

Macroeconomic Theory

Course Code: IEC02C005T

Course Title: Macroeconomic Theory

Semester: IV

Credits: 4

Rationale

The course is designed to equip students with the knowledge and understanding the determinants of employment, output, prices, and investment. Exploring open economy aspects equips learners to analyse balance of payments, exchange rate mechanisms, and the effectiveness of fiscal and monetary policies. Understanding inflation, unemployment, and trade cycles enables students to evaluate policy implications for stabilizing economies.

Course Outline

Contents	No. of Lectures
Unit-I: Aggregate Demand and Aggregate Supply in IS-LM Framework Derivation of Aggregate Demand and Aggregate Supply Curves in the IS-LM Framework; Nature and Shape of IS and LM curves; Interaction of IS and LM curves and Determination of Employment, Output, Prices and Investment; Changes in IS and LM curves and their Implications for Equilibrium	10
Unit-II: Macroeconomic Policy Effectiveness Macroeconomic Policies: Fiscal Policy: Tools and Objectives of fiscal policy; Evaluation of Fiscal Policy: Crowding-out and Crowding-in Effects; Monetary Policy: Tools and Objectives of monetary policy; Examination of Monetary Policy Instruments; Transmission Mechanism of Monetary Policy; Effectiveness of Macroeconomic Policies in Achieving Objectives	10
Unit-III: Open Economy and Macroeconomic Policy Balance of payments: Concept; meaning of equilibrium and disequilibrium in balance of payments; Exchange rate: Fixed versus flexible exchange rates; Determination of foreign exchange rate; Mechanisms for exchange rate determination (floating exchange rates, fixed exchange rates); Mundell-Fleming Model; Macroeconomic policies in an Open Economy	10
Unit-IV: Inflation, Unemployment and Expectations Inflation-Meaning, Causes, and Anti-Inflationary Measures; Classical, Keynesian, Monetarist and Modern Theories of Inflation, Inflationary Gap, Deflation- Meaning, Causes, and Anti-Deflationary Measures, Depression and Stagflation; Inflation vs. Deflation; Inflation-Unemployment Trade off and the Phillips Curve-short run and long run Analysis; Adaptive and Rational Expectations	10
Unit-IV: Trade Cycles Theories Characteristics and phases of trade cycles; Overview of various theories explaining trade cycles: Hawtrey's Monetary Theory; Hayek's Over-investment Theory; Keynes' views on Trade Cycles; Schumpeter theory of Business Cycles; Analysis of countercyclical policies in response to trade cycles	10

Course Outcomes

Upon successful completion of the course, the candidates will be able to

9. develop a thorough understanding of the IS-LM framework and their implications for determining key macroeconomic variables such as employment, output, prices, and investment.
10. gain analytical skills in understanding balance of payments concepts, foreign exchange rate determination, and the effects of different exchange rate regimes.
11. analyse the relationship between inflation and unemployment and also able to explore various theories of trade cycles

Text Books

5. Froyen, Richard T (2005): *Macroeconomics; theories and policies*. Pearson India
6. Dornbusch, R. S. Fischer and Startz (2004): *Macroeconomics*. Tata Mc-Graw Hill
7. N Gregory Mankiw (2021): *Macroeconomics*, Cengage Learning Pvt. Ltd. India
8. Blanchard, O. (2017): *Macroeconomics*. Pearson India.

Suggested Readings:

1. Ackley Gardener (1978): *Macro Economic Analysis*. New York: MacMillan
2. Shapiro, Edward (1988): *Macroeconomic Analysis*, New Delhi: Galgotia Publications Pvt. Ltd
3. Surrey, M.J.C.(ed)(1976):*Macroeconomic Themes*. london oxford university press
4. Evans, MK(1969): *Macroeconomic Activity*. Harper and Row publishers
5. Muller, M G (ed) (1966):*Readings in Macroeconomics*.
6. Jha, Raghendra (1991):*Contemporary Macroeconomic Theory and Policy*. Wiley Eastern Ltd, New Delhi
7. Branson, W.H (.1972): *Macro Economic Theory and Policy*. New York: Harper and Row
8. Romer , D. L(1996): *Advanced Macroeconomics*. New York: McGraw-Hill.
9. Allen, R. G.D(1968):*Macroeconomic theory-A Mathematical Treatment* .london: MacMillan
10. Branson, H. William (2006): *Macroeconomics: Theory and Policy*. AITBS Publishers