

## MC 301: MACROECONOMICS

### Course Objective:

This course deals with the principles of Macroeconomics. The coverage includes determination of and linkages between major economic variables; level of output and prices, inflation, interest rates and exchange rates. The course is designed to study the impact of monetary and fiscal policy on the aggregate behaviour of individuals.

### Learning Outcomes:

- Understand the determination of key macroeconomic variables- outputs, prices and rate of interest
- Analyse the effect of fiscal and monetary policy
- Describe the mechanics of money supply
- Explain the working of an open economy

### Unit I

(1 week)

Classical theory of income and employment: Quantity Theory of Money – Cambridge version; Classical aggregate demand curve; Classical theory of interest rate; effect of fiscal and monetary policy.

### References:

Froyen, R.P. (2011). Macroeconomics-theories and policies (8th Edition). Pearson (Chapter 2 and Chapter 3)

### Unit II

(2 weeks)

Simple Keynesian model; components of aggregate demand; equilibrium income; changes in equilibrium, multiplier (investment, Government expenditure, lump sum tax, foreign trade); determination of equilibrium rate of interest; effect of fiscal and monetary policy; composition of output and policy mix; policy mix in action.

### References:

Froyen, R.P. (2011). Macroeconomics-theories and policies (8th Edition). Pearson (Chapter 2 and Chapter 3)

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### Unit III

(4 weeks)

Properties of ISLM curves; factors affecting the position and slope of ISLM curves; determination of equilibrium income and interest rates; effect of monetary and fiscal policy; relative effectiveness of monetary and fiscal policy; Keynesian aggregate demand curve; flexible price – fixed money wage model; flexible price-variable money wage model.

#### References:

Froyen, R.P. (2011). Macroeconomics-theories and policies (8th Edition). Pearson (Chapter 7)

Dornbusch and Fischer (2010). Macroeconomics (9th Edition). Tata McGraw Hill (Chapter 10)

### Unit IV

(3 weeks)

Money stock determination, money multiplier; instruments of monetary control; money multiplier and bank loans; Inflation: meaning, demand and supply side factors; consequences of inflation, anti-inflationary policies; natural rate theory; monetary policy-output and inflation; Phillips curve (short run and long run).

#### References:

Froyen, R.P. (2011). Macroeconomics-theories and policies (8th Edition). Pearson (Chapter 9)

Dornbusch and Fischer (2010). Macroeconomics (9th Edition). Tata McGraw Hill (Chapter 16)

### Unit V

(2 weeks)

Open Economy: Brief introduction to Balance of Payment account; market for foreign exchange and exchange rate; monetary and fiscal policy in open economy; Mundell Fleming model (perfect capital mobility and imperfect capital mobility under fixed and flexible exchange rate)

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### References:

Froyen, R.P. (2011). Macroeconomics-theories and policies (8th Edition). Pearson (Chapter 14)

### Text Books:

1. Froyen, R.P. (2011). Macroeconomics-theories and policies (8th Edition). Pearson
2. Dornbusch and Fischer (2010). Macroeconomics (9th Edition). Tata McGraw Hill

### Additional Readings:

1. N Gregory Mankiw (2010). Macroeconomics (7th Edition). Worth Publishers

Note: Latest editions of readings to be used

### Teaching Learning Process

Lectures, problems and numericals, team paper, presentations, case studies, discussions on current economic issues

### Assessment Methods

- Internal Assessment 25 marks
- Written Theory Exam 75 marks

### Key Words

Aggregate demand, aggregate supply, Quantity theory of money, ISLM, fiscal policy, monetary policy, Phillips curve, Mundell Fleming model