

Course Title	Intermediate Macroeconomics		
Programme Title	Bachelor of Arts		
Specialisation	Economics		
Mode	M1	Level	2
Course ID		Credits	3
Course Type	Core	Semester	2
Version	1.0	Academic Year	2021-22
Course Development Team	Alex Thomas, Arjun Jayadev, Zico Dasgupta, Srinivas Raghavendra		
Course Instructors	Zico Dasgupta, Srinivas Raghavendra		

Rationale and Introduction

This is a core course that builds on *Introduction to Economics 2* that is taught in the first year of the UG Programme. It provides an outline of macroeconomic theory and its evolution. The course primarily deals with the determinations and relations of four variables, namely: (i) Gross Domestic/National Product, (ii) Employment/unemployment, (iii) Price Level/Inflation-Deflation, and (iv) Balance of Payments and the exchange rate. The course is primarily designed to give exposure to the students of the developments in macroeconomic theory during the 20th century, particularly on the developments following Keynes' landmark publication of his *General Theory* book in 1936. The course will also introduce students to the macroeconomics of developing economies, referred to as in the literature as the 'structuralist macroeconomics'. Students will end by addressing some 'real world' issues in Indian macroeconomics: the debate on debt management, inflation targeting, and the relation with the international economy.

Learning Objectives

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

- (i) Review the developments in macroeconomic theory during the 20th century.
- (ii) Identify key differences in macroeconomic models that lead to different policy conclusions.
- (iii) Undertake analyses of policy implications of different macroeconomic models.
- (iv) Examine the macroeconomic policy framework in the Indian context

Syllabus & Readings

Students will use the relevant chapters of the following textbooks: Richard Froyen's *Macroeconomics: Theories and Policies*, Brian Snowden and Howard Vane's *Modern Macroeconomics* and Wendy Carlin and David Soskice's *Macroeconomics: Institutions, Instability and the Financial System*. As required, supplementary materials to be added on Moodle for specific units. The course consists of seven units covering broadly modern macroeconomic theory and debates between alternative strands. The duration of these units will be in the following order.

Unit name	Weeks (total: 15)
History and Institutions in Monetary Capitalist Economy	1
The Marginalist theory of saving and investment	2
Keynesian/Kaleckian theory of saving and investment	3
The Neoclassical synthesis: The IS-LM Model	3
The Post Keynesian alternative: Money and the Real Economy	2
Alternative Theories of Inflation	2
India's monetary and fiscal policy frameworks	1
Assessment week	1

Unit 1: History and Institutions in Monetary Capitalist Economy (1 week)

The first unit introduces key features of the institutions in a monetary capitalist economy with particular emphasis on India. This unit introduces the concept of the circular flow and national income accounting.

Week 1 Reading

Mandatory Reading

Amit Bhaduri, Macroeconomics Chapter 1

Optional Reading

National Account Statistics, CSO-Manual

Unit 2: The Marginalist theory of saving and investment (2 weeks)

This unit introduces the students to the Neoclassical framework for determining output,

employment, interest rate and prices. The key features of this framework are highlighted: (i) planned saving and investment are equilibrated through adjustment in interest rate and (ii) wages are determined by the marginal productivity of labour. The policy implications of this are subsequently discussed.

Week 2 Reading

Mandatory Reading

Brian Snowden and Howard Vane, *Modern Macroeconomics*, Chapter 2

Optional Reading

Richard Froyen, *Macroeconomics: Theories and Policies*, Chapter 3

Week 3 Reading

Mandatory Reading

William Mitchell and Randall Wray, *Macroeconomics* Chapter 11

Unit 3: Keynesian/Kaleckian theory of saving and investment (3 weeks)

This unit introduces the Keynesian Framework for determination of output, employment, interest rate and prices. The role of money and fundamental uncertainty is highlighted in this context. This unit outlines the central distinctions between the demand-side framework and the marginalist theories.

Week 4 Reading

Mandatory Reading

Richard Froyen, *Macroeconomics: Theories and Policies*, Chapter 5

Optional Reading

William Mitchell and Randall Wray, *Macroeconomics*, Chapter 12

Week 5 Reading

Mandatory Reading

Amit Bhaduri, *Macroeconomics*, Chapter 4-Section A and B

Unit 4: The Neoclassical synthesis: The IS-LM Model (3 weeks)

The unit introduces the IS-LM framework of Post-War period that was based on exogenous money supply. The IS-LM apparatus is employed to understand changes in macroeconomic economic outcomes when fiscal and monetary policy changes. The IS-LM model in the open economy setting will be explored including a discussion on the Balance of Payment system in Indian context.

