20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **GDP measures the money value of all final goods and services produced within a country's domestic territory in a year.**
   GDP counts only domestic output; it excludes net factor income earned abroad, which GNP adds in.

2. **GNP equals GDP plus net factor income from abroad (NFIA).**
   NFIA is the income residents earn abroad minus income foreigners earn domestically.

3. **Net Domestic Product (NDP) equals GDP minus depreciation, i.e., consumption of fixed capital.**
   NDP adjusts GDP for the wear and tear of capital assets used in production during the year.

4. **Per Capita Income is national income divided by a country's total population.**
   It gives the average income of a resident and is a common measure of living standards.

5. **Say's Law, a classic CAIIB ABM economics term, states that supply creates its own demand.**
   It is a foundational classical economics proposition frequently quoted in exam definitions.

6 **Gresham's Law holds that bad money drives good money out of circulation if not limited in quantity.**
People hoard sound currency and spend debased currency, pushing good money out of circulation.

7 **Engel's Law states that as income rises, the proportion of income spent on food falls.**
Formulated by Ernst Engel, it links rising income to a shrinking food-expenditure share.

8 **Okun's Law links GDP growth to unemployment: a 2.5% rise in real GDP above trend cuts unemployment by about 1%.**
It quantifies the trade-off between output growth and the unemployment rate.

9 **The Phillips Curve shows an inverse relationship between inflation and unemployment.**
It implies that policies cutting unemployment can push inflation higher, and vice versa.

10 **The Laffer Curve shows the relationship between the tax rate and total tax revenue collected.**
It illustrates that revenue can fall if tax rates rise too high, discouraging economic activity.

11 **Giffen goods defy the law of demand: their quantity demanded rises as their price rises.**
The income effect of the price change outweighs the substitution effect for these goods.

12 **Fiscal Deficit is the gap between government spending and its revenue plus non-debt capital receipts.**
It equals the government's total borrowing requirement for the year.

13 **Primary Deficit equals Fiscal Deficit minus interest payments on past government borrowings.**
It shows the deficit excluding the burden of servicing existing debt.

14 **Disinflation means a slower rate of price rise, not an actual fall in prices.**
Prices are still rising in disinflation, just at a reduced pace compared to before.

15 **Deflation is a sustained fall in the general price level, the reverse of inflation.**
It typically occurs when output grows faster than the money supply in circulation.

16 **Direct taxes, like income tax, cannot be shifted, while indirect taxes, like fuel tax, are passed on via prices.**
The burden of a direct tax stays with the person taxed; indirect tax burden passes to buyers.

17 **Tax avoidance is a legal way to reduce tax liability; tax evasion is an illegal way to escape tax.**
IIBF exams frequently test this exact legal-versus-illegal distinction.

18 **The Lorenz Curve graphs the degree of income or wealth inequality within a distribution.**
The further it bows away from the diagonal line of perfect equality, the greater the inequality.

19 **PPP (Purchasing Power Parity) is the exchange rate equating the price of an identical basket of goods across countries.**
It compares the real purchasing power of currencies rather than just their market exchange rate.

20 **Monetary policy is the central bank's use of money supply and interest rate tools to control inflation and stabilise the currency.**
In India, this function is exercised by the Reserve Bank of India.