

Macroeconomics
Macroeconomic Theory and Policy

Semester III

Subject Code: C31604

Lectures: 60

Objectives:

At the end of the course, students opting for the subject- Advanced Macroeconomics should be equipped to

- Understand the basic concepts of macroeconomic analysis (macroeconomic variables, equilibrium and disequilibrium, static and dynamic analysis).
- Solve numerical problems relating to National Income, Consumption Function, Savings Function and Keynesian Multiplier.
- Make graphical presentations to depict theoretical concepts.

1. Basic Concepts of Macroeconomic Analysis:

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- **Macroeconomic Variables**
 - Meaning and Types of Macroeconomic Variables
 - Stock Variables and Flow Variables
 - Nominal Variables and Real Variables
 - Autonomous Variables and Induced Variables
 - Exogenous Variables and Endogenous Variables
- **Concepts of Equilibrium and Disequilibrium**
 - Partial Equilibrium and General Equilibrium
- **Static and Dynamic Analysis**

2. The Circular Flow of Income & Expenditure

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- The Circular Flow of Income between Firms and Households in a Closed Economy
 - Types of Closed Economies-Spendthrift Economy, Frugal Economy & Governed Economy
- The Circular flow of Income in an Open Economy.
- Withdrawals(W) and Injections(J) in the Circular Flow with

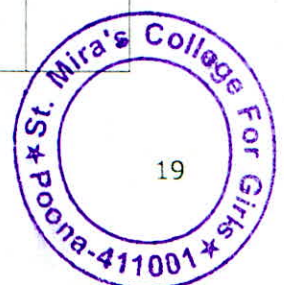


<ul style="list-style-type: none"> ○ Savings(S) and Investment(I) ○ Taxes(T) and Government Expenditure(G) ○ Imports(M) and Exports(X) <ul style="list-style-type: none"> ● Conditions of Equilibrium level of Income. 	
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3. National Income:	08
<ul style="list-style-type: none"> ● National Income-Meaning ● Gross Domestic Product(GDP) and Gross National Product(GNP) ● Net Domestic Product(NDP) and Net National Product(NNP) ● National Income at Factor Cost and National Income at Market Prices ● National Income at Current Prices and National Income at Constant Prices ● Personal Income(PI)&Disposable Income(DI) ● Methods of Measurement of National Income <ul style="list-style-type: none"> ○ Income Method- Method & Limitations, Numerical Problems ○ Expenditure Method- Method & Limitations, Numerical Problems ○ Output Method- Method & Limitations, Numerical Problems ● Difficulties in the Measurement of National Income 	

4. The Keynesian Theory of Output & Employment:	08
<p>The Keynesian Theory of Output & Employment:</p> <ul style="list-style-type: none"> ● The Principle of Effective Demand ● Aggregate Demand and Aggregate Supply ● Underemployment Equilibrium ● Keynesian Economics-The Economics of Depression 	

5. Consumption, Saving & Investment Functions:	20
<p>Consumption Function and Saving Function:</p> <ul style="list-style-type: none"> ● Consumption Function <ul style="list-style-type: none"> ○ The Psychological Law of Consumption 	

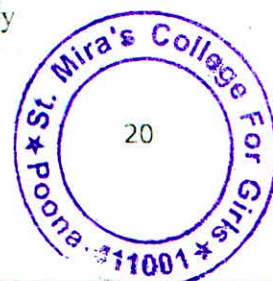


<ul style="list-style-type: none">○ Average Propensity to Consume(APC)○ Marginal Propensity to Consume(MPC)○ Numerical Problems● Saving Function-<ul style="list-style-type: none">○ Average Propensity to Save(APS)○ Marginal Propensity to Save(MPS)○ Numerical Problems● Factors affecting Consumption Function<ul style="list-style-type: none">○ Objective Factors○ Subjective Factors● Motives for Savings● Keynesian Multiplier<ul style="list-style-type: none">○ Concept of Multiplier,○ Assumptions & Leakages○ Calculation of the Multiplier● Investment Function:<ul style="list-style-type: none">○ Meaning○ Concept of Autonomous Investment and Induced Investment○ Determinants of Investment Demand<ul style="list-style-type: none">○ Marginal Efficiency of Capital (MEC)○ Interest Rate○ Factors affecting Investment Demand● Accelerator Theory of Investment<ul style="list-style-type: none">○ Acceleration Principle○ Factors - Capital-Output Ratio and Investment Demand○ Criticisms and Importance	
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***Assignments and library hours – 12 hours**

Methodology of Teaching (Semester III):

- Unit 1 Lecture Method, Classroom Discussions
- Unit 2 Lecture Method, Classroom Discussions, Library Assignment.
- Unit 3 Lecture Method, Classroom Discussions, Numerical Examples & Problem-solving
- Unit 4 Lecture Method, Classroom Discussions, Graphical Presentations, Library



