

TRIBHUVAN UNIVERSITY
FACULTY OF HUMANITIES AND SOCIAL SCIENCES



ECONOMICS

CURRICULUM FOR THREE YEAR BACHELOR LEVEL
PROGRAMME IN ECONOMICS

2065

ECONOMICS SUBJECT COMMITTEE
TRIBHUVAN UNIVERSITY, KIRTIPUR, KATHMANDU
NEPAL

COURSES OF STUDY FOR THREE YEAR B.A. IN ECONOMICS

2065

GENERAL INFORMATION

The objectives of this course are to acquaint the students with the knowledge in different aspects of micro and macroeconomics, public finance, international trade, development economics and recent development trends of developing countries, equip them with skills in quantitative techniques and generate knowledge and skills required for the job market.

Eligibility Criteria

Students willing to pursue higher education who have passed the Proficiency Certificate examination in the Faculty of Humanities and Social Sciences of Tribhuvan University (TU) or the Higher Secondary School Examination of Education Board of HMG (or 10+2) or equivalent examination from any institution recognised by TU or any other equivalent examination or any examination approved by the Faculty Board on the recommendation of the Subject Committee can apply for admission to three year bachelor course. The students shall get admitted if they succeed to pass the entrance test to be held in different campuses. Students, fulfilling these requirements, shall have to take Economics as a major subject.

Duration of the Course

The duration of the course in Economics for bachelor course is of three years and there will be a university examination at the end of each year. An academic year will consist of 150 teaching days. Each paper of 100 marks will have 150 lecture hours of 50 minutes. The minimum number of attendance days required is 70% of the total teaching in order to qualify for appearing at the annual examinations.

Examination

For the course of Economics in B. A. Level, examination will be taken by papers each year. The students must secure 35 marks in each paper in annual examination.

Course Structure

A student shall have to take five compulsory papers and one functional paper in Economics. The course cycle shall be as follows:

COURSE STRUCTURE

Paper	Code Number				
I	Eco.311	Microeconomics	First Year Paper		Full Marks
II	Eco.312	Mathematics and Statistics for Economics	Second Year Papers	100	
III	Eco.313	Macroeconomics		100	
			Third Year Papers	100	
IV	Eco.314	Public Finance, Financial System and International Trade		100	
V	Eco.315	Development Economics and Nepalese Economy		100	

MICRO ECONOMICS

ECO.311

Paper: I
Full Marks: 100
Pass Marks: 35
Year: I

OVERALL OBJECTIVE

The students will be able to understand and explain the concept, uses, methods and tools of micro economics; theories of demand and supply, production, firm and distribution; determination of equilibrium levels of prices and output under different markets; concepts of simple general equilibrium model and economic welfare; and applications of basic microeconomic tools in economic analysis.

SPECIFIC OBJECTIVES

The specific objectives of Microeconomics curriculum are to enable the students to understand:

- concepts of central economic problem, micro and macroeconomics; scope, uses, types, limitations and methods of microeconomics
- basic concepts of demand and supply and cardinal and ordinal approaches to the study of utility
- concepts of short and long run laws of production, isoquants, optimal combination of inputs and outputs and linear programming
- concepts of firms, industry, revenue and revenue curves and short run and long run cost curves and profit maximisation principles
- how firms and industries operating under perfectly competitive market determine equilibrium prices and output in the short run and long run
- determination of equilibrium price and output under monopoly and discriminating monopoly
- concepts and features of monopolistic competition and oligopoly
- basic concept of factor employment and pricing
- concepts of partial and general equilibrium analysis, efficiency in exchange and production, concept of social welfare function and social welfare implications of perfect competition and monopoly

UNIT I: INTRODUCTION (10 lectures)

- 1.1 Brief introduction to the central economic problem
- 1.2 Concepts and subject matter of microeconomics and macroeconomics and their distinctions
- 1.3 Types of microeconomic analysis: micro-static, comparative micro-static and micro-dynamics
- 1.4 Interdependence of microeconomics and macroeconomics
- 1.5 Positive and normative economics: concepts and distinctions
- 1.6 Uses of microeconomics
- 1.7 Limitations of microeconomics
- 1.8 Methods of economics: concepts and uses of deductive and inductive methods

UNIT II: THEORY OF DEMAND & SUPPLY (25 lectures)

