Complete Microeconomics Notes for UPSC & State PSC With PDF

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Get the ultimate Microeconomics notes tailored for UPSC, SSC, and State PSC exams. Master key concepts, demand elasticity, and market forms with chapter-wise PYQs. You can download a PDF of this note by clicking the Download PDF Note button at the bottom of this notes page.

1. Introduction to Basic Economy Concepts

📊 **FUNDAMENTALS & PRODUCTION POSSIBILITY**

Micro vs. Macroeconomics:	**Terms coined by Ragnar Frisch. Micro deals with individual units (firms/consumers); Macro deals with aggregates.**
Opportunity Cost:	**The value of the next best alternative forgone. UPSC PYQ**
Production Possibility Curve (PPC):	**Shows all combinations of 2 goods an economy can produce. It is concave to the origin due to increasing Marginal Rate of Transformation (MRT).**
Normative vs. Positive Economics:	**Positive = "What is" (Facts). Normative = "What ought to be" (Opinions/Ethics). SSC PYQ**
Economic Systems:	**Capitalist (Laissez-faire, profit motive), Socialist (State control), Mixed (Dual pricing). Read more on Mixed Economy Models.**

2. Theory of Consumer Behaviour and Demand

🧠 UTILITY & CONSUMER EQUILIBRIUM

Cardinal vs. Ordinal Utility:	**Cardinal (Marshall) measures utility in numbers. Ordinal (Hicks) ranks preferences via Indifference Curves.**
Total Utility (TU) & Marginal Utility (MU):	**When MU is Zero, TU is Maximum. State PSC PYQ**
Indifference Curve (IC) Properties:	**Convex to origin, slopes downwards, higher IC = higher satisfaction, ICs never intersect.**
Marginal Rate of Substitution (MRS):	**The rate at which a consumer replaces one good for another while maintaining the same utility.**

📉 DEMAND & GOODS CLASSIFICATION

Law of Demand:	**Inverse relationship between Price and Quantity Demanded (ceteris paribus).**
Giffen Goods:	**Highly inferior goods where Demand falls when Price falls (Exception to Law of Demand). UPSC PYQ**
Substitute vs. Complementary:	**Substitutes have Positive cross-elasticity (Tea/Coffee). Complements have Negative cross-elasticity (Car/Petrol).**
Engel's Law:	**As income rises, the proportion of income spent on food falls. Mentioned by RBI reports on household expenditure.**

3. Elasticity of Demand and Supply

📈 MEASUREMENT & DETERMINANTS OF ELASTICITY

Perfectly Elastic vs. Perfectly Inelastic:	**Perfectly Elastic (Ed = ∞) = Horizontal curve. Perfectly Inelastic (Ed = 0) =**

	Vertical curve.
Unitary Elastic Demand:	Curve is a Rectangular Hyperbola (Ed = 1). Total expenditure remains constant. SSC CGL PYQ
Arc vs. Point Elasticity:	Point elasticity measures elasticity at a specific point on the curve; Arc elasticity measures it over a range/segment.
Shift vs. Movement:	Movement along curve = Change in Price. Shift in curve = Change in other factors (Income, Tastes). UPSC PYQ

4. Theory of Production

🏭 SHORT-RUN: LAW OF VARIABLE PROPORTIONS

Production Function:	Relationship between physical inputs and physical outputs.
Point of Inflexion:	The point on the Total Product (TP) curve where Marginal Product (MP) is maximum.
Three Stages of Production:	Stage 1: Increasing returns. Stage 2: Diminishing returns. Stage 3: Negative returns.
Rational Producer's Choice:	A rational producer always operates in Stage 2. BPSC / UPPSC PYQ

🌐 LONG-RUN: RETURNS TO SCALE & ISOQUANTS

Isoquants & Isocost Lines:	Isoquant = Producer's Indifference Curve (same output). Isocost = Producer's Budget Line.
Marginal Rate of Technical Substitution (MRTS):	Rate at which capital can be substituted for labor while keeping output constant. Slope of Isoquant.
Cobb-Douglas Function:	Expressed as $Q = A L^{\alpha} K^{\beta}$. Shows constant returns to scale if $\alpha + \beta = 1$. SSC Mains

