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UGC NET Paper 2

Economics (001)
Complete revision notes — all 10 units

10 units | Tables & formulas | Key revision points

01 Micro Economics
02 Macro Economics
03 Statistics and Econometrics
04 Mathematical Economics
05 International Economics
06 Public Economics
07 Money and Banking
08 Growth and Development Economics
09 Environmental Economics and Demography
10 Indian Economy

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Edition: November 2026

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How to use these notes

- Read one unit at a time, then test yourself with its key revision points.
- Make your own short notes on topics you find difficult.
- Units follow the main areas of the official syllabus — the exact unit list can change between sessions.
- Always check the latest syllabus and notices on the official UGC NET portal: **ugcnet.nta.ac.in**.

UNIT 01

Micro Economics

Consumer behaviour, production and cost, market structures, factor pricing and welfare economics.

> Microeconomics studies the choices of individual consumers and firms and how markets set prices.

- **Consumer theory:** cardinal utility (Marshall) vs ordinal utility — indifference curves (Hicks and Allen); revealed preference (Samuelson).
- Consumer equilibrium: MRS = price ratio. Price effect = substitution effect + income effect (Slutsky, Hicks).
- Production: isoquants; returns to scale; Cobb–Douglas $Q = AL^{\alpha}K^{\beta}$ (constant returns if $\alpha + \beta = 1$).

Market	Equilibrium condition
Perfect competition	P = MR = MC; zero economic profit in the long run
Monopoly	MR = MC, P > MC
Monopolistic competition (Chamberlin)	Excess capacity in the long run
Oligopoly	Cournot, Bertrand, kinked demand (Sweezy), game theory (Nash equilibrium)

Welfare economics: Pareto optimality; compensation criteria (Kaldor–Hicks); Arrow's impossibility theorem.

★ Key revision points

- Indifference curves = Hicks and Allen.
- Revealed preference = Samuelson.
- Kinked demand = Sweezy.
- Arrow's impossibility theorem: no perfect voting rule.

UNIT 02

Macro Economics

National income, consumption and investment, Keynesian and classical models, IS–LM, inflation and unemployment.

Macroeconomics studies the economy as a whole — output, employment, prices and growth.

- **National income:** GDP, GNP, NNP; product, income and expenditure methods. GDP at factor cost = GDP at market price − net indirect taxes.
- **Keynes** (*General Theory*, 1936): effective demand; consumption function; multiplier k = 1 ÷ (1 − MPC).
- **Say's law** (classical): supply creates its own demand.
- **IS–LM** (Hicks): goods market and money market equilibrium.

Concept	Key point
Phillips curve	Inverse relation between inflation and unemployment (short run)
Natural rate (Friedman)	Long-run Phillips curve is vertical
Stagflation	High inflation with high unemployment
Accelerator	Investment depends on change in output

★ **Key revision points**

- Multiplier = 1/(1 − MPC).
- IS–LM = Hicks.
- Say's law: supply creates demand.
- Long-run Phillips curve is vertical (Friedman).

UNIT 03

Statistics and Econometrics

Probability, distributions, sampling, hypothesis testing, regression and its problems.

> Econometrics combines economic theory, mathematics and statistics to test and estimate economic relationships.

- Distributions: binomial, Poisson, normal; t, chi-square, F.
- **OLS** estimators are **BLUE** (Best Linear Unbiased) under classical assumptions — Gauss–Markov theorem.
- R^2 measures goodness of fit; adjusted R^2 penalises extra variables.

Problem	Meaning	Test
Multicollinearity	Explanatory variables highly correlated	VIF
Heteroscedasticity	Error variance not constant	White, Goldfeld–Quandt
Autocorrelation	Errors correlated over time	Durbin–Watson

★ Key revision points

- OLS is BLUE (Gauss–Markov).
- Durbin–Watson tests autocorrelation.
- VIF detects multicollinearity.
- Adjusted R^2 penalises extra regressors.

UNIT 04

Mathematical Economics

Optimisation, input–output analysis, linear programming and game theory.

Mathematical economics expresses economic ideas in equations and solves them precisely.

- **Optimisation:** first-order condition (derivative = 0), second-order condition; constrained optimisation with **Lagrange multipliers**.
- **Input–output analysis** — Wassily Leontief.
- **Linear programming** — simplex method; duality.
- **Game theory** — von Neumann and Morgenstern; Nash equilibrium; prisoner's dilemma.
- Elasticity from calculus: e = (dQ/dP) × (P/Q).

★ Key revision points

- Input–output = Leontief.
- Constrained optimisation = Lagrange.
- Game theory founders: von Neumann and Morgenstern.
- Prisoner's dilemma: individual vs collective rationality.

UNIT 05

International Economics

Trade theories, terms of trade, balance of payments, exchange rates and international institutions.

> International economics studies trade and money flows between countries.