- 2.1 Demand
 - 2.1.1 meaning of demand function, market price and demand curve
 - 2.1.2 elasticity: price, income and cross
 - 2.1.3 measurements of price (outlay, point and arc), income and cross elasticities
 - 2.1.4 uses and determinants of elasticity
- 2.2 Supply
 - 2.2.1 concepts of supply function and supply curve
 - 2.2.2 elasticity of supply and its measurement
 - 2.2.3 Interaction of demand and supply and determination of equilibrium price and quantity
- 2.3 Cardinal utility analysis
 - 2.3.1 meaning and assumptions
 - 2.3.2 consumer's equilibrium (one-commodity and two-commodity cases)
 - 2.3.3 derivation of demand curve
 - 2.3.4 limitations
- 2.4 Ordinal utility analysis
 - 2.4.1 meaning, assumptions and scale of preference
 - 2.4.2 indifference curves: properties and indifference map
 - 2.4.3 budget line and consumer's equilibrium
 - 2.4.4 the effects of changes in price and income on consumer's equilibrium
 - 2.4.5 decomposition of price effect into income and substitution effect (Hicksian approach)
 - 2.4.6 inferior goods and Giffen paradox
 - 2.4.7 applications: effects of tax and subsidy to the consumer with the help of indifference curve

UNIT III: THEORY OF PRODUCTION (25 lectures)

- 3.1 Brief introduction to the factors of production
- 3.2 Production function: meaning and its theory
 - 3.2.1 short-run production function
 - 3.2.2 long-run production function
- 3.3 Basic concept of linear programming (graphical method)

UNIT IV: THEORY OF THE FIRM (10 lectures)

- 4.1 Brief introduction to the features of the various forms of market structure
- 4.2 Revenue and revenue curves: concepts, derivation of revenue curves and relationship between average revenue and marginal revenue under perfectly competitive and imperfect markets
 - 4.3 Meaning of cost
 - 4.4 Traditional and modern approaches to the cost curves (short run and long cost curves)
 - 4.5 Concepts of the firm and industry
 - 4.6 The profit maximization principles

UNIT V: PRICING UNDER PERFECTLY COMPETITIVE MARKET (13 lectures)

- 5.1 Price and output determination under perfectly competitive market
- 5.2 Short run equilibrium of the firm and industry
- 5.3 Adjustment of prices and output in disequilibrium

- 5.4 Long run equilibrium of the firm and industry
- 5.5 Short run and long run supply curves of the firm and industry
- 5.6 Applications: effects of imposition of sales tax and subsidy on the equilibrium position of the perfectly competitive industry

UNIT VI: PRICING UNDER MONOPOLY (10 lectures)

- 6.1 Revenue curves of a monopolist
- 6.2 Short run and long run price and output determination
- 6.3 Comparison between monopoly and perfect competition
- 6.4 Discriminating monopoly: price and output determination
- 6.5 Applications: effects of monopoly and perfectly competitive pricing on consumer's surplus under conditions of constant and increasing costs

UNIT VII: PRICING UNDER IMPERFECT COMPETITION (12 lectures)

- 7.1 Monopolistic competition: features, individual and group equilibrium
- 7.2 Oligopoly: features, cartels aiming at joint profit maximization

UNIT VIII: DISTRIBUTION: FACTOR EMPLOYMENT AND PRICING (30 lectures)

- 8.1 Input demand curves of a competitive firm and industry.
- 8.2 Supply of inputs
- 8.3 Determination of equilibrium price and employment of inputs
- 8.4 Input demand curve of a monopolist
- 8.5 Monopsony: meaning, equilibrium price and employment determination with single and multi-variable inputs
- 8.6 Wage: marginal productivity theory of wage, income-leisure choice of the worker, concepts of collective bargaining and minimum wage fixation
 - 8.6.1 marginal productivity theory of wage
 - 8.6.2 income-leisure choice of the worker
 - 8.6.3 concepts of collective bargaining and minimum wage fixation
- 8.7 Rent: modern theory of rent
- 8.8 Interest: liquidity preference and modern theory
 - 8.8.1 liquidity preference
 - 8.8.2 modern theory of interest
- 8.8.2 Profit: innovation and dynamic theory
 - 8.8.3 innovation theory of profit
 - 8.8.4 dynamic theory of profit
- 8.9 Applications: impacts of unions on equilibrium wage rate and employment

UNIT IX: GENERAL EQUILIBRIUM AND WELFARE ECONOMICS (15 lectures)