Week 6 Reading

Mandatory Reading

Richard Froyen, *Macroeconomics: Theories and Policies*, Chapter 7

Week 7 Reading

Mandatory Reading

Richard Froyen, *Macroeconomics: Theories and Policies*, Chapter 8

Brian Snowden and Howard Vane, *Modern Macroeconomics*, Chapter 3

Week 8 Reading

Mandatory Reading

Richard Froyen, *Macroeconomics: Theories and Policies*, Chapter 15

Thomas Pugel, International Economics Chapter 15

Unit 5: The Post Keynesian alternative: Money and the Real Economy (2 weeks)

This unit introduces students to the endogenous money supply view. Through the analysis of balance sheets of banks and non-financial firms, this unit discusses the manner in which money is created and interest rate is determined in a modern monetary economy. The role of liquidity preference and monetary policy is discussed in this context. The ISLM model is reworked in the context of endogenous money supply.

Week 10 Readings

Mandatory Reading

Bank of England, Money creation

Optional Readings

Richard Froyen, *Macroeconomics: Theories and Policies*, Chapter 16

Week 11 Readings

Mandatory Reading

Thomas Palley, *Verticalism, Horizontalism and Structuralism*- Sections 1-5

Optional Readings

Marc Lavoie, *New Foundations of Post Keynesian Economics*, Chapter 4-Section 4.3 and 4.4

Unit 6: Alternative Theories of Inflation (2 weeks)

This unit introduces two distinct theories of inflation- the monetarist and the structuralist approach. In the first approach, inflation is caused by monetary factors and excess demand. In the

second approach, inflation rate is explained through the conflicting claims of different classes on output. Inflation rate can rise even in the midst of demand constraint. The topics of Phillips curve and NAIRU will be discussed in this context.

Week 12 Readings

Mandatory Reading

Richard Froyen, *Macroeconomics: Theories and Policies*, Chapter 10 &11

Brian Snowden and Howard Vane, *Modern Macroeconomics*, Chapter 4.1, 4.2, 4.3

Week 13 Reading

Mandatory reading

Wendy Carlin and David Soskice, *Macroeconomics: Institutions, Instability and the Financial System*, Chapter 2

Optional reading

Robert Blecker and Marc Setterfield, *Heterodox Macroeconomics*, Chapter 5.2.1, 5.2.2 and 5.2.3

Unit 7: India's monetary and fiscal policy frameworks (1 week)

Since the 1990s, modern macroeconomics has been dominated by the three-equation model which combines classical and 'Keynesian' features. The model serves to form the theoretical buttressing for many policies that remain key features of macroeconomic management (e.g. inflation targeting). India's present macroeconomic policy framework is discussed in this context.

Week 14 Reading

Mandatory reading

Wendy Carlin and David Soskice, *Macroeconomics: Institutions, Instability and the Financial System*, Chapter 3, Chapter 14

Pedagogy

The course will be taught as a mix of lectures and tutorials. The overall approach of the course will be in a debate format where we will compare and contrast different macroeconomic approaches to both theory and policy (with specific reference to India).

Assessment and Grading

There will be two quizzes (MCQs) and two open notes in person sit-in exams. All the exams

will be well spaced out throughout the semester. The open-notes exam format allows students to consult their class notes (no books, no laptops, no devices etc), which provides an opportunity to assess student's understanding of the content as opposed to testing their memory and recall capabilities that underpin the conventional time-bound closed exams. The open notes 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 application of such frameworks to analyse real world issues. All assignments and exams may involve short analytical answers, mathematical exercises, or short essay written responses. For those who fail to appear in these exams, alternative arrangement will be considered depending on the nature of the extenuating circumstances.

There will be a group assignment during the semester, In the group exercise, all groups will be given a list of questions to study and prepare as a group. Each group will submit their written work. The instructors reserve the right to cross examine the written content with any student in the groups to ensure there was no free-rider problem. Further, the written part will be accompanied by oral presentation of the group members. Each student will be randomly assigned a question from the list of questions and will be asked to elaborate their answer individually. Each student in all the groups will be assessed out of 100 and the average group score goes to everyone in the group. This group exercise is designed to help them work as a group and yet it provides them the space to showcase their individual creativity and expression. The instructors will be cognizant of gender division of labour in the group work and devise ways to avoid such practices and other issues that arise in such collaborative exercises in the group setting. All information and instructions will be discussed with the students well in advance before assignment of the group task. Finally, class participation and engagement will be encouraged by awarding a small percentage of total marks. The table below provides the details of the assessments and their relation to the ILOs.

Quiz 1 (MCQ)	8%	ILO 1& 2 (week 4)
Exam 1	25%	ILO 2 & 3 (week 7)
Quiz 2 (MCQ)	7%	ILO 1& 2 (week 10)
Exam 2	25%	ILO 2 , 3 & 4 (week 13)
Group assignment-written	20%	ILO 3 & 4 (week 15)
Oral presentation of individual	10%	ILO 2,3, & 4 (week 15)

students in all the groups		
Class participation	5%	