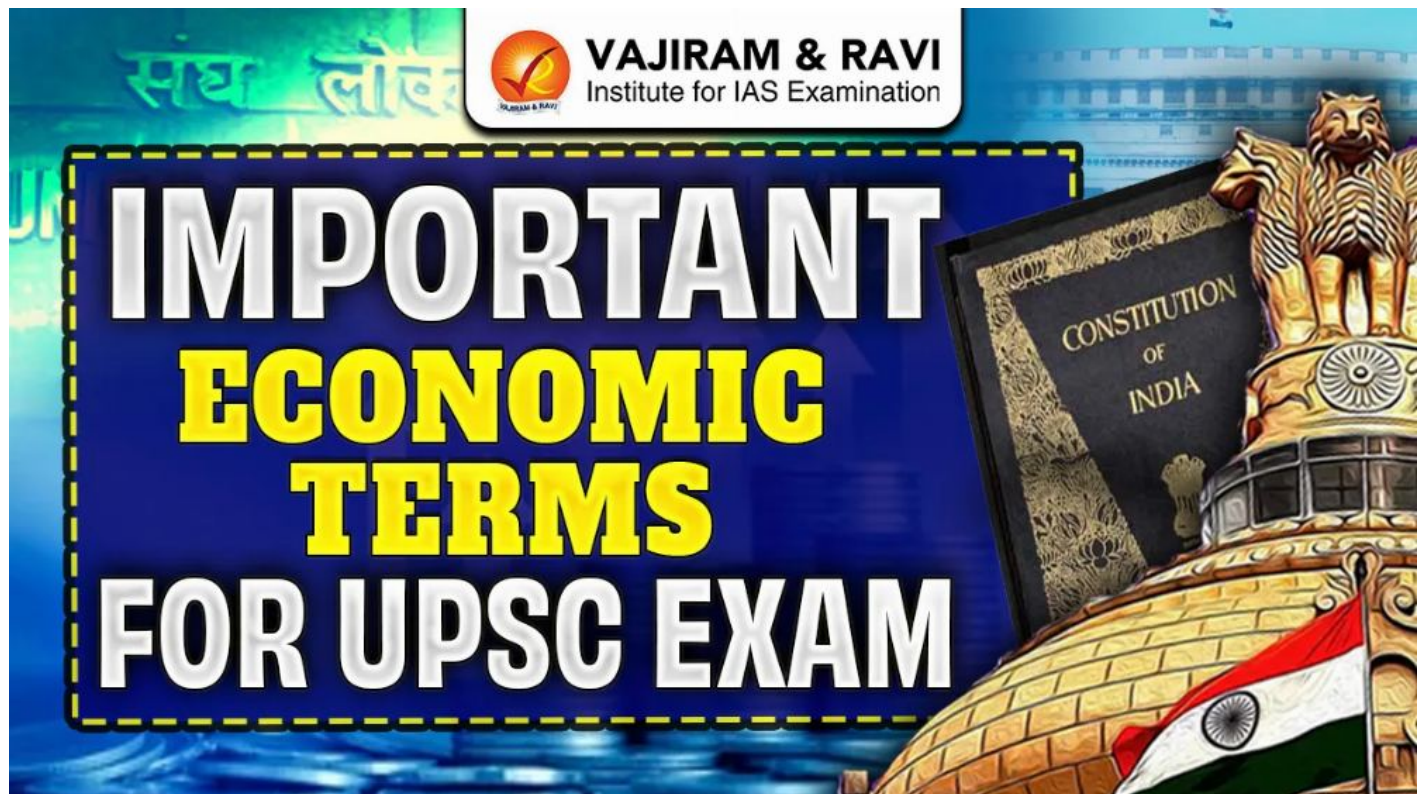


Important Economic Terms For UPSC Exam 2026, List of Terminologies

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Economics forms a crucial segment of General Studies Paper 3 and consistently contributes around 15 to 20 questions in the UPSC CSE Prelims. A clear understanding of core economic terminology helps in interpreting government policies, budgetary decisions, inflation trends and banking operations. Mastery of Important Economic Terms For UPSC Exam improves analytical clarity and strengthens answer writing in descriptive papers.

Important Economic Terms For UPSC Exam

Understanding Important Economic Terms For **UPSC Exam 2026** builds conceptual clarity and strengthens analytical ability for economy-based questions in examinations.

1. **Fiscal Deficit:** Fiscal deficit represents excess of total government expenditure over total receipts excluding borrowings. It indicates the borrowing requirement of the government in a financial year and directly influences public debt, inflationary pressures and interest rate trends.
2. **Revenue Deficit:** Revenue deficit occurs when revenue expenditure exceeds revenue receipts. It shows that current income is insufficient for routine administrative expenses, salaries, subsidies and interest payments, reducing resources available for capital asset creation.

