

Core I

9. Macroeconomics II

Course Description

This paper deals with growth models and the classical school of thought, and its evolution into Keynesian economics. The students are introduced to long-run dynamics in growth and technical progress. This paper also familiarizes about the open economy and its dynamics.

Course Outcomes:

- To emphasize on conceptual understanding and some applications of important growth models.
- To enable critical appreciation of the classical school of thought and the evolution of Keynesian economics.
- To understand the theoretical underpinnings of economic policy in open economies, such as monetary and fiscal policy, the basic Mundell-Fleming model, and nominal and real exchange rate determination.
- To understand the trade-off between Unemployment and Inflation; get a critical understanding of Long-run and Short-run Phillips Curve, unemployment, and Expectations.

Unit I: Economic growth model:

Accumulation of capital in the basic Solow model; supply and demand for goods, growth in the capital stock and the steady state, Golden rule level of capital, comparing steady states, transition to the golden rule steady state with too much and too little capital, population growth technological progress – Solow version

LO: The module shall enable the students to get conceptual clarity and strengthen theoretical foundations of the Solow growth model

Unit II: Classical and Keynesian Macroeconomic thought

Classical macroeconomics, Employment and output determination: Say's law; the quantity theory of money, Keynes General theory: Keynes main propositions, Analysis of the labour market, Keynes critique of Says law and Quantity Theory of Money, the orthodox Keynesian school, underemployment equilibrium in the Keynesian model.

LO: This module shall help students in developing a clear, comprehensive understanding of how and in what ways the Classical and Keynesian schools of economic thought differ from each other.

Unit III: Open Economy and Macroeconomic policies

Balance of payments –concepts, meaning of equilibrium and disequilibrium in Balance of payments measures to correct disequilibrium. Determination of foreign exchange rate- the balance of payments theory, fixed versus flexible exchange rate; the short run open economy model: The basic Mundell-Fleming model: Macroeconomic policies – Fiscal policy - Crowding-out and Crowding-in; Monetary policy and instruments, the Transmission Mechanism, Effectiveness of macroeconomic policies in the open and closed economies.

LO: This module will enable students to get clarity on macroeconomic theories and models in the context of open economies, the interdependent nature of key macroeconomic variables, sectors, and markets, and the dynamics of responses to exogenous domestic and international economic shocks

Unit IV: Inflation, Unemployment and Expectations

Inflation – Unemployment trade-off and the Phillips curve – short run and long run analysis, Adaptive and Rational expectation hypothesis. The policy ineffectiveness debate. Phillips curve and orthodox Keynesian school. Solow and Tobin's modified Philips curve.

LO: Upon completion of this module, students shall be able to derive the Phillips Curve from the Aggregate Supply Curve, the short-run and long-run Phillips curve, and understand the role of adaptive expectations and rationale expectations.

Text Readings:

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

Suggested References:

- ✓ *Levacic R and Rebmann A (1982): Macroeconomics –An introduction to Keynesian – neoclassical controversies*
- ✓ *Edward Shapiro (2001): Macroeconomics Analysis- Galgotia Publication Private Limited, 5th Edition, New Delhi.*
- ✓ *Dwivedi, D. N. (2018): Macroeconomics -Theory and Policy. 5th Edition, Tata McGraw Hill.*
- ✓ *Blanchard, O. (2013): Macroeconomics. 7th edition, Pearson Edn*