Course Title	**Macroeconomics 1: Theories and Applications**		
Programme Title	**Master of Arts in Economics**		
Specialisation			
Mode	**M1**	**Level**	
Course ID		**Credits**	4
Course Type	Core	**Semester**	
Version	1.0	**Academic Year**	2023-24
Course Development Team	**Raghav Srinivasan**		

Rationale and Introduction

Macroeconomics 1: Theories and Applications is a core course in the MA Economics program. Macroeconomics is one of the two central planks of theory in Economics. This course will develop student's capabilities in macroeconomics theory and at the same time equip them to engage with fiscal and monetary policy debates in India.

Prerequisites

None

Intended Learning Outcomes

After successful completion of the course, the student will be able to

1. Understand the interrelation between real and financial spheres
2. Explain the mechanisms by which output, employment and inflation rate are determined in alternative macroeconomic theories.
3. Explain the key features and mechanisms of Monetary Policy in India
4. Identify alternative fiscal policy rules and their implications.
5. Explain the implication of alternative macroeconomic policy frameworks

Syllabus & Readings

This course aims to prepare the groundwork for the study of Macroeconomics. The course uses stock-flow accounting framework to introduce and analyse contending perspectives in macroeconomics. It equips the students with the alternative analytical frameworks that

underpin and inform macroeconomic policy making in the context of modern financialized economies. In addition to the traditional theories of the determination of key macroeconomic variables such as output, employment, and inflation, this course introduces frontier topics such as real economy-financial economy interaction through stock-flow accounting approach and also some of the analytical tools such as the 3-equation model for the analysis of monetary policy. The course is designed to serve as a foundational course for subsequent macro course such as Macroeconomics 2 (compulsory), Advanced Macroeconomics (elective) and Macroeconomics of Development (elective).

Unit name	Weeks
1. Macroeconomics through Stocks and Flows	1
2. Theories of output and employment	3
3. Theories of Inflation	2
4. Output, inflation and Monetary Policy in Closed Economy	2
5. Output, inflation and Monetary Policy in Open Economy	2
6. Fiscal Policy Analysis	2
7. Macroeconomic Policy Framework	1

Unit 1: Macroeconomics through Stocks and Flows

This unit introduces alternative ways of conceptualizing the macroeconomy. In particular, it describes the economy in the stock flow accounting framework to elicit contending perspectives in macroeconomics. The framework also introduces a way for the student to think about the interrelation between real and financial spheres that is discussed in the latter units.

Compulsory reading:
Godley, W. and Lavoie, M., 2006. *Monetary economics: an integrated approach to credit, money, income, production and wealth*. Springer. (Chapter 1)

Unit 2: Theories of Output and Employment
This unit picks up from the previous unit by using analytical models of determination of

output and employment in the short run. It examines the standard Neo-classical general equilibrium approach with the Keynesian and Post Keynesian theories of the determination of output and employment. The unit aims to contextualize the contending theories both methodologically and analytically elicit the substantive differences in terms of the saving-investment causality.

Compulsory readings:

1. Ross M. Starr, "General Equilibrium Theory: An Introduction"-Chapter 2 (supplemented with lecture notes)
2. Paul Davidson, "Post Keynesian Macroeconomic Theory: A Foundation for Successful Economic Policies for the 21st Century", (Chapter 1 and 5)
3. Amit Bhaduri, "Macroeconomics: Dynamics of Commodity Production in Capitalist Economies"(Chapter 3).
4. King, J.E. "Advanced Introduction to Post Keynesian economics" (Chapter 2)

Optional readings:

1. Hicks, J.R., 1937. Mr. Keynes and the" classics"; a suggested interpretation. *Econometrica: journal of the Econometric Society*, pp.147-159.
2. Dow, S., 2016. Uncertainty: a diagrammatic treatment. *Economics*, *10*(1).
3. Keynes, J.M., 1937. The "ex-ante" theory of the rate of interest. *The Economic Journal*, *47*(188), pp.663-669.
4. Kalecki, M., 1943. Political aspects of full employment. In *The political economy* (pp. 27-31). Routledge.

Unit 3: Theories of Inflation

This unit examines the contending macroeconomic theories of inflation. It discusses both the standard treatment of inflation via money supply, expectations etc., and the heterodox theories based on power, conflict and class struggle. The unit incorporates the labour market and integrates the analysis of inflation to the macroeconomic analysis of output via the Phillips curve. The general model, i.e., the 3-equation model, developed in this unit will provide a framework for the analysis of monetary policy and other open economy issues in the following chapters.

Compulsory readings:

1. Friedman, M., 1997. "The role of monetary policy" American Economic Review (1968) 58, March, pp. 1–17. In *A Macroeconomics Reader* (pp. 176-191). Routledge.

2. Lavoie, M., 2022. *Post-Keynesian economics: new foundations*. Edward Elgar Publishing. (Chapter 3.5-3.7 and 8)
3. Carlin, W. and Soskice, D.W., 2015. *Macroeconomics: Institutions, instability, and the financial system*. Oxford University Press, USA. (Chapters 2 and 3)

Optional readings:

1. Cagen's Model of Inflation in Raghavendra, S and Piiroinen, P (2023) *An Introduction to Economic Dynamics: Modelling, Analysis and Simulation*, Routledge.
2. Dallery, T. and Van Treeck, T., 2011. Conflicting claims and equilibrium adjustment processes in a stock-flow consistent macroeconomic model. *Review of Political Economy*, *23*(2), pp.189-211.
3. Snowdon, B. and Vane, H.R., 2005. *Modern macroeconomics: its origins, development and current state*. Edward Elgar Publishing.

