

Semester III
B.A. (Honours) Economics
C 6: ESSENTIALS OF MACROECONOMICS (6 Credits)
Full marks: 100 (Mid Term-20 + End Term-80)

Course Description

This course introduces the students to formal modeling 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 medium run, and the role of policy in this context. It also introduces the students to various theoretical issues related to an open economy.

Units		No. of Lecture hours	No. of Tutorial hours	Marks
1	Consumption Function: Short run and long run consumption functions; APC, MPC, APS, MPS; Fundamental Psychological Law of Consumption and its Implications; Determinants of consumption, Theories of Consumption - Absolute, Relative	15	3	16
2	Investment function: Gross and Net, Induced and Autonomous; Marginal efficiency of capital; Marginal efficiency of capital and rate of investment; Marginal efficiency of investment; Investment multiplier; Profit and accelerator theories of investment.	15	3	16
3	Inflation and Unemployment: Stagflation; Causes and Policies to cure Stagflation; Phillips curve; Inflation and expectations – adaptive and rational expectations; Adaptive expectations, Rational expectations and policy ineffectiveness debate.	15	3	16
4	Macroeconomics of an Open Economy -I: Open and closed economy; Mundell-Fleming model, Exchange rate determination; Purchasing power parity – absolute and relative versions of the purchasing power parity; Asset market approach; Dornbusch's overshooting model.	15	3	16
5	Macroeconomics of an Open Economy -II: Concepts and components of balance of trade and balance of payments; Balance of payments– the current and capital account; Basic accounting rule, Equilibrium or disequilibrium of balance of payments, Factors causing balance of payments disequilibrium Adjustment of balance of payments – the	15	3	16

	monetary approach to balance of payments; International financial markets.			
Total		75	15	80

Reading List:

1. Dornbusch, Fischer and Startz, *Macroeconomics*, McGraw Hill, 11th edition, 2010.
2. N. Gregory Mankiw. *Macroeconomics*, Worth Publishers, 7th edition, 2010.
3. Olivier Blanchard, *Macroeconomics*, Pearson Education, Inc., 5th edition, 2009.
4. Steven M. Sheffrin, *Rational Expectations*, Cambridge University Press, 2nd edition, 1996.
5. Andrew B. Abel and Ben S. Bernanke, *Macroeconomics*, Pearson Education, Inc., 7th edition, 2011.
6. Errol D'Souza, *Macroeconomics*, Pearson Education, 2009
7. Paul R. Krugman, Maurice Obstfeld and Marc Melitz, *International Economics*, Pearson Education Asia, 9th edition, 2012.