

INDIAN INSTITUTE OF MANAGEMENT, AHMEDABAD

Proposed course outline

Macroeconomics of India: an applied perspective

Instructor: Prof. Anindya S. Chakrabarti (Ext.-4385)

Intended audience: PGP-II, 2015-16 (term- VI, elective)

I. Course Description: This is a concise course on macroeconomics of India from an applied perspective. The objective is to build an overview of the current policy debates on the Indian economy and challenges ahead. The main take away for the participants would be broad assessment of a country's economic growth story with multitudes of factors and uncertainties surrounding its business environment.

The course participants will be introduced to the nuances of the Indian growth experience, unstable relationships between inequality and growth, heterogeneity of the Indian economy, boom in the service sector as a global phenomenon, fiscal and monetary policies in India in comparison to the developed world and finally India's transition to market democracy and its pitfalls.

For this, we rely to a great extent on analyzing economic data of multiple countries and consider various types of factors and channels that potentially affected the Indian economy (and the developing world in general). We will apply the fundamental models developed in the basic microeconomics (ME) and macroeconomics course (MEP) to equip the participants to understand the rapidly changing macroeconomic environment in India and formulate policy responses by taking cue from the global experience. It will be most useful for management professionals and consultants who are interested in the Indian economy.

II. Learning and evaluation: Lectures, discussions, group presentations and instructor approved individual projects.

III. Sessions: 15 (10 on the Indian experience with the backdrop of global economy + 5 on presentations)

IV. Evaluation: In-class quizzes (20%) + Group presentation (30%) + Individual project (40%) + Class participation (10%)

V. Note on group presentation: The topic needs to be chosen (see the topics enlisted for the last 5 sessions) and approved by the 4th session.

VI. Note on project: The topic needs to be chosen and approved by the 5th session. A preliminary draft with a specific question and literature review to be submitted by the 8th session. Draft with methodology and some data analysis (or theory, as you wish) to be submitted by the 12th session. The final draft has

to be submitted within a week of the end of the course. All drafts should be submitted in physical copies. No electronic files.

VII. References: There is no standard reference for this course. Handouts will be provided to all participants incorporating background information on the topics.

VIII. Session details:

Sessions	Topic and Readings
Session 1	<p>Introduction to the course. Why India? Relationship with the global economy? Challenges and opportunities. How to think of a growing economy? What causes growth?</p> <ul style="list-style-type: none">a. K. Basu, The enigma of India's arrival, Journal of economic literature (2008).b. P. Bardhan, Does globalization help or hurt the poor? Scientific American (2006).
Session 2	<p>Indian growth experience: a long-run perspective. What matters, business cycle or growth? What happened to US and Europe in the meantime? Collapse of trade in the last crisis. China: the new engine of growth?</p> <ul style="list-style-type: none">a. P. Bardhan, The Myths Floating around the Giantsb. Handout on business cycles for different countries will be provided.
Session 3	<p>Understanding fluctuations in macro variables: Do GDP and consumption in India and US fluctuate the same way? Policy implications.</p> <ul style="list-style-type: none">a. Handout on the linkage between savings and output will be provided.
Sessions 4	<p>Why do new technologies favor human-capital rather than substituting it as old technologies used to do? Service sector contributes a lot to GDP: but why did the boom occur? Is it a global phenomenon or India-specific?</p> <ul style="list-style-type: none">a. Handout on sector-specific growth process will be provided.
Session 5	<p>Does growth affect inequality or does inequality affect growth? How unequal are we in comparison to the rest of the world?</p> <ul style="list-style-type: none">a. Handout will be provided on Indian inequality vis-à-vis the rest of the world.
Session 6	<p>Poverty in India: Is growth the only cure? Comparative discussion on Dreze-</p>

