

SEMESTER II

Core I

3. Basic Economics II

Course Description

This course is designed to expose the students to the basic principles of how the economy works at the microeconomic level with some basic concepts like production, firms and input markets. This course also aims to introduce the students to the basic macroeconomic concepts of money, inflation, and the theories of determination of income and employment in the aggregate economy.

Course Outcomes

- ✓ To have a clear idea about the principles that govern the economy's running at the micro and macro levels.
- ✓ To understand about the working of the input market.
- ✓ To gain clarity about dynamic concepts of Inflation, Employment, money, and income.
- ✓ To understand of the theories of determination of income and employment in the aggregate economy.

Unit I: The Firm and Market Structures

Cost concepts; Production and Costs; The various measures of cost – Fixed and Variable cost, Average and Marginal cost; Cost curves and their shapes; Costs in the short run and the long run; Economies and diseconomies of scale. Firms in Competitive Markets – What is a competitive market; Profit maximization and the competitive firm's supply curve; The marginal cost curve and the firm's supply decision; Firm's short-run decision to shut down; Firm's long-run decision to exit or enter a market; The supply curve in a competitive market – short run and long run

LO: Upon completion of this module, the students will have a clear understanding of the traditional theory of cost and different cost concepts, and be able to distinguish between short-run and long-run costs, and relate them to a firm's decision-making under competitive markets.

Unit II: The Input Markets

The Demand for Labour – The production function and the marginal product of labour; Value of the marginal product of labour and demand for labour; Shifts in labour demand curve; The supply of labour – the trade-off between work and leisure; Shifts in the labour supply curve; Equilibrium in the Labour Market; Other factors of production: Land and Capital; Linkages among factors of production

LO: Upon completion of this module, the students will get an insight into the analysis of demand and supply of inputs and the linkages among the factors of production.

Unit III: Money and Changes in its Value

Evolution and Functions of Money, Quantity Theory of Money – Cash Transactions, Cash Balances and Keynesian Approaches, Value of Money and Index Number of Prices
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

LO: Upon completion of this module, the students shall understand the evolution of money and the classical theories of money supply and be able to explain the causes of inflation and deflation in an economy and the impact and solution thereto.

Unit IV: Determination of National Income

The Classical Approach - Say's Law, Theory of Determination of Income and Employment with and without saving and Investment; Basics of Aggregate Demand and Aggregate Supply and Consumption- Saving – Investment Functions, The Keynesian Approach – Basics of Aggregate Demand and Aggregate Supply and Consumption, Saving, Investment Functions; The Principle of Effective Demand; Income Determination in a Simple 2-Sector Model; Changes in Aggregate Demand and Income- The Simple Investment Multiplier

LO: Upon completion of this module, the students shall get to know the classical and Keynesian theories of income and employment determination.

Text Book:

- ✓ Gregory N Mankiw: *Principles of Economics*, 6th Edition, Cengage Learning India Private Limited, New Delhi
- ✓ Gregory N. Mankiw (2010): *Macroeconomics*, 7th edition, Cengage Learning India Private Limited, New Delhi
- ✓ Government of India (2012): *National Accounts Statistics Sources and Methods*, CSO, MOSPI

Reference Book:

- ✓ Karl E. Case and Ray C. Fair (2007): *Principles of Economics*, 8th Edition, Pearson Education Inc.
- ✓ Richard T. Froyen (2005): *Macroeconomics*, 2nd Edition, Pearson Education Asia, New Delhi.