

# Fundamentals Of Macroeconomics Notes With PDF

June 4, 2026 by [Aditya Abhishek](#)

Complete Fundamentals of Macroeconomics short notes for UPSC, State PSC, and SSC exams. Master GDP, exchange rates, inflation indices, and more with easy mnemonics and PYQs.

## Fundamentals of Macro Economics: Complete Short Notes

### Introduction to Macroeconomics

👉 **Macroeconomics** studies the economy as a whole (e.g., inflation, unemployment, GDP). It is different from individual-level economics, which you can study in our [Complete Microeconomics Notes](#).

👉 **John Maynard Keynes** is known as the founding father of modern Macroeconomics, especially after his 1936 book "The General Theory of Employment, Interest and Money".

## Three Fundamental Economic Problems & Economic Systems



## The Three Fundamental Problems

- 👉 **What to produce?** Deciding which goods and services to manufacture and in what quantities based on resource scarcity. **SSC PYQ**
- 👉 **How to produce?** Choosing the technique: labor-intensive or capital-intensive.
- 👉 **For whom to produce?** Determining the distribution of produced goods among individuals in society.

## Types of Economic Systems

- 👉 **Capitalist (Market) Economy:** Means of production are privately owned. Profit-driven, determined by market forces (Demand & Supply). **BPSC PYQ**
- 👉 **Socialist (Command) Economy:** Resources are owned and controlled by the State/Government. Aimed at social welfare.
- 👉 **Mixed Economy:** Coexistence of public (government) and private sectors. India follows a mixed economic model. **UPSC PYQ**

### CSM

Trick: **C**apitalist (Profit), **S**ocialist (Welfare), **M**ixed (Both)

## Sectors of Economy & Factors of Production

### Four Sectors of a Macro Economy

- 👉 **Household Sector:** Consumers of goods and services; owners of factors of production.
- 👉 **Firm (Business) Sector:** Produces goods and services by hiring factors of production.
- 👉 **Government Sector:** Collects taxes, provides subsidies, and ensures law & order. Its constitutional functioning involves key figures like [The President of India](#).



👉 **External Sector:** Deals with export and import (International Trade) and capital flows. Evaluated by global bodies like the [World Bank](#).

Factors of Production	Factor Reward (Income)	Explanation
Land	Rent	Natural resources available for production.
Labor	Wages	Human physical and mental effort.
Capital	Interest	Man-made resources (machinery, tools, buildings).
Entrepreneurship	Profit	Risk-taking ability to organize the other three factors. <b>UPPSC PYQ</b>

## Types of Goods, Investment & Depreciation

### 🕒 Classification of Goods

- 👉 **Final Goods:** Ready for consumption or investment. They will not pass through any more stages of production.
- 👉 **Intermediate Goods:** Used up in the production process (e.g., flour used by a baker). Not included in GDP to avoid double counting. **UPSC PYQ**
- 👉 **Consumption Goods:** Consumed by households to satisfy wants (e.g., food, clothing).
- 👉 **Capital Goods:** Used by producers to manufacture other goods (e.g., machinery, tractors). **BPSC PYQ**

### 🕒 Concept of Investment

- 👉 **Gross Investment:** Total addition made to the capital stock of the economy in a given period.
- 👉 **Depreciation:** Fall in the value of fixed capital goods due to normal wear and tear. Also called "Consumption of Fixed Capital".
- 👉 **Net Investment:** Gross Investment minus Depreciation. It shows the actual addition to capital stock.

### Formula Trick

Trick:  $N = G - D$  (Net = Gross – Depreciation). Always subtract "D" to get the "Net" truth!



## National Income: GDP & its Calculation

### GDP Calculation Methods by NSO

- 👉 **Gross Domestic Product (GDP):** Total market value of all final goods and services produced within the domestic territory of a country in a year. Calculated in India by the [National Statistical Office \(NSO\)](#).
- 👉 **Value Added (Output) Method:** Sum of gross value added by all producing enterprises within the domestic territory.
- 👉 **Income Method:** Sum of all factor incomes (Rent + Wages + Interest + Profit) generated within domestic territory.
- 👉 **Expenditure Method:** Sum of final expenditures:  $GDP = C$  (Consumption) +  $I$  (Investment) +  $G$  (Govt Expenditure) +  $(X - M)$  (Net Exports). **UPSC PYQ**

Concept	Definition / Formula	Exam Relevance
<b>Nominal GDP</b>	GDP calculated at current year prices. Does not account for inflation.	<b>SSC PYQ</b>
<b>Real GDP</b>	GDP calculated at constant (base year) prices. True indicator of economic growth.	<b>UPSC PYQ</b>
<b>Potential GDP</b>	Maximum output an economy can produce without causing an increase in inflation.	<b>UPPSC PYQ</b>

## Income Aggregates & Capital Efficiency

### PI and PDI

- 👉 **Personal Income (PI):** Income actually received by individuals/households. **Formula:**

### Productivity & ICOR

- 👉 **Productivity of Capital:** Output generated per unit of capital invested.



