



Birla Institute of Technology & Science, Pilani
Hyderabad Campus

SECOND SEMESTER 2020-2021

Course Handout Part II

Date: 16-01-2021

In addition to part I (General Handout for all courses appended to the time table) this portion gives further specific details regarding the course.

Course No. : ECON F243

Course Title : Macroeconomics

Instructor -in-charge: Dr. Sunny Kumar Singh

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Course Description: Why do some countries grow at a faster rate than others? Why are there inflation, unemployment and recessions? What are the sources of these aggregate economic fluctuations? Can the government/policymakers do something about them? Should they? While the questions are clearly simply stated, their importance to businesses and our lives cannot be overstated. This course provides a framework to start thinking about, if not outright answering, these questions.

This course will introduce students to the definition and measurement of aggregate variables such as income and expenditure, inflation and unemployment, and then develop a conceptual framework that provides insights into the determinants of these aggregate measures that macroeconomics is concerned with. The course will also include an analysis of the role of government and central bank with reference to monetary, fiscal and foreign exchange rate policies.

Scopes and Objective: By the end of this course, students should understand macroeconomic concepts, theories and models and be able to interpret and analyze real world situations using these concepts, theories and models. Upon completion of the course, students should be able to:

- Locate and interpret data describing current economic conditions.
- Describe how economists measure output, prices, the labor market, savings and wealth and evaluate any shortcomings associated with these measures.
- Analyze how economies are linked to the rest of the world.
- Use simple macroeconomic models to explain the behavior of the macroeconomy and the relationships between macroeconomic variables such as inflation, aggregate demand, aggregate supply, the labor market, and economic growth.
- Explain how and why governments implement fiscal and monetary policies, and their roles in economic stabilization, and policies to achieve higher growth rates.
- Identify the main macroeconomic policy issues of the 21st century and appreciate the debates associated with alternative policy advice

Text Book

T1. Froyen, T. Richard (2014). *Macroeconomics: Theory and Policies*. Pearson (10th edition).

Reference Books

R1. Abel, A. B., Bernanke, B. S. & Croushore, D. (2013). *Macroeconomics*. Pearson (8th edition).

R2. Sikdar, Soumyen (2020). *Principles of Macroeconomics*. Oxford University Press (3rd Edition).

Course Plan:

| Lecture No. | <i>Learning objectives</i> | <i>Topics to be covered</i> | <i>Chapter in the Text Book</i> |
|-------------|--|---|--|
| I | Introduction & Measurement | | |
| 1-2 | Introduction: Aggregation Problem | Importance of Macroeconomics | Ch. 1 (T1), Class Notes |
| 3-4 | National Income Estimation | Measurement of Macroeconomic variables | Class Notes |
| II | Classical Economics & the Keynesian Revolution | | |
| 5-7 | Classical Economics - I | Determining equilibrium output; Classical Models of employment & wages | Ch. 3 (T1), Class Notes |
| 8-9 | Classical Economics - II | Money, prices and interest rate determination in the classical framework | Ch. 4 (T1), Class Notes |
| 10-13 | Keynesian Economics - I | The role of aggregate demand; Models of Income Determination, Components of Aggregate Demand | Ch. 5 (T1), Class Notes |
| 14-20 | The Keynesian System – II & III | Determination of money, interest, and income; The IS-LM model; The fiscal and monetary policy effects in the IS-LM model; Real World application of the IS-LM model | Ch. 6-7 (T1), Ch. 19 (R1), Class Notes |
| 21-24 | The Keynesian System - IV | Determining aggregate demand and aggregate supply; Labour market in the Keynesian System | Ch. 8 (T1), Ch. 11 (R2), Class Notes |
| III | Macroeconomic Theory after Keynes | | |
| 25-26 | Keynesian Orthodoxy Challenged | Monetarist Models | Ch. 9 (T1), Class Notes |
| 27-29 | Policy Dilemma | Output, Inflation, & Unemployment | Ch. 10 (T1), Ch 12 (R1), Class Notes |
| 30-31 | Skepticism about | New Classical Models | Ch. 11 (T1), Class |