- 9.1 Meaning of partial and general equilibrium analysis
- 9.2 2x2 general equilibrium model—efficiency in exchange and production (Edgeworth box diagram)
- 9.3 Concept of social welfare function
- 9.4 Applications; social welfare implications of monopoly and perfect competition in terms of efficiency in production and exchange

BASIC REFERENCES

[BROWNING(01+)]

Browning E. K. and J. M. Browning (2001). **Microeconomic Theory and Applications**, 2nd edition, Kalyani Pub, New Delhi

- [CASE04+] Case, Karr E. and Ray C. Fair (2004). *Principles of Economics*, 6th ed., Prentice Hall, India.
- [GOULD03+] Gould J. P. and Edward Lazear J. (2003). *Microeconomic Theory*, 6th ed., All India Traveller Book Sellers, Delhi.
- [KOUTSOYANNIS91] Koutsoyannis, A. (1991). *Modern Microeconomics*, Low priced 2nd ed., ELBS, Hong Kong.
- [LIPSEY04+] Lipsey Richard G. and K. Alec Crystal (2004). *Economics*, 10th edition, Oxford University Press, New Delhi.
- [SALVATORE03] Salvatore, Dominick (2003). *Microeconomics: Theory and Applications*, Oxford University Press, New Delhi.
- [SLOMAN04] Słoman John (2004). *Economics*, 3rd edition, Prentice Hall of India, New Delhi.

SUPPLEMENTARY READINGS

- [AHUJA04] Ahuja, H.L (2004). *Advanced Economic Analysis*, S. Chand and Co., 14th edition, New Delhi.
- [CHARLES92+] Charles, Rice S. & O. R. Phillips (1992). *Economic Analysis: Theory and Applications*, 3rd Indian Reprint, Universal Book Stall, New Delhi.
- [CHOPRA97] Chopra, P. N. (1997). *Principles of Economics*, Kalyani Publishers, Delhi.
- [COLANDER01] Colander, David C. (2001). *Economics*, 4th ed., McGraw-Hill, New Delhi.
- [JHINGAN04] Jhingan, M.L. (2004). *Microeconomic Theory*, 5th ed., Vrinda Publications (P) Ltd., 2004, Delhi.
- [NEPAL57+] Nepal, Mani and Prakash Adhakari; (2007). *A Course in Economics*, Taleju Prakashan, Kathmandu
- [SALVATORE04] Salvator Dominick (2004). Schaum's outlines of *Theory and Problems of Microeconomic Theory*. 3rd edition, Tata McGraw-Hill, New Delhi.
- [STONIER90+] Stonier, Alfred W. and Douglas C. Hague (1990). *A Text Book of Economic Theory*, 5th ed., Longman, London.
- [WATSON00+] Watson, Donald Stevenson and Malcolm Getz (2000). *Price Theory and its Uses*, 5th ed., ATBS, New Delhi.

MATHEMATICS AND STATISTICS FOR ECONOMICS

ECO.312

Paper: II
Full Marks: 100
Pass Marks: 35
Year: II

OVERALL OBJECTIVE

The students will be able to understand and explain the importance of mathematics and statistics in economics, concepts and techniques of differentiation, integration, matrix algebra, measuring dispersion, moments, skewness, kurtosis, probability theory, correlation, regression, index numbers, time series analysis and apply them in economics.

SPECIFIC OBJECTIVES

The specific objectives of Mathematics and Statistics curriculum are to enable the students to:

- understand the role of mathematics and statistics in economics and apply some basic techniques in linear models.
- understand and solve the problems of calculus including functions, limit and continuity.
- understand and apply the concepts and techniques of derivative and maxima and minima of functions in economic analysis
- understand the basic concept of probability
- understand and apply partial derivatives and optimisation principle
- understand and apply techniques of correlation and regression
- understand and solve problems of integration and dynamic analysis in economics.
- acquaint with the concepts of determinants and matrices
- acquaint with the concept and measures of dispersion, moments, skewness and kurtosis and enable them to apply in economics
- measure seasonal variation in economic variables and estimate linear and non-linear trend curves.
- construct the index numbers of prices and output.