Assignments

- Unit 5 Lecture Method, Classroom Discussions, Library Assignment, Numerical Examples & Problem-solving

Pre-Course Reading (Semester III):

- For Unit I Introduction to Macroeconomics-Meaning, Nature, Scope and Limitations of Macroeconomics.
 - Ref: Shapiro, Edward, "*Macroeconomic Analysis*", 5thed, Galgotia Publications, New Delhi, Ch 1, 3, Pgs 3-17 & pgs 50-62.
 - Harvey, J. & Johnson, M (1971): "*An Introduction to Macroeconomics*", The MacMillan Press Ltd, Ch1, pgs 13-24.
- Unit 3. The Classical Theory of Employment-Say's Law of Markets.
 - Ref: Stonier, A.W & Hague, D.C: "*A Textbook of Economic Theory*", Longman Group UK Ltd, England, 5thed, Ch. 17, General Equilibrium and Employment, Pg. 393-401.
 - Vaish, M.C: "*Macroeconomic Theory*", Latest ed., WishwaPrakashan (A div. of Wiley Eastern Ltd.) ,N.Delhi, Ch. 13, Classical Theory of Output and Employment, Pg. 132-160.
- Types of Unemployment-Voluntary Unemployment, Involuntary Unemployment, Cyclical Unemployment, Frictional Unemployment, Structural Unemployment
 - Ref: Ahuja, H.L - "*Macroeconomic Theory & Policy*", S.Chand & Co. N.Delhi, latest ed.
 - Vaish, M.C: "*Macroeconomic Theory*", WishwaPrakashan (A div. of Wiley Eastern Ltd.) ,N.Delhi, latest ed.

Recommended Text Books (Semester III):

- Ahuja, H.L - "*Macroeconomic Theory & Policy*", S.Chand & Co., N.Delhi, latest ed.
- Dwivedi, D.N - "*Macroeconomics Theory and Policy*" Tata McGraw Hill Publishing Co. Ltd., N.Delhi, latest ed.
- Misra, S.K & Puri, V.K "*Modern Macroeconomic Theory*", latest ed, Himalaya Publishing House, Mumbai.
- Misra, S.K & Puri, V.K (2007) - "*Business Economics*" Himalaya Publishing House, Mumbai.
- Seth M.L (latest ed.) - "*Macroeconomics*", L. N. Agarwal Publishers, Agra.



- Vaish, M.C "*Macroeconomic Theory*", WishwaPrakashan (A division of WileyEasternLtd.), N. Delhi, latest ed.

Reference Books (Semester III):

- C.R. McConnell and H.C. Gupta (1987)-"*Introduction to Macroeconomics*", Tata McGraw Hill Publishing Company, N.Delhi.
- Paul Samuelson and William Nordhaus-"*Economics*", latest ed.McGraw Hill Book Company.
- Lipsey, R. G. & Chrystal, A. "*An Introduction to Positive Economics*" ELBS, latest ed, OxfordUniv. Press.
- Harrison B, Smith C & Davies B(1992)-"*Introductory Economics*", MacMillan Press Ltd. London.
- Suraj B. Gupta-"*Monetary Economics*", S. Chand and Co., New Delhi.
- D. Wrightsman(1983)- "*An Introduction to Monetary Theory and Policy*", The Free Press, New York.
- Ackley, G(1978)-"*Macroeconomic Theory*", Collier Macmillan Publishers.
- Shapiro, E(1984)-"*Macroeconomic Analysis*", 5thed, Galgotia Publications, New Delhi.
- Fischer S, Dornbusch R & Schmalensee R(1988)-"*Economics*", Second Internationaledition, McGraw Hill Book Co.
- Begg D, Fisher S & Dornbusch R-"*Economics*", 3rded, McGraw Hill Book Co.
- Hubbard R. Glenn & O'Brien, Anthony Patrick (2006)- "*Macro Economics*", Pearson Education Ltd.
- Sloman, John & Sutcliffe, Mark (2004)-"*Economics for Business*", 3rd Ed. Pearson Education Ltd.
- Dillard D (1960)-"*The Economics of J.M. Keynes*" Copyright by Prentice-Hall Inc. NY, Printed by Gilmour and Dean Ltd. Glasgow & London.
- Eugene A. Diulicio: Schaum's Outline of "*Theory and Problems of Macroeconomics*", 3rded. Tata-Mc-Graw Hill Publishing Company Ltd. New Delhi.