	<p>Sen and Bhagwati-Panagariya.</p> <p>a. Handout will be provided summarizing key facts and figures.</p>
Session 7	<p>Labor markets in India: Formal vs. informal, urban vs. rural and gender-specific. Why is a rigid labor market bad? What are the causes of rigidity? Role of institutions.</p> <p>a. Handout will be provided on migration due to economic incentives.</p>
Session 8	<p>Stabilizing the Indian economy: fiscal and monetary policies through the prism of IS-LM model. India's problems: Financial inclusion and inflation. Monetary policies in the developed world. Lean against the wind?</p> <p>a. Handout will be provided on usage of the interest rate as the tool of the central bank.</p> <p>b. Recommended reading: K. Basu, <i>The Rise of the Indian Economy: Fiscal, Monetary and Other Policy Challenges</i>, R.I.d.E. (2012).</p>
Session 9	<p>India: an open economy. Spill-over effects from developed economies. What does open economy IS-LM model say? Navigating through global turmoil.</p> <p>a. Recommended reading: E. Prasad, <i>The World Economy: Bottoming Out or a Respite before the Next Crunch?</i></p>
Session 10	<p>Political economy in India: What type of</p> <p>(1) monetary (<i>central government vs. Reserve Bank of India</i>) and</p> <p>(2) fiscal (<i>central government vs. the opposition</i>) policies can be pursued?</p> <p>The bones of contention are (1) lowering interest rate in 2016 and (2) role of the state in industrialization for the period 2016-2018. Broad outline will be provided.</p>
Session 11	<p>Classroom discussion and presentations on why inequality persists. Interaction between economics and institutions. Lessons from history. Policy implications.</p> <p>a. Brief handout will be provided on how inequality in land-holding centuries ago affect today's inequality and growth.</p>

Session 12	<p>Classroom discussion and presentations on asking a seemingly obvious question: why are poor countries, well, poor? Role of democracy in development. Policy implications.</p> <ul style="list-style-type: none"> a. Handout will be provided summarizing some key facts of world-wide poverty and features of poverty in India. b. Recommended reading: D. Acemoglu, S. Naidu, P. Restrepo, J. A. Robinson, Democracy, Redistribution, and Inequality, Handbook of income distribution, Vol.- 2B (2015).
Session 13	<p>Classroom discussion and presentations on business cycle patterns: is India different from the rest of the world? Policy implications. What about other emerging markets? Do they provide any lessons? Is there a pattern in Data?</p> <ul style="list-style-type: none"> a. Key facts will be reviewed on macroeconomic volatility of India.
Session 14	<p>Classroom discussion and presentations on Indian growth process and Indian idiosyncrasies. How did we break the barrier of 2-3% rate of growth? Policy implications. A market-oriented approach to Indian growth process.</p> <ul style="list-style-type: none"> a. Recommended reading: D. Rodrik, A. Subramanian, From Hindu growth to productivity surge: the mystery of the Indian growth transition. IMF Staff Papers 52 (2), 193–228 (2005)
Session 15	<p>Classroom discussion and presentations on the relationship between inequality and policy effectiveness. Policy implications. Redistribution is a big issue in India. How helpful is it to reduce inequality? What does Indian data say? Independent of this policy debate, is this planet going towards more inequality or less?</p> <ul style="list-style-type: none"> a. Recommended reading: X. Sala-i-Martin, The World Distribution of Income: Falling Poverty and ... Convergence, Period, Quarterly Journal of Economics, 121 (2) 351-397 (2006).

Additional resources:

- a. O. Galor, J. Zeira, Income distribution and macroeconomics, *Review of Economic Studies*, 60 (1) 35-52 (1993).
- b. O. Galor, O. Moav, D. Vollrath, Inequality in Landownership, the Emergence of Human-Capital Promoting Institutions, and the Great Divergence, *Review of Economic Studies*, 76, 143-179 (2009).
- b. D. Acemoglu, J. Robinson, Why is Africa poor? Economic history of development regions, 25(1) 2010.
- c. M. Aguiar, G. Gopinath, Emerging market business cycles: The cycle is the new trend, *Journal of political economy*, 115 (1), 69-102 (2007).
- d. G. Ramey, V. A. Ramey, Cross-country evidence on the link between volatility and growth, *American Economic Review*, 85 (5) 1138-1151 (1995).
- e. C. Ghate, R. Pandey, I. Patnaik, Has India emerged? Business cycle stylized facts from a transitioning economy, *Structural change and economic dynamics*, 24, 157-172 (2013).
- f. P. Bardhan, D. Mukherjee, Determinants of Redistributive Politics: An Empirical Analysis of Land Reforms in West Bengal, India, *American Economic Review*, 100, 1572-1600 (2010).