GROUP A: MATHEMATICS

UNIT I: INTRODUCTION (5 lectures)

- 1.1 Role of mathematics and statistics in economic analysis
- 1.2 Scope and application of mathematics and statistics in the field of economics

- 1.3 Review of some fundamental techniques: simple linear economic models

UNIT II: CALCULUS: FUNCTIONS, LIMIT, CONTINUITY (8 lectures)

- 2.1 Functions
- 2.2 Limits and limiting values
- 2.3 Continuity of a function

UNIT III: CALCULUS: FUNCTIONS OF ONE VARIABLE (10 lectures)

- 3.1 Derivative and its meaning

- 3.2 Techniques of differentiation and economic applications
- 3.2.1 techniques of differentiation
- 3.2.2 economic applications
- 3.3 Maxima and minima of functions and their economic applications
- 3.3.1 maxima and minima of functions
- 3.3.2 economic applications

UNIT IV: CALCULUS: FUNCTIONS OF MORE THAN ONE VARIABLES - UP TO 3 VARIABLES (15 lectures)

- 4.1 Partial derivatives and their economic applications
- 4.1.1 Partial derivatives
- 4.1.2 Economic applications
- 4.2 Homogeneous functions and Euler's Theorem
- 4.3 Unconstrained and constrained optimisation and economic application
- 4.3.1 Unconstrained optimisation
- 4.3.2 Constrained optimisation
- 4.4 Lagrange multiplier method
- 4.5 Economic application: consumer's behaviour and producer's behaviour

UNIT V: CALCULUS: INTEGRATION AND DYNAMIC ANALYSIS (15 lectures)

- 5.1 Concepts of indefinite and definite integrals
- 5.2 Techniques of integration: indefinite and definite, and their applications in economics
 - 5.2.1 Indefinite integral
 - 5.2.2 Economic application of indefinite integral
 - 5.2.3 Definite integral
 - 5.2.4 Economic application of definite integral
- 5.3 Dynamic analysis: differential equation (with constant coefficient) and difference equation of first order and first degree and their applications in economics
 - 5.3.1 Differential equations
 - 5.3.2 Economic application of differential equation
 - 5.3.3 Difference equations
 - 5.3.4 Economic application of difference equation
 - 5.3.4.1 Cobweb model
 - 5.3.4.2 Income determination model

UNIT VI: DETERMINANTS AND MATRICES (15 lectures)

- 6.1 Determinants of a matrix using Laplace expansion method
- 6.2 Inverse of a matrix and its calculation
- 6.3 Rank of a matrix and its determination
- 6.4 Applications: solutions of a systems of linear equations using economic variables

GROUP B: STATISTICS

UNIT VII: MEASURES OF DISPERSION (10 lectures)

- 7.1 Concept of dispersion
- 7.2 Standard deviation, variance and coefficient of variation
- 7.3 Concept of Lorenz curve and Gini coefficient

UNIT VIII: MOMENTS, SKEWNESS, AND KURTOSIS (10 lectures)

- 8.1 Concept of moments
- 8.2 First four moments about origin, arithmetic mean and arbitrary mean
- 8.3 Concepts of skewness and kurtosis and their measurement in terms of moments

UNIT IX: ELEMENTARY PROBABILITY THEORY (20 lectures)

- 9.1 Concept of events and probability
- 9.2 Addition and multiplication theorems
- 9.3 Conditional probability
- 9.4 Random variables
- 9.5 Probability distribution: mean and variance
- 9.6 Binomial and normal distribution
 - 9.6.1 Binomial distribution
 - 9.6.2 Normal distribution

UNIT X: CORRELATION AND REGRESSION (18 lectures)

- 10.1 Covariance and correlation coefficient
- 10.2 Rank correlation
- 10.3 Simple linear regression
- 10.4 Method of least squares
- 10.5 Goodness of fit measure in terms of correlation coefficient
- 10.6 Use of the regression equations for forecasting
- 10.7 Applications: estimation of coefficients of correlation and regression using economic variables

UNIT XI: ANALYSIS OF TIME SERIES (8 lectures)

- 11.1 Components of time series
 - 11.1.1 Measurement of seasonal variation (moving average) using data published by CBS, NRB, MOF, MOA and other sources
 - 11.2 Fitting a linear and non-linear trend curves using least squares method
- 12.1 Importance and difficulties in the construction of index number
- 12.2 Laspeyres, Paasche, and Fisher's Ideal index numbers and fixed base index numbers
- 12.3 Time and factor reversal tests

UNIT XII: INDEX NUMBERS (12 lectures)

- 12.1 Importance and difficulties in the construction of index number
- 12.2 Laspeyres, Paasche, and Fisher's Ideal index numbers and fixed base index numbers
- 12.3 Time and factor reversal tests