PYQ

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5. Theory of Cost and Revenue

💰 CONCEPTS OF COST

Economic vs. Accounting Cost:	**Accounting Cost = Explicit costs only. Economic Cost = Explicit + Implicit (Opportunity) costs.**
Sunk Cost:	**A cost that has already been incurred and cannot be recovered. State PSC PYQ**
Fixed vs. Variable Cost (Short Run):	**Total Fixed Cost (TFC) remains constant at zero output. Total Variable Cost (TVC) changes with output level.**
Why is AC Curve U-Shaped?	**Due to the Law of Variable Proportions. SSC CGL PYQ**

📊 COST-REVENUE RELATIONSHIPS

MC and AC Relationship:	**When MC < AC, AC falls. When MC > AC, AC rises. MC cuts AC at its lowest point.**
Average Revenue (AR):	**AR is mathematically equal to the Price of the commodity. (AR = Price).**
Break-Even Point:	**The level of output where Total Revenue (TR) equals Total Cost (TC). Firm makes zero economic profit.**
Shut-Down Point:	**The point where Price (AR) equals Average Variable Cost (AVC). UPSC PYQ**

6. Forms of Market and Price Determination

🏛 **PERFECT COMPETITION & MONOPOLY**

Perfect Competition:	**Large buyers/sellers, homogeneous products, perfect knowledge. Firm is a Price Taker.**
Monopoly:	**Single seller, no close substitutes, high barriers to entry. Firm is a Price Maker.**
Price Discrimination:	**Charging different prices to different consumers for the same product (possible only in Monopoly). UPSC PYQ**
Monopsony:	**A market structure with many sellers but only one single buyer.**

🛍 **MONOPOLISTIC COMPETITION & OLIGOPOLY**

Monopolistic Competition:	**Many sellers, but differentiated products (e.g., soaps, toothpaste). High selling/advertising costs.**
Oligopoly:	**Few large sellers, high interdependence. Firms may form Cartels (like OPEC).**
Kinked Demand Curve:	**Explains price rigidity in Oligopoly. Formulated by Paul Sweezy. SSC Mains PYQ**

👉 Explore More SSC CGL Economy Topics

7. Factor Pricing and Distribution (Advanced)

🚜 **RENT, WAGES & PRODUCTIVITY THEORIES**

Ricardian Theory of Rent:	**Rent is a differential surplus yielded by more fertile land over marginal (no-rent) land.**

Quasi-Rent (Alfred Marshall):	**Short-run earnings of man-made machines/capital whose supply is inelastic. Disappears in the long run. BPSC PYQ**
Marginal Productivity Theory:	**Factors of production are paid a price equal to their Marginal Revenue Product (MRP).**
Real Wage vs. Nominal Wage:	**Nominal wage = money received. Real wage = purchasing power of that money (adjusted for inflation).**

8. Welfare Economics & Market Failure

🌍 EXTERNALITIES & PUBLIC GOODS

Market Failure:	**When the free market fails to allocate resources efficiently. Monopolies, externalities, and public goods cause this.**
Positive vs. Negative Externalities:	**Negative (Pollution) causes overproduction. Addressed via Pigouvian Tax. UPSC Mains PYQ**
Public Goods:	**Must be Non-rivalrous (my use doesn't stop yours) and Non-excludable (cannot stop non-payers). E.g., National Defense.**
Free-Rider Problem:	**Occurs with public goods when people consume the good without paying for it. Defined in World Bank economic frameworks.**

⚖️ INFORMATION & EFFICIENCY CONSTRAINTS

Tragedy of the Commons:	**Depletion of shared resources (like public pastures or fisheries) because individuals act in their own self-interest.**
Asymmetric Information:	**When one party in a transaction has more information than the other (e.g., used car sales).**

Moral Hazard:	**When someone takes more risks because someone else bears the cost (e.g., reckless driving after getting insurance). UPSC Prelims PYQ**
Deadweight Loss:	**The overall loss of economic efficiency/welfare when equilibrium for a good or service is not achieved.**

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