i.e. labour)
- No change in technology
- No change in price of the product

Fixed	Variable	TP	MP
1	1	10	10
1	2	30	20
1	3	45	15
1	4	52	7
1	5	52	-0
1	6	48	-4

TOPIC- 7 PRICING UNDER MARKET

Market

- In economics, a market refers to a system of exchange between buyers and sellers of a commodity

Forms of Market

1) Perfect Competition

- Large number of buyers and sellers
- **Homogeneous** product
- Free entry and exit
- Single price in the market
- Perfect knowledge
- Perfect mobility of factors
- Absence of transport cost
- No government intervention
- **Example:** Wheat market
- Firm is a **price taker**
- Demand curve is **perfectly elastic** (horizontal)

2) Monopoly

- Derived from Greek words: **Monopoly**
- Mono = One
- Poly = Seller

Features of Monopoly

- Single seller No close
- substitutes Barriers to entry
- Firm is a price maker **Price**
- **discrimination** Firm earns
- maximum profit
-

Types of Monopoly

- Private Monopoly → Example: Tata Group
- Public Monopoly → Example: Indian Railways
- Demand curve is downward sloping
- Firm decides price and output

Monopsony

- Opposite of monopoly
- Many sellers but single buyer
- **Example:** Labour market
- Supply curve is upward sloping

3) Monopolistic Competition

- Has features of both monopoly and perfect competition

Features:

- Large number of buyers and sellers
- **Product differentiation**
- Free entry and exit
- Selling cost (advertising)
- Close substitutes available
- Concept of group (firms)
- Partial control over price
- Firm is a price maker

Example: Toothpaste market

- Demand curve is steep (more elastic than monopoly)

Dumping

- Practice of a monopolist
- Charging higher price in domestic market and lower price in foreign market

4) Oligopoly

- Derived from Greek word **"Oligo"** = Few

Features:

- Few sellers (interdependent firms)
- Products may be homogeneous or differentiated
- Presence of advertising cost
- Barriers to entry
- Lack of perfect information
- Uncertainty in decision-making
- Price rigidity

Demand Curve:

- **Kinked demand curve** (explains price rigidity)
- Nature of demand curve = intermediate

Duopoly

- Market with only two sellers
- High competition between firms
- May or may not have product differentiation

Monetary policy process

1. MPC – Monetary Policy Committee (of RBI)

- It determines interest rate

2. MPD –Monetary policy Department

- It assists in formulating MP

3. **FMD – Financial market operations Deptartment**

- Operationalise MP through day to day liquidity

4. FMC – Financial market committee

- It meets daily to ensure the liquidity conditions
- It uses parameter – **Weighted Average Call Money Rate**

MONETARY POLICY COMMITTEE

- In 2016 MPC got statutory status → Notified by Central Govt. as per section 445ZB of RBI Act 1934 It was proposed by **Urjit Patel**
- **committee**

Composition

Members of MPC – 6

3 – from RBI

3 – from Govt.

- Governor of RBI – ex-officio chairman
- Deputy Governor of RBI – incharge of MP is ex-officio member
- One officer of RBI – nominated by Central Board
- 3 members of MPC appointed by C.G. for 4 years
  It meets at least 4 times a year
- Quorum – 4 members
-

Monetary Tools of RBI

A) Quantitative

1. Bank Rate or Discount rate

- Rate at which RBI lends money to commercial banks
- It does not require security
- Rise in BR – control inflation
- Fall in BR – deflation is controlled

2. CRR – Cash Reserve ratio

- It is quantity of cash that banks need to keep with RBI as proportion of their NDTL

NDTL

- It is total demand and time liabilities (deposits) of public that are held by banks loans and other borrowings
- As on 2026 it is 3%

3. LAP – Liquidity Adjustment

- It allows banks to borrow money from RBI through repurchase agreement.
- It helps banks in adjusting the day to day mismatch in liquidity.

Repo rate

- It is the rate at which RBI lends short term credit to commercial banks against Govt. securities
- Rise in repo – inflation controlled
- Fall in repo – deflation controlled
- AS on march 2026 (5.25%)

Reverse repo rate

- Interest rate at which banks lend money to RBI for short term
- It is always less than repo
- Rise – control inflation
- Decrease – control deflation
- As on march 2026 Rate is (3.35%)

4) MSF – Marginal Standing Facility

- It is a panel rate at which commercial banks can borrow funds overnight from RBI against Govt. Securities.
- Under this banks can borrow 1% of NDTL at R.R + 0.25%.
- Introduced in 2011 on recommendation of **Narasimham committee.**
- MSF rate – 5.50% (2026)

5) **SLR – Statutory Liquidity Ratio**

- It is the ratio that commercial banks have to maintain in the form of cash, gold and Govt. securities to their total NDTL.
- Not to be deposited with RBI
- Maximum – 40%
- As on 2026 it is 18%

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