UNIT XIII: INTRODUCTION TO RESEARCH (4 lectures)

- 13.1 Definition of research
- 13.2 Objectives and major steps in research
- 13.3 Types of research: pure and applied, qualitative and quantitative
- 13.4 Uses of statistics in research in economics

BASIC REFERENCES

[ARCHIBALD97+]

Archibald, G. C. and Richard G. Lipsey (1997). An Introduction to A Mathematical Treatment of Economics, 3rd ed., ATBS Publisher and Distributer, Delhi

[DOWLING01]

Dowling, E. T. (2001). *Introduction to Mathematical Economics*, 3rd ed., Schaum's Outline Series, McGraw-Hill, New Delhi

[MONGA00]

Monga, G. S. (2000) *Mathematics & Statistics for Economics*, 2nd revised ed., Vikas Publishing House, New Delhi

[PANT54+]

Pant, G.D, and A. K. Chaudhari (2054). *Mathematics for Economics*, Nepal Sahitya Prakashan, Kathmandu
Pant, G.D, and A. K. Chaudhary (2053). *Statistics for Economics*, Nepal Sahitya Prakashan, Kathmandu

SUPPLEMENTARY READINGS

[ALLEN00]

Allen, R. G. D. (2000). *Mathematical Analysis for Economists*, McMillan, Delhi
Bajracharya, Bhanu Chandra and Prakash Shakya (2006). *Mathematics & Statistics for Economis*, M.K. Publishers & Distributors, Kathmandu
Gupta, S. P. (2004). *Statistical Methods*, 32nd ed. Sultan Chand and Sons, New Delhi
Spiegel, Murray R. (1992). *Theory and Problems of Statistics*, 2nd ed., Schaum's Outline Series, McGraw-Hill Book Company, New Delhi

OVERALL OBJECTIVE

The students will be able to understand and explain, the concepts of macroeconomics and macroeconomic policies and its applications in macroeconomic analysis; national income and its measurement difficulties; classical and Keynesian theories of equilibrium levels of income, output and employment determination; monetary policy; determination of equilibrium rate of interest and income in goods and money markets; inflation; theories of business cycles; concepts of economic growth, development and welfare and basic features of Harrod and Domar models.

SPECIFIC OBJECTIVES

The specific objectives of Macroeconomics curriculum are to enable the students to understand:

- development of macroeconomics, concept of basic macroeconomic terms, scope of macroeconomic policies and their application in national planning
- product, income and expenditure approaches to measuring National Income account and their difficulties and mechanism of expenditure and income in a two sector economy,
- functioning of Classical macroeconomics of income determination.
- working of Keynesian macroeconomics and enable them to compare it with classical macroeconomics
- significance of money, concepts and instruments of monetary policy, quantity theory of money and Keynesian approaches to demand for and supply of money
- concept of equilibrium in product and money markets and Hicks-Hansen approach to the determination of general equilibrium in product and money markets
- concepts of inflation and deflation, causes of inflation and measures to control the inflationary pressure
- concept of business cycle, its basic theories and measures to control business cycle
- concepts of economic growth and its measurement, concepts of development and welfare and the basic features of Harrod-Domar growth model.

UNIT I: INTRODUCTION (10 lectures)

- 1.1 Brief introduction to the development of macroeconomics and its importance
- 1.2 Basic terms and concepts: stock and flow variables, equilibrium and disequilibrium, static and dynamic analysis
- 1.3 Macroeconomic policies: meaning and importance of employment, fiscal, monetary, trade and foreign exchange policies
- 1.4 Applications of macroeconomic policies in national planning

UNIT II: NATIONAL INCOME (15 lectures)

- 2.1 National Income: Methods of measurements and difficulties.
- 2.2 The economy as a circular flow of income and expenditures: two sector model

UNIT III: CLASSICAL MODEL OF INCOME DETERMINATION (15 lectures)

- 3.1 Basic assumptions: full employment, Say's Law of Markets and quantity theory of money
- 3.2 Meaning of aggregate production function and demand for and supply of labour
- 3.3 Determination of equilibrium levels of employment, output and prices with and without saving and investment
- 3.4 Critical evaluation of classical model
- 3.5 The dichotomy between real and monetary sectors

UNIT IV: KEYNESIAN MACROECONOMICS (30 lectures)

