

Semester IV
B.A. (Non-Honours) Economics
Core 4: PRINCIPLES OF MACROECONOMICS–II (6 Credits)
Full marks: 100 (Mid Term-20 + End Term-80)

Course Description

This is a sequel to Principles of Macroeconomics–I. It analyses various theories of determination of National Income in greater detail. It also introduces students to concept of inflation, its relationship with unemployment and some basic concepts in an open economy.

| Units | No of Lecture hours | No of Tutorial hours | Marks |
|--|----------------------------|-----------------------------|--------------|
| 1 Short Run Macroeconomics and IS-LM analysis: The goods market and the IS curve; fiscal policy multipliers – expenditure and taxes; Shifts in the IS curve; the money market and the LM curve; the monetary policy multiplier; Shifts in the LM curve; Determination of Equilibrium income and interest rate: the IS-LM model. | 15 | 3 | 16 |
| 2 Determination of the Aggregate Price Level: IS-LM theory as a theory of aggregate demand; shifts in the aggregate demand curve; the aggregate supply curve – the classical case (long run) and the Keynesian case (short run); from short run to long run; AD-AS model and the price level; Stabilisation policy; shocks to aggregate demand and aggregate supply. | 15 | 3 | 16 |
| 3 Anatomy of Inflation and Unemployment: Inflation – definition and types; determinants of inflation; theories of inflation – cost push and demand pull; inflation and interest rates; costs of inflation; unemployment; types of unemployment; unemployment and output – Okun’s law; relationship between inflation and unemployment: Phillips Curve in short run and long run. | 15 | 3 | 16 |
| 4 Open Economy Macroeconomics – I: International trade and the macro economy; theories of international trade; Absolute advantage, comparative advantage, terms of trade, sources of comparative advantage, trade barriers – tariffs and quota, free trade argument vs protectionism debate. | 15 | 3 | 16 |
| 5 Open Economy Macroeconomics – 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; foreign exchange; | 15 | 3 | 16 |

| | | | | |
|--------------|---|-----------|-----------|-----------|
| | fixed exchange rate vs floating exchange rate; real and nominal exchange rate; market for foreign exchange; determination of exchange rate; Purchasing power parity; BOP theory of exchange rate determination; effects of trade policies on exchange rate. | | | |
| Total | | 75 | 15 | 80 |

Reading List:

1. Case, Karl E. & Ray C. Fair, *Principles of Economics*, Pearson Education, Inc., 8th edition, 2007.
2. Sikdar, Shoumyen, *Principles of Macroeconomics*, 2nd Edition, Oxford University Press, India
3. Mankiw, N. Gregory. *Macroeconomics*, Worth Publishers, 7th edition, 2010.
4. Dornbusch, Fischer and Startz, *Macroeconomics*, McGraw Hill, 11th edition, 2010.
5. Rana and Verma. *International Economics*. Vishal Publishing Co., 2014.