Unit 4: Three-Equation Model-Closed Economy

The aim of the unit is to develop the three-equation framework for the monetary policy analysis in a closed economy setting. In particular, the framework will be used to examine policy issues such as inflation targeting and quantitative easing, both in the context of the recent US/European experiences and in the Indian context.

Compulsory reading:

1. Carlin, W. and Soskice, D.W., 2015. *Macroeconomics: Institutions, instability, and the financial system*. Oxford University Press, USA. (Chapters 4, 5, 6, and 13)
2. Raghbendra Jha (2008) Inflation targeting in India: issues and prospects, International Review of Applied Economics, 22:2, 259-270, DOI: 10.1080/02692170701880783.
3. Balakrishnan, P., 1994. How best to model inflation in India. *Journal of Policy Modeling*, *16*(6), pp.677-683.

Optional readings:

1. Boffinger, Mayer and Wollmershuser, "The BMW Model: A New Framework for Teaching Monetary Economics"
2. Marvin Goodfriend, "How the World Achieved Consensus on Monetary Policy
3. Urjit Patel Committee Report, Government of India.
4. 2. Balakrishnan, P. and Parameswaran, M., 2022. What lowered inflation in India: monetary policy or commodity prices?. *Indian Economic Review*, *57*(1), pp.97-111.

Unit 5: Three-Equation Model-Open Economy

The aim of the unit is to develop the three-equation framework for the monetary policy analysis in the open economy setting. The unit will build on the three-equation model to articulate an open economy framework for the understanding the impact of various issues such as inflation shocks, exchange rate volatility, oil shocks, and other issues relating to both the current and capital account in the balance of payments.

Compulsory readings:

1. Carlin, W. and Soskice, D.W., 2015. *Macroeconomics: Institutions, instability, and the financial system*. Oxford University Press, USA. (Chapters 9 and 10)
2. Lavoie, M., 2022. *Post-Keynesian economics: new foundations*. Edward Elgar Publishing. (Chapter 7)

Optional reading:

1. Hassan, T., & Zhang, T. (2017). The Economics of Currency Risk. National Bureau of Economic Research, Working Paper 27847.

Unit 6: Understanding Fiscal Policy

This unit introduces the analysis of fiscal policy, particularly the contending perspectives on the issue of debt, deficits and fiscal sustainability. The unit will apply some of these models to Indian economy to examine the informing principles of fiscal responsibility legislation (FRBM act, 2003) and an analysis of the macroeconomic impact of fiscal consolidation over the years.

Compulsory readings:

1. Carlin, W. and Soskice, D.W., 2015. *Macroeconomics: Institutions, instability, and the financial system*. Oxford University Press, USA. (Chapters 14)
2. Lerner, A. (1943). Functional finance and the federal debt. Social Research, 10(1), 38-51.

3. Buiter, W.H. and Patel, U.R., 1992. Debt, deficits, and inflation: An application to the public finances of India. *Journal of public Economics*, *47*(2), pp.171-205.

Optional readings:

1.Fullwiler, S. (2007). Interest rates and fiscal sustainability. Journal of Economic Issues, 41(4), 1003-1042.
2. Domar, E. (1944). The "Burden of the Debt" and the National Income. The American Economic Review, 34(4), 798-827.
3. Pasinetti, L. (1998). The myth (or folly) of the 3% deficit/GDP Maastricht 'parameter'. Cambridge Journal of Economics, 22(1), 103-116.

4. N.K Singh Committee Report

Unit 7: Macroeconomic Policy Framework (1 week)

This concluding unit provides an overview of alternative macroeconomic policy frameworks by bringing together the analysis of monetary policy and fiscal policy rules. In particular, this unit uses the contending policy frameworks of New Consensus and Functional Finance to contextualize the recent macroeconomic policy debates in India.

Compulsory readings:
1. Mason, J.W. and Jayadev, A., 2018. A comparison of monetary and fiscal policy interaction under 'sound' and 'functional' finance regimes, *Metroeconomica*, *69*(2), pp.488-508.

Optional readings:
1. Arestis and Sawyer, The New Consensus in Macroeconomics: A Critical Appraisal
2. Raghavendra, S., 2013. Economics, politics and democracy in the Age of credit-rating capitalism. *Economic and Political Weekly*, pp.34-38.

Pedagogy

The course will be taught as a mix of in-person lectures, informal discussion boards, and group readings and exercises. The teaching methods used in this course will be informed and underpinned by the principles of the Universal Design for Learning (UDL). Recognising the diversity in the student cohort and to stimulate an inclusive learning environment, I will provide multiple modes of engagement for student to achieve the learning outcomes using alternative ways of representing the content and providing students flexibility in various options to show their understanding and learning. In the test-based assessments, I will provide alternative options for students who might have difficulties in concentrating in a short-time frame exercises, on an individual case-by-case basis. The group-based exercises will be devised along these principles, which would provide a way for the students to learn in a collaborative manner as well as enhance their capabilities. In terms of coping with varying levels of mathematical background, I intend to offer small group tutorials and non-

class contact hours to help students to review early in the semester.

Assessment and Grading

There will be three open-notes exams. All the exams will be well spaced out throughout the semester and the timing will be announced well in advance. The open-notes exam format allows students to consult their class notes while completing the exam and provide the students an incentive to understand the content. This format also allows students to be tested on higher level learning and application skills which is the purpose of the course. The exams will test both the understanding of the theoretical frameworks and the analysis of such frameworks to analyse real world issues, such as interest rate targeting policy for inflation, real-financial economy interactions, particularly in the Indian economy context. The weights for each assessment and their relation to the ILOs are given in the following table.

Assessment Type	Weight	Intended Learning Outcome
Exam 1	20%	ILO 1,2
Exam 2	20%	ILO 2,3
Group work (with presentations)	35 %	ILO 2,3 4
Final exam	25 %	ILO 1,2,3,4