- 4.1 Summary of Keynesian macroeconomics
- 4.2 Principle of effective demand: meaning and components
- 4.3 Consumption Function
 - 4.3.1 concepts of consumption function and Keynes' psychological law of consumption
 - 4.3.2 derivation of consumption function schedules and concepts of short and long run consumption function.
 - 4.3.3 average propensity to consume, marginal propensity to consume and their relationship.
 - 4.3.4 determinants of consumption function (subjective and objective factors).
- 4.3.5 measures to raise consumption function.
- 4.4 Saving function – meaning, average propensity to save, marginal propensity to save and their relationships
- 4.5 Investment
 - 4.5.1 meaning and importance
 - 4.5.2 meaning of investment function
 - 4.5.3 determinants of investment- net present values, marginal efficiency of capital & investment and the rate of interest.
- 4.5.4 measures to promote investment.
- 4.6 Equilibrium levels of income and output: Détermination of equilibrium levels of income and output in a two sector economy (aggregate demand-aggregate supply and saving-investment approaches).
- 4.7 Multiplier
 - 4.7.1 shift in the aggregate demand function
 - 4.7.2 meaning and derivation of simple multiplier
 - 4.7.3 process of income propagation
 - 4.7.4 derivation of super-multiplier
 - 4.7.5 uses, leakages and injections, and limitations of multiplier
 - 4.7.6 principle of accelerator: meaning, process and its limitations
- 4.8 Comparison of Keynesian and classical models
- 4.9 Relevance of Keynesian economics in developing countries

UNIT V: MONETARY THEORY (25 lectures)

5.1 Significance of money in subsistence economy, transition economy and modern economy.

5.2 Monetary Policy: Meaning, objectives, instruments and limitations

5.3 The Quantity Theory of Money

5.3.1 transaction equation of exchange

5.3.2 income flow equation of exchange

5.3.3 cash balance equation of exchange

5.3.4 distinction between these approaches

5.4 Saving, investment and rate of interest

5.4.1 saving and investment

5.4.2 flexibility of rate of interest

5.4.3 derivation of saving and investment schedules

5.4.4 determination of equilibrium level of rate of interest, saving and investment

5.5 Keynesian approach to demand for and supply of money

5.5.1 transaction, precautionary and speculative demand for money

5.5.2 supply of money: sources M1, M2, M3, M4

5.5.3 money multiplier

5.5.4 Liquidity preference theory of interest rate determination

5.5.5 liquidity Trap

UNIT VI: INCOME DETERMINATION MODEL - HICKS-HANSEN APPROACH (15 lectures)

6.1 Determination of equilibrium levels of income and interest in product market and derivation of IS Curve

6.2 Determination of equilibrium levels of income and interest in money market and derivation of LM Curve

6.3 Determination of general equilibrium in product and money market

UNIT VII: INFLATION (15 lectures)

7.1 Distinction between inflation and deflation and kinds of inflation

7.2 Methods of measuring the rate of inflation

7.3 Theories of Inflation: demand-pull and cost-push inflation (aggregate demand and aggregate supply approaches).

7.4 Meaning of inflationary gap and deflationary gap

7.5 General Causes of Inflation

7.6 Economic Effects of Inflation

7.7 Anti-inflationary Measures

UNIT VIII: BUSINESS CYCLE (15 lectures)

8.1 Meaning and Types.

8.2 Phases of business cycles

8.3 Business Cycle Theories: meaning of Schumpeter's innovation theory, Hawtrey's monetary theory and Hayek's monetary overinvestment-theory

8.4 Measures to control business cycle

UNIT IX: ECONOMIC GROWTH (10 lectures)

9.1 Concepts of economic growth, development and welfare

9.2 Measures of economic growth

9.3 Basic features of Harrod-Domar growth model

BASIC READINGS

- [AHUJA03] Ahuja, H.I. (2003). *Macroeconomic Theory and Policy*, S. Chand & Company Ltd, New Delhi
- [DWIVEDI01] Dwivedi, D.N. (2001). *Macro Economics, Theory and Policy*, Tata McGraw Hill Publishing Company Limited, New Delhi
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- [SETH96] Seth, M.L. (1996). *Monetary Economics*, 13th Ed., Laxmi Narain Agarwal (Publisher), Agra, India