Theory	Author / idea
Absolute advantage	Adam Smith
Comparative advantage	David Ricardo
Factor endowment	Heckscher–Ohlin
Leontief paradox	US exported labour-intensive goods, contrary to H–O
Factor price equalisation	Samuelson
New trade theory	Krugman — economies of scale

- **Marshall–Lerner condition:** devaluation improves the trade balance if the sum of export and import elasticities exceeds 1.
- **J-curve:** the trade balance worsens first, then improves after devaluation.
- Institutions: IMF and World Bank (Bretton Woods, 1944), WTO (1995).

★ Key revision points

- Comparative advantage = Ricardo.
- Leontief paradox challenges H–O.
- Marshall–Lerner: elasticities sum > 1.
- Bretton Woods: 1944.

UNIT 06

Public Economics

Public goods, externalities, taxation, public expenditure, debt and fiscal federalism.

Public economics studies how government taxes, spends and corrects market failures.

- **Public goods** are non-rival and non-excludable (Samuelson) → free-rider problem.
- **Externalities** — Pigouvian tax; **Coase theorem** — bargaining can solve them if property rights are clear and transaction costs low.
- Taxation: benefit and ability-to-pay principles; incidence; **Laffer curve**; GST introduced in India on 1 July 2017.
- **Wagner's law**: public spending rises with economic growth. Peacock–Wiseman: displacement effect.
- Fiscal federalism in India: Finance Commission (Article 280).

★ Key revision points

- Public goods: non-rival, non-excludable.
- Coase theorem: bargaining fixes externalities.
- GST from 1 July 2017.
- Finance Commission: Article 280.

UNIT 07

Money and Banking

Demand for and supply of money, theories of money, central banking and monetary policy.

Money and banking covers how money is created, demanded and managed by the central bank.

Theory	Idea
Fisher's quantity theory	MV = PT
Cambridge cash balance	M = kPY
Keynes' liquidity preference	Transactions, precautionary and speculative motives; liquidity trap
Friedman	Modern quantity theory — money demand is stable

- Money supply measures in India: M1 (narrow money) ... M3 (broad money).
- Money multiplier rises as reserve ratios fall.
- RBI tools: repo, reverse repo, CRR, SLR, OMOs; flexible inflation targeting with a Monetary Policy Committee (since 2016).

★ Key revision points

- MV = PT (Fisher).
- Liquidity trap = Keynes.
- M3 is broad money.
- Monetary Policy Committee since 2016.

UNIT 08

Growth and Development Economics

Growth models, theories of development, measures of development and poverty.

> Growth is the rise in output; development is the wider improvement in living standards.

Model / theory	Author
Harrod–Domar	Growth = saving rate ÷ capital–output ratio
Neoclassical growth	Solow (technology drives long-run growth)
Endogenous growth	Romer, Lucas
Stages of growth	Rostow (take-off)
Big push	Rosenstein-Rodan
Unlimited supply of labour	Arthur Lewis (dual economy)
Balanced growth / unbalanced	Nurkse / Hirschman

Measures: **Human Development Index** (UNDP, 1990 — health, education, income); Gini coefficient and Lorenz curve for inequality; Kuznets inverted-U curve.

★ Key revision points

- Take-off stage = Rostow.
- Big push = Rosenstein-Rodan.
- HDI by UNDP since 1990.
- Kuznets curve: inequality rises then falls.

UNIT 09

Environmental Economics and Demography

Environment as an economic asset, valuation, pollution control, and population theories.

This unit links economics with the environment and population.

- Environmental Kuznets curve: pollution first rises, then falls with income.
- Valuation: contingent valuation, travel cost, hedonic pricing.
- Instruments: Pigouvian taxes, tradable permits (cap and trade).
- **Malthus:** population grows geometrically, food arithmetically. **Demographic transition** — high birth and death rates → falling death rate → falling birth rate → low rates.
- Census of India every 10 years; sex ratio, dependency ratio, demographic dividend.

★ Key revision points

- Malthus: geometric vs arithmetic growth.
- Demographic transition: four stages.
- Cap and trade = tradable permits.
- Hedonic pricing values environmental features through prices.

UNIT 10

Indian Economy

Planning, reforms, agriculture, industry, the financial sector and key institutions.

> India's economy moved from planning to liberalisation and is now one of the largest in the world.

- Planning: Planning Commission (1950) — Five-Year Plans 1951–2017; replaced by **NITI Aayog** on 1 January 2015.
- **1991 reforms:** liberalisation, privatisation, globalisation.
- Agriculture: Green Revolution (1960s), MSP, food security (NFSA, 2013).
- Industry and services: Make in India (2014), PLI schemes; services form the largest share of GDP.
- Fiscal: FRBM Act 2003; GST 2017. Banking: IBC 2016.

★ Key revision points

- NITI Aayog replaced the Planning Commission in 2015.
- First Five-Year Plan: 1951.
- NFSA: 2013.
- FRBM Act: 2003.

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