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|-------|---|--|-----------------------------|
| | Stabilization Policy | | Notes |
| 32-33 | Macroeconomic Dynamics | Real Business Cycle Model | Ch. 12 (T1), Class Notes |
| IV | Open Economy Macroeconomics | | |
| 34-36 | Open Economy | Exchange rates and International Monetary fund | Ch. 14 (T1), Class Notes |
| 37-39 | Monetary & Fiscal Policy in Open Economy | Monetary & Fiscal Policy in an Open Economy | Ch. 15, (T1), Class Notes |
| V | Economic Policy | | |
| 40-42 | Stabilization Policy and Macroeconomic Policy in 21 st Century | Role of Fiscal and Monetary Policy in Stabilizing Output | Ch. 16-18 (T1), Class Notes |

Learning Outcomes

Module I: Introduction & Measurement

It is expected that after completing this module, the student should be able to summarize the primary issues addressed in Macroeconomics, describe the activities and objectives of Macroeconomists, differentiate between the three approaches to national income accounting, explain how GDP is measured, explain the calculation of real GDP, price indexes, and define real and nominal interest rates.

Module II: Classical Economics & the Keynesian Revolution

It is expected that after completing this module, the student should be able to discuss the production function properties and changes, describe factors that affect the demand for and supply of labour, identify the factors that affect labour market equilibrium, describe the factors that affect consumption and saving decisions in Classical and Keynesian system, discuss the factors that affect the investment behavior of firms in Classical and Keynesian system, explain the factors affecting the goods market equilibrium, explain various versions of the quantity theory of money equations, the classical aggregate demand curve and the determination of interest rate in Classical and Keynesian systems and policy implications of change in determining factors, discuss the Keynesian system of aggregate demand, money, interest and price determination, analyze the policy implications of change in variables in Keynesian system, discuss the derivation of IS-LM framework and analyze policies using IS-LM framework.

Module III: Macroeconomic Theory after Keynes

After completing this module, the student is expected to be able to understand and discuss various reformulations of the quantity theory of money, discuss monetarist models and analyze policy effects under these assumptions, understand alternative explanations of output, inflation and unemployment, discuss various models of new Keynesian and new Classical macroeconomics and analyze policy implications therein.

Module IV: Open Economy Macroeconomics

After completing this module, the student should be able to describe the real and nominal exchange rates, how they are related, and how they change over time, explain the determination of exchange rate using a supply and demand framework, use the relationship between exchange rates and international trade to develop an open economy IS-LM model, discuss and analyze the international effects of domestic macroeconomic policies, and evaluate the strengths and weaknesses of different types of exchange rate systems.

Module V: Economic Policy

It is expected that after completing this module, the student should be able to discuss monetary policy making process, understand various views of fiscal policy making and goals.

6. Evaluation Scheme:

| EC No. | Components | Duration (Minutes) | Weightage (%) | Date of Evaluation |
|--------|-------------------------------|--------------------|---------------|---------------------|
| 1. | Mid-Semester Exam | 90 | 30 | 02/03 1.30 - 3.00PM |
| 2. | Quizzes (1&2) | 15 | 15 | TBA |
| 3. | Group Presentation/Assignment | NA | 15 | TBA |
| 4. | Comprehensive Exam. | 120 | 40 | 05/05 FN |

Chamber Consultation Hour: Every Thursday (10.00 AM – 11.00 AM)

Notices shall be displayed on only CMS.

Make-up policy: Make-up will be given only on Doctor's/Warden's recommendation and with prior (at least 01 day before the test/exam) permission of the Instructor-in-Charge/Instructor.

Academic Honesty and Integrity Policy: Academic honesty and integrity are to be maintained by all the students throughout the semester and no type of academic dishonesty is acceptable.

Instructor-In-charge

ECON F243