

Core I

6. Macroeconomics I

Course Description

This course introduces the students to formal modelling of a macro-economy in terms of analytical tools. It discusses various alternative theories of output and employment determination in a closed economy in the short run as well as long run, and the role of policies in this context.

Course Outcomes:

- To understand the basics of consumption function and its relation with income, and factors influencing consumption function.
- To get a knowledge about various types of investment spending and evaluate the impact of investment through multiplier and accelerator in economies.
- Discuss the various approaches to demand and supply of money.
- Analyse and interpret the IS-LM model as a step toward understanding economic fluctuations.

Unit I: Consumption

Consumption – Income Relationship, Propensities to Consume and the Fundamental Psychological Law of Consumption; Implications of Keynesian Consumption Function; Factors Influencing Consumption Function; Measures to Raise Consumption Function; Absolute, Relative, Permanent, and Life-cycle hypothesis

LO: This module shall enable the students to find out how consumption is affected by income and other factors.

Unit II: Investment

Autonomous and Induced Investment, Residential and Inventory Investment, Determinants of Business Fixed Investment, Decision to Invest and MEC, Accelerator and MEI, Theories of Investment: The Accelerator and Tobin's theory

LO: Students will gain an understanding of different forms of investment spending and theories of investment

Unit III: Demand for and Supply of Money

Demand for Money – Classical, Neoclassical, and Keynesian Approaches, The Keynesian Liquidity Trap and its Implications, Supply of Money – Classical and Keynesian Approaches, The Theory of Money Supply Determination and Money Multiplier, Measures of Money Supply in India, RBI approach to money supply, Determination and Money multiplier. High-powered money and money multiplier

LO: Students will be able to understand the workings of money in an economy.

Unit IV: Aggregate Demand and Aggregate Supply

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

LO: This module shall help to gain knowledge about the way the goods market and money market serve as a basis for the determination of employment, output, price, and investment.

Text Readings:

- ✓ *N. Gregory Mankiw (2010): Macroeconomics, 7th edition, Cengage Learning India Private Limited, New Delhi.*
- ✓ *Richard T. Froyen (2005): Macroeconomics, 2nd Edition, Pearson Education Asia, New Delhi.*

Reference Book:

- ✓ *Snowdon, B. and Vane H. R. (2005). Modern macroeconomics –its Origins, Development and Current State. Edward Elgar Publishing Limited, Cheltenham, UK.*
- ✓ *Ahuja H. L. (2019). Macroeconomics- Theory and Policy. 20th Edition, S Chand publication.*
- ✓ *Dwivedi, D. N. (2018): Macroeconomics -Theory and Policy. 5th Edition, Tata McGraw Hill.*