National Income (NI) –  
Undistributed Profits – Corporate  
Tax – Net Interest paid by  
households + Transfer Payments.

👉 **Personal Disposable Income (PDI):** Income left after paying personal direct taxes (like income tax). **Formula:** PI – Personal Direct Taxes – Miscellaneous Receipts of Govt. **UPSC PYQ**

👉 **Capital Output Ratio (COR):**

Amount of capital needed to produce one unit of output.

👉 **ICOR (Incremental Capital Output Ratio):** Additional capital required to produce one additional unit of output. **Lower ICOR implies higher efficiency** of capital. **UPSC PYQ**

### ICOR Rule

Trick: **Low ICOR = High Core (Efficiency)**. If ICOR is less, the economy is running at its best!

## Economic Cycles: Recession vs Depression

### 🕒 Understanding Economic Downturns

👉 **Recession:** Defined strictly as a decline in GDP for two or more consecutive quarters. Central banks like the [Reserve Bank of India \(RBI\)](#) use monetary policy to counter it. **BPSC PYQ**

👉 **Depression:** A severe and prolonged recession characterized by massive unemployment, bank failures, and extreme deflation (e.g., The Great Depression of 1929).

## Exchange Rates: Nominal, PPP & Real

### 🕒 NER & PPP Exchange Rate

👉 **Nominal Exchange Rate (NER):**  
The rate at which a person can

### 🕒 Real Exchange Rate, NEER & REER



trade the currency of one country for the currency of another (e.g., \$1 = ₹83). It is the unadjusted rate determined by forex market forces.

- 👉 **PPP Exchange Rate:** The rate equalizing the purchasing power of different currencies, computed using a "basket of goods". India is the 3rd largest economy in the world by Purchasing Power Parity.

SSC PYQ

- 👉 **Real Exchange Rate (RER):** The NER adjusted for differences in price levels between two countries. It dictates the real purchasing power and trade competitiveness.

- 👉 **NEER (Nominal Effective Exchange Rate):** A weighted average of a country's currency relative to an index or basket of multiple major foreign currencies.

- 👉 **REER (Real Effective Exchange Rate):** The NEER adjusted for domestic inflation relative to inflation in trading partners. An increase in REER means exports are getting expensive and imports cheaper. **UPSC PYQ**

### REER Trick

Trick: **REER** = Real Competitiveness. If REER goes up, your country's goods are **Relatively Expensive!**

## Environmental Economics & Global Classification

### Green GDP & Carbon Tax

- 👉 **Green GDP:** An indicator of economic growth that subtracts the cost of environmental degradation and resource depletion from the traditional GDP. **UPPSC PYQ**

### World Bank Classification of India

- 👉 The [World Bank](#) categorizes economies based on **Gross National Income (GNI) per capita** using the Atlas method (which relies on a smoothed nominal exchange rate).



👉 **Carbon Tax:** A fee imposed by the government on the burning of carbon-based fuels (coal, oil, gas) to incentivize the reduction of greenhouse gas emissions.

UPSC PYQ

👉 **India's Status:** India is classified as a **Lower-Middle Income** country. **BPS** PYQ

## Inflation Indices & GDP Deflator (Latest Updates)

Inflation Metric	Published By & Base Year	Highest Weight Category	Key Characteristics
<b>WPI (Wholesale Price Index)</b>	Office of Economic Adviser (DPIIT) <b>Base Year:</b> 2022-23 <i>(Revised from 2011-12)</i>	<b>Manufactured Products</b>	Measures inflation at the wholesale level. Excludes services. Now includes renewable energy sources. <b>BPS</b> PYQ
<b>CPI (Consumer Price Index) Combined</b>	National Statistical Office (NSO), MoSPI <b>Base Year:</b> 2024 <i>(Revised from 2012)</i>	<b>Food and Beverages (F&amp;B)</b>	Retail inflation metric covering goods and services. Used by RBI as the anchor for monetary policy targeting. <b>UPSC</b> PYQ
<b>GDP Deflator</b>	National Statistical Office (NSO), MoSPI <b>Base Year:</b> 2022-23 <i>(Aligned with new GDP base)</i>	<b>Not fixed (Dynamic basket)</b>	Most comprehensive inflation measure covering all domestically produced goods and services. $(\text{Nominal GDP} / \text{Real GDP} \times 100)$ . <b>SSC</b> PYQ

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