3. **Primary Deficit:** Primary deficit equals fiscal deficit minus interest payments on previous borrowings. It reflects fresh borrowing requirements of the government excluding past debt obligations and indicates present fiscal stance more accurately.
4. **Monetary Policy:** Monetary policy refers to regulation of money supply and credit conditions by the central bank to maintain price stability and growth. In India, this function is performed by the Reserve Bank of India through various policy instruments.
5. **Repo Rate:** Repo rate is the short term rate at which the central bank lends funds to commercial banks against government securities. An increase in repo rate makes borrowing costlier and helps control inflationary pressures.
6. **Reverse Repo Rate:** Reverse repo rate is the rate at which commercial banks park surplus funds with the central bank. It helps absorb excess liquidity from the banking system and is generally lower than the repo rate.
7. **Cash Reserve Ratio:** Cash Reserve Ratio is the percentage of a bank's total deposits that must be maintained as cash reserves with the central bank. It directly impacts lending capacity and liquidity in the economy.
8. **Statutory Liquidity Ratio:** Statutory Liquidity Ratio is the minimum percentage of deposits banks must maintain in liquid assets like cash, gold and approved government securities within their own vaults. It ensures solvency and financial discipline.
9. **Marginal Standing Facility:** Marginal Standing Facility allows banks to borrow overnight funds from the central bank against approved securities. Borrowing under this facility is capped at 2% of Net Demand and Time Liabilities.
10. **Bank Rate:** Bank rate is the long term rate at which the central bank provides loans to financial institutions and governments. Unlike repo borrowing, it does not carry a specified percentage limit of liabilities.
11. **Open Market Operations:** Open Market Operations involve purchase or sale of government securities by the central bank to regulate money supply. Buying securities injects liquidity, while selling securities withdraws excess money.
12. **Capital to Risk Weighted Assets Ratio:** Capital to Risk Weighted Assets Ratio measures a bank's capital adequacy relative to its risk exposure. It safeguards depositors and ensures banks maintain sufficient buffers against financial instability.
13. **Balance of Payments:** Balance of Payments records all economic transactions between residents and the rest of the world over a period. It includes current account and capital account components.
14. **Balance of Trade:** Balance of Trade refers to difference between exports and imports of goods. It forms a part of the current account and reflects trade competitiveness of an economy.
15. **Foreign Direct Investment:** Foreign Direct Investment occurs when a company or individual from one country invests in business operations located in another country, establishing lasting interest and managerial control.
16. **Free Trade Agreement:** Free Trade Agreement is a pact between nations to reduce or eliminate tariffs and non tariff barriers. It enhances trade flows and integrates economies into global markets.
17. **Tariff:** Tariff is a tax imposed on imported goods. It increases cost of foreign products, protects domestic industries and influences trade balances and revenue collection.

18. **Progressive Taxation:** Progressive taxation structure imposes higher tax rates as income levels increase. It promotes equity by placing greater tax burden on higher income groups and supports redistributive policies.
19. **Corporate Tax:** Corporate tax is levied on net profits of companies under the Income Tax Act, 1961. It constitutes a major source of direct tax revenue for the government.
20. **Carbon Tax:** Carbon tax is an environmental levy imposed on carbon intensive products. It aims to reduce greenhouse gas emissions and encourage cleaner production technologies.
21. **Inflation:** Inflation refers to sustained increase in general price levels, reducing purchasing power of money. It is measured using indices such as Consumer Price Index and Wholesale Price Index.
22. **Consumer Price Index:** Consumer Price Index measures changes in retail prices of a basket of goods and services consumed by households. It is released monthly by the Central Statistics Office.
23. **Wholesale Price Index:** Wholesale Price Index tracks average price changes at wholesale level. It is compiled by the Office of Economic Adviser under the Ministry of Commerce and Industry.
24. **GDP Deflator:** GDP Deflator measures price changes of all domestically produced goods and services. It compares current year prices with base year prices to isolate inflation impact on output.
25. **Purchasing Power Parity:** Purchasing Power Parity compares currencies based on relative price levels of identical baskets of goods across countries. It helps assess living standards and real income differences.
26. **High Powered Money:** High Powered Money, also called Reserve Money or M0, represents total liabilities of the central bank including currency in circulation and bankers' deposits. It forms the monetary base.
27. **Broad Money:** Broad Money refers to total money supply including currency, demand deposits and time deposits. It is widely monitored to forecast inflation and credit expansion trends.
28. **Currency Deposit Ratio:** Currency Deposit Ratio shows proportion of currency held by public relative to bank deposits. It indicates liquidity preference and impacts money multiplier effect.
29. **Reserve Deposit Ratio:** Reserve Deposit Ratio represents portion of deposits kept as reserves including vault cash and balances with central bank. It incorporates both CRR and SLR components.
30. **Gross Investment:** Gross Investment denotes total expenditure incurred on acquisition of capital goods without deducting depreciation. It reflects expansion of productive capacity within an economy.
31. **Depreciation:** Depreciation refers to decline in value of fixed assets due to wear and tear over useful life. It is deducted to calculate net income measures.
32. **Net Domestic Product:** Net Domestic Product equals Gross Domestic Product minus depreciation. It measures net output produced within national boundaries after accounting for capital consumption.
33. **Net National Product:** Net National Product is Gross National Product minus depreciation. It reflects net production by residents including income earned abroad.
34. **Liquidity Trap:** Liquidity trap occurs when interest rates are extremely low and individuals prefer holding cash instead of investing. Monetary policy becomes less effective during such recessionary conditions.
35. **Balanced Budget Multiplier:** Balanced Budget Multiplier explains that equal increase in government spending and taxation can still raise national income by same amount due to multiplier effect.
36. **Externalities:** Externalities are unintended costs or benefits affecting third parties not directly involved in a transaction. Governments intervene to internalise such social costs or benefits.
37. **Barter System:** Barter system involves direct exchange of goods without using money. It suffers from double coincidence of wants problem and lacks standard measure of value.