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Macroeconomic Theory and Policy

Semester IV

Subject Code: C41604

Lectures: 60

Objectives:

At the end of the Semester, students opting for the subject- Advanced Macroeconomics should be equipped

- **To understand the theoretical framework of Macroeconomics relating to the demand and supply of money, and value of money.**
- **To understand the phenomena of trade cycles , inflation, deflation and aspects of public finance**
- **To understand and apply their theoretical knowledge to real world situations.**

1. Money:

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Demand for and Supply of Money:

- Demand for Money:
 - The Keynesian Approach to Demand for Money
 - Motives for Liquidity
 - Transactions Motive, Precautionary motive & Speculative Motive
 - Liquidity Trap
- Money Supply:
 - Role of Commercial Banks in Credit Creation
 - Assumptions, Process & Limitations of Multiple Credit Creation
 - Role of Central Bank in Currency Issue
 - Measures of Credit Control by Central Bank
 - RBI's Money Stock Measures
 - Near Money and Money Substitutes(Illustrations)



2. Value of Money

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- Value of Money-Meaning
- Quantity Theory of Money
 - Cash Transactions Approach (Fisher's Version)
 - Cash Balance Approach(Cambridge Equations)
 - Milton Friedman's Approach to the Quantity Theory of Money

3. Inflation and Deflation:

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Inflation and Deflation:

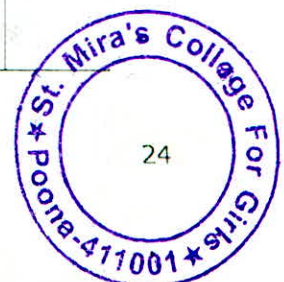
- Inflation:
 - Meaning
 - Causes of Inflation
 - Demand- Pull Inflation and Cost- Push Inflation
 - Concept of Reflation
 - Inflationary Gap
 - Measures to control Inflation
- Deflation:
 - Meaning
- Effects of Inflation and Deflation
- Phillips Curve – Meaning; Short-run and Long-run
- Stagflation- Concept

4. Trade Cycles:

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Trade Cycles:

- Meaning and Characteristics
- Types of Trade Cycles
- Theories of Trade Cycle(Hawtrey & Schumpeter's Theories)
- Phases of a Trade Cycle



5. Public Finance:

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- Public Finance: Meaning & Definition
- Public Revenue-
 - Tax Revenue & Non-Tax Revenue
 - Direct Tax- Meaning and Types
 - Indirect Tax- Meaning and Types
- Impact and Incidence of a Tax
- Systems of Taxation-Proportional, Progressive, Regressive and Degressive Taxes
- Public Expenditure-
 - Meaning & Classification
 - Causes of Rising Public Expenditure
- Public Debt
 - Classification of Public Debt
 - Internal Debt & External Debt
 - Causes of Rising Public Debt
- Fiscal Policy
 - Meaning
 - Budget-Concept of Revenue Account & Capital Account
 - Types of Budget-Balanced Budget, Surplus Budget, Deficit Budget
 - Budget Deficit- Meaning and Types

***Assignments and library hours – 12 hours**

Methodology of Teaching (Semester IV):

- Unit 1 - Lecture Method, Classroom Discussions, Graphical Presentations, Online Testing.
- Unit 2 - Lecture Method, Classroom Discussions, Class Test.
- Unit 3 - Lecture Method, Classroom Discussions, Graphical Presentations, Library Assignment.
- Unit 4 - Lecture Method, Classroom Discussions, Graphical Presentations, Library Assignment.
- Unit 5 - Lecture Method, Classroom Discussions, Graphical Presentations, Class Test.



Pre-Course Reading (Semester IV):

- Unit 1: Demand for and Supply of Money-Money-Evolution, Definition, Functions of Money, Approaches to the definition of Money Supply
- Refs: Stonier, A.W. & Hague, D.C.: "*A Textbook of Economic Theory*", Longman Group UK Ltd, 5th edition, Ch 18, Money, pgs 401-407.
- Harrison, B, Smith, C, & Davies, B: "*Introductory Economics*", Macmillan Press Ltd. 1992, Ch 23, Money and the Creation of Bank Deposits, pgs 208-213.
- Lipsey, R & Chrystal, A: "*An Introduction to Positive Economics*", ELBS, latest ed, Oxford Univ. Press.
- Unit 5 Meaning, Nature, Scope of Public Finance-Private Finance and Public Finance-Similarities and Differences
- Ref: Dalton, Hugh: "*Public Finance*", Ch 1.
- Sundaram, KPM & Andley, K.K (2001) - "*Theory and Practice of Public Finance*", S.Chand & Co. N. Delhi.

Recommended Text Books (Semester IV):

- Ahuja, H.L (2008) - "*Macroeconomic Theory & Policy*", S.Chand & Co., N. Delhi.
- Dwivedi, D.N (2008) - "*Macroeconomics Theory and Policy*" Seventh Reprint, Tata McGraw Hill Publishing Co. Ltd., N. Delhi.
- * • Misra, S.K & Puri, V.K "*Modern Macroeconomic Theory*", latest ed, Himalaya Publishing House, Mumbai.
- * • Misra, S.K & Puri, V.K (2007) - "*Business Economics*" Himalaya Publishing House, Mumbai.
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- Sundaram, KPM &Andley, K.K(2001)-“ *Theory and Practice of Public Finance*”, S.Chand&Co.N.Delhi.

