

SEMESTER IV

FC 401: MACRO ECONOMICS

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
- Describe models of determination of equilibrium outputs, prices and rate of interest
- Analyse the role of the Government in an economy and examine how it uses its fiscal and monetary policy to influence macroeconomic variables
- Explain the working of an open economy

Course Contents:

Unit I **(2 weeks)**

Measurement of macroeconomic variables: National Income Accounts, Gross Domestic Product, National Income, Personal and Personal disposable income; 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)

Rudiger Dornbusch, Stanley Fischer and Richard Startz (2010). Macroeconomics (9th Edition). Tata McGraw Hill (Chapter 2)

Unit II **(3 weeks)**

Simple Keynesian model: goods and money market equilibrium, changes in equilibrium, multiplier, effect of fiscal and monetary policy; IS-LM model: properties of IS-LM curves, factors affecting the position and slope of IS-LM curves, determination of equilibrium income and interest rates, effect of monetary and fiscal policy; slopes of IS-LM curves and effectiveness of fiscal and monetary policies

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References:

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

Unit III

(2 weeks)

Keynesian system of aggregate supply and demand: Keynesian demand curve; Keynesian aggregate demand with classical aggregate supply, flexible price fixed money wage model; labour supply and variability in money wage; factors that shift the aggregate supply schedule

References:

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

Unit IV

(2 weeks)

Inflation: meaning; demand and supply side factors; consequences of inflation; anti-inflationary policies; natural rate theory; monetary policy-output and inflation (monetarist view); Phillips curve: short run and long run

References:

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

Rudiger Dornbusch, Stanley Fischer and Richard Startz (2010). Macroeconomics (9th Edition). Tata McGraw Hill (Chapter 16)

Unit V

(3 weeks)

Brief introduction to Balance of Payment (BOP) 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.

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 all readings to be used.

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Teaching Learning Process

Lectures, problems and numerical, team paper, presentations, case studies, discussion 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