38. **Transaction Demand for Money:** Transaction demand for money refers to cash required for daily business and personal expenses. It depends largely on income level and frequency of transactions.
39. **Autonomous Expenditure:** Autonomous expenditure is spending independent of current income levels, such as certain government investments. It can stimulate overall output through multiplier effects.
40. **Capital Goods:** Capital goods are man made durable items like machinery and equipment used to produce consumer goods. Growth in capital goods sector strengthens long term industrial expansion.
41. **Gross Domestic Product:** Gross Domestic Product represents total market value of all final goods and services produced within a country's geographical boundaries in one year. It can be calculated using the expenditure formula: Consumption plus Government Spending plus Investment plus Exports minus Imports.
42. **Gross National Product:** Gross National Product measures total output produced by residents of a country, irrespective of location. It equals Gross Domestic Product plus net factor income earned from abroad, reflecting income generated by citizens and companies worldwide.
43. **Per Capita Income:** Per Capita Income is calculated by dividing national income by total population. It indicates average income per person and is widely used to compare living standards across countries and regions.
44. **Real and Nominal GDP:** Nominal GDP measures output at current prices, while Real GDP adjusts for inflation using a base year. Real GDP provides accurate assessment of economic growth by removing price level effects.
45. **Economic Growth:** Economic Growth refers to sustained increase in real national output over time. It is usually measured by annual percentage increase in Real GDP and indicates expansion of productive capacity.
46. **Economic Development:** Economic Development goes beyond growth by including improvements in living standards, education, healthcare and income distribution. It reflects qualitative progress along with quantitative expansion of output.
47. **Capital Formation:** Capital Formation refers to increase in stock of physical assets such as machinery, tools and infrastructure. Higher capital formation leads to enhanced production capacity and long term economic expansion.
48. **Direct Tax:** Direct Tax is levied directly on income or wealth of individuals and corporations. Examples include income tax and corporate tax, where the tax burden cannot be shifted to others.
49. **Indirect Tax:** Indirect Tax is imposed on goods and services rather than income. The burden can be shifted to consumers through higher prices, influencing consumption and revenue patterns.
50. **Government Expenditure:** Government Expenditure includes revenue expenditure for routine administration and capital expenditure for asset creation. It influences aggregate demand and plays a key role in fiscal policy management.
51. **Capital Expenditure:** Capital Expenditure refers to spending on creation of assets such as infrastructure, machinery and public projects. It increases productive capacity and supports long term economic development.
52. **Revenue Expenditure:** Revenue Expenditure includes spending on salaries, subsidies, interest payments and administrative costs. It does not create assets but is necessary for smooth functioning of government operations.

53. **Exchange Rate:** Exchange Rate is the value of one currency expressed in terms of another currency. It influences trade competitiveness, foreign investment flows and balance of payments stability.
54. **Devaluation:** Devaluation is deliberate reduction in value of a country's currency by the central bank in a fixed exchange rate system. It makes exports cheaper and imports costlier.
55. **Revaluation:** Revaluation refers to official increase in value of a currency relative to foreign currencies. It reduces export competitiveness but lowers cost of imports and foreign debt servicing.
56. **Foreign Exchange Reserves:** Foreign Exchange Reserves consist of foreign currencies, gold and special drawing rights held by the central bank. They provide stability against external shocks and support exchange rate management.
57. **Special Economic Zone:** Special Economic Zone is a designated area with relaxed trade laws and tax incentives to attract investment, boost exports and generate employment opportunities.
58. **Minimum Support Price:** Minimum Support Price is a pre announced price at which the government purchases agricultural produce from farmers to ensure income security and prevent distress sales.
59. **Subsidy:** Subsidy is financial assistance provided by the government to reduce cost of goods or services. It supports sectors like agriculture, food and energy to achieve social and economic objectives.
60. **Human Development Index:** Human Development Index measures development using indicators of income, education and life expectancy. It highlights qualitative progress beyond economic growth alone.

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