

## SEMESTER – III

## PAPER – 3.1

### Macroeconomics

Full Marks : 100

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**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 behavior of individuals.

#### Course Content

##### Unit I:

A) Introduction to Macroeconomics , Macroeconomic policy objectives , Macroeconomic stability and business environment, Brief introduction to the major Schools of thought in Macroeconomics [5L]

B) Measurement of macroeconomic variables: National Income Accounts, Gross Domestic Product, National Income, Personal and Personal disposable income; GDP deflator , Real versus Nominal GDP , CPI, National income identities , Macroeconomic variables in the Indian Context. [15L]

**Unit II:** Keynesian theory of Income and employment : Simple Keynesian model, components of aggregate demand, equilibrium income, multiplier ( Investment, Government expenditure, lump sum tax), effect of fiscal and monetary policy, composition of output and policy mix ; ISLM model : properties of ISLM curves, factors affecting the position and slope of ISLM curves, determination of equilibrium income and interest rates, analysis of monetary and fiscal policies , Integrating financial markets into IS-LM model , Financial Markets and the monetary policy dilemma, Flexible price macroeconomic model : Basics of AD and AS curves , Derivation of Phillips curve from AD-AS model, Analysis of demand-pull, cost-push and expectational inflation from Phillips curve – Sacrifice Ratio, Anti – inflationary policies [25L]

**Unit III:** Money: functions of money, Quantity theory of Money , Introduction to the central bank ,Liquidity preference theory of money demand, determination of money supply, H theory of money multiplier, Instruments of monetary control; Money Supply and prices [10L]

**Unit IV:** Open Economy: brief introduction to BoP account in the Indian context, market for foreign exchange and exchange rate, exchange rate regimes ,foreign trade multiplier ,monetary and fiscal policy in open economy, Mundell Fleming model (perfect capital mobility and imperfect capital mobility under flexible exchange rate), Indian context:Capital Account Convertibility, FDI,FPI, Remittance. [10L]

#### Readings:

1. Froyen, R.P. (2011): Macroeconomics-theories and policies (8<sup>th</sup> ed.) . Pearson:
2. Dornbusch and Fischer (2010). Macroeconomics (9<sup>th</sup>ed.). Tata McGraw Hill
3. N Gregory Mankiw (2010). Macroeconomics (7<sup>th</sup>ed.). Worth Publishers

4. Olivier Blanchard, Macroeconomics (2009). (5<sup>th</sup>ed.) Pearson
5. Shyamal Roy, Macroeconomic Policy Environment (2010), (2<sup>nd</sup>ed.). Tata McGraw Hill
6. SoumyenSikdar , Principles of Macroeconomics (2011), (2<sup>nd</sup> ed.). Oxford University Press
7. Robert J. Gordon , Macroeconomics (2011), (12<sup>th</sup> ed.). PHI Learning Pvt. Ltd.