Important Economic Terms for UPSC Exam

Economics is a subject that can be an anathema to many UPSC aspirants. However, this is an important part of the IAS prelims and the mains exam where one finds it in the GS paper 3. Far from being a 'boring' and 'confusing' subject, economics can be fun to learn if you understand it properly. It is extremely important to understand basic economics (whether you are an IAS aspirant or not) because if you think about it, the study of economics is imperative to understand how a country runs. It also explains why certain countries are developed and some are developing. It also helps you appreciate banking, industry, services, agriculture, etc. Economics also helps individuals take decisions in life because at the atomic level, it deals with the allocation of resources. In this article, we bring you a few basic and important economic terms that are indispensable for your economics study for the UPSC exam.

GDP: Gross Domestic Product (GDP) is the total value of goods and services produced in a country in one year. GDP refers to the value of goods produced within the geographical territory of a country irrespective of whether they are produced by citizens or foreigners.

GNP: Gross National Product (GNP) is the total value of the goods and services produced by a country's citizens or companies in one year irrespective of their geographic location.

NDP: Net Domestic Product: NDP = GDP – Depreciation

NNP: Net National Product: NNP = GNP – Depreciation

Depreciation: A decrease in the value of an asset over time due to wear and tear.

Monetary Policy: Process by which the central bank in a country controls the supply of money. In India, the central bank is the Reserve Bank of India (RBI).

REPO rate: **Re P**urchase **O**ption (REPO): Rate at which the RBI gives loans to other banks.

Reverse REPO rate: Rate at which the RBI borrows from other banks. It is lower than the REPO rate.

CRR: Cash Reserve Ratio (CRR): The percentage of liquid cash every bank has to keep with the RBI. It is a percentage of their deposits.

SLR: Statutory Liquidity Ratio (SLR): The percentage of liquid cash reserve every bank has to keep with themselves.

MSF: Marginal Standing Facility (MSF): The rate at which banks can borrow overnight funds from RBI against the approved government securities. Here, the borrowing limit is 2% of the banks' Net Demand and Time Liabilities (NDTL).

Bank Rate: Higher rate (than the REPO rate) at which the RBI gives loans to other banks. Higher bank rate would mean higher lending rates by banks. The RBI can raise the bank rate in order to check liquidity. Here there is no 2% of NDTL limit.

CRAR: Capital to Risk Weighted Assets Ratio (CRAR): The ratio of a bank's capital to its risk.

Fiscal Policy: The policy of a government by which it adjusts the tax rates and spending levels in order to influence the national economy.

Fiscal Deficit: It is the difference between the government's total expenditure and its total receipts (excluding borrowing). A fiscal deficit occurs when this expenditure exceeds the revenue generated.

Balance of Payments (BOP): It is the difference in total value between payments into and out of a country over a period.

Balance of Trade (BOT): It is the difference between a country's imports and exports for a time period. The BOT is a part of the BOP.

Capital: It is the sum of money invested in a business to generate a profit.

Carbon Tax: It is an environmental tax imposed on products that use carbon-based materials and cause greenhouse pollution.

Inflation: The rate at which the prices of goods and services rise in a country. Thus, it causes a fall in the purchasing power of the currency.

Depression: It is a prolonged and severe downturn in the economic activity of a country. It is more severe than a recession.

FDI: Foreign Direct Investment (FDI): It is an investment made by a company or an individual in one country in business interests in another country.

Free Trade Agreement: It is an agreement between two or more countries which eliminates trade tariffs between the countries and also tries to reduce non-trade barriers to trade between the countries.

Progressive Tax: A country's tax rates are said to be progressive when the tax rates increase as the taxable amounts increase.

Tariff: It is the tax imposed on imported goods and services. So, tariffs make imported goods costlier.

SEZ: Special Economic Zone (SEZ): It is a zone or an area in a country where there are separate business and trade laws as compared to the rest of the country. They are created to increase trade and investment, and to create employment opportunities.