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- [DIULIO97] Diulio, Eugene (1997). *Macro Economics*, 3rd ed., McGraw Hill, Delhi
- [GUPTA01] Gupta, G.S. (2001). *Macroeconomic Theory and Applications*, Tata McGraw Hill Publishing Company Ltd, Delhi
- [SAMUELSON03+] Samuelson, P. A. and W. D. Nordhaus (2003). *Economics*, 17th ed., Tata McGraw Hill, New Delhi
- [SETH01] Seth, M.L. (2001). *Macro Economics*, 21st Ed., Laxmi Narain Agarwal (Publisher), Agra, India
- [VAISH03] Vaish, M.C. (2003). *Macroeconomic Theory*, 12th Revised ed., Vikas Publishing House, New Delhi

OVERALL OBJECTIVE

The students will be able to understand and explain, the concepts of public finance, principles of public expenditure, revenue and borrowing, and their role in developing countries; role of fiscal policy; process of budget formulation; role of public enterprises in developing countries; concept of financial system; principles of commercial and central banking; concept of non-banking financial institutions and theories of international trade

SPECIFIC OBJECTIVES

The specific objectives of Public Finance, Financial System and International Trade curriculum are to enable the students to understand:

- basic concepts and importance of public finance
- principles and causes for the growth of public expenditure and economic effects of public expenditure
- basic concept of public revenue with respect to sources of tax and non-tax revenue and principle of taxation
- concept of public borrowing, its effects and management
- concept, objectives and instruments of fiscal policy and its role with reference to developing country
- concept of government budget, budgeting and deficit financing
- concept, role, principles of price and output policies of the public enterprises
- concepts of financial system and financial market
- principles of commercial banking, and concepts of assets, liabilities and portfolio management of the commercial banks
- basic principles of currency and banking role of central bank
- concepts of non-banking financial institutions
- basic concept of the theory of international trade, concepts of balance of payments and terms of trade, exchange rate, methods of exchange control and concepts of privatisation, globalisation and objectives of WTO & SAFTA

GROUP A: PUBLIC FINANCE

UNIT I: CONCEPT OF PUBLIC FINANCE (5 lectures)

- 1.1 Classical and Keynesian concepts of public finance
- 1.2 Role of public finance in developing countries

UNIT II: PUBLIC EXPENDITURE (15 lectures)

- 2.1 Principles of public expenditure
- 2.2 Causes for the growth of public expenditure
- 2.3 Economic effects on production, employment, stability, growth and distribution of income and wealth

UNIT III: PUBLIC REVENUE (20 lectures)

- 3.1 Tax revenue
 - 3.1.1 concepts of impact, shifting, incidence, capitalization and transformation of tax
 - 3.1.2 process of tax shifting
 - 3.1.3 determinants of tax shifting and incidence
 - 3.1.4 classification of tax: direct, indirect and international
 - 3.1.4.1 direct tax
 - 3.1.4.2 indirect tax
 - 3.1.4.3 international classification
 - 3.1.5 theories of taxation: benefit principle and ability to pay principle
 - 3.1.5.1 benefit principle:
 - 3.1.5.2 ability to pay principle
 - 3.1.6 effects of taxation: production, distribution and others
- 3.2 Non-tax revenue: fines, fees, duties (special assessment), sale of government properties, royalties and others

UNIT IV: PUBLIC DEBT (15 lectures)

- 4.1 Concept of borrowing and debt: classification of public debt
- 4.2 Theories of borrowing: classical and Keynes
- 4.3 Effects of public borrowing with special reference to developing countries
- 4.4 Management of public debt

UNIT V: FISCAL POLICY (10 lectures)

- 5.1 Concepts, objectives and instruments
- 5.2 Role of fiscal policy in developing countries

UNIT VI: GOVERNMENT BUDGET (10 lectures)

- 6.1 Concept, components and classification of budget and their effects
- 6.2 Components of a budget
- 6.3 Budget formulation, implementation and evaluation
- 6.4 Deficit financing: concept, objectives and effects

UNIT VII: PUBLIC ENTERPRISES (10 lectures)

- 7.1 Concept and role of public enterprises in developing countries
- 7.2 Principles of price and output policies: break-even approach, marginal cost pricing, average cost pricing and profit making

GROUP B: FINANCIAL SYSTEM**UNIT VIII: BACKGROUND OF FINANCIAL SYSTEM (15 lectures)**

- 8.1 Development of financial system
- 8.2 Money, share and capital markets: features and role in developing countries

UNIT IX: COMMERCIAL BANKING (10 lectures)

- 9.1 Principles of commercial banking
- 9.2 Assets and liabilities of commercial banks
- 9.3 Portfolio management and its principles
- 9.4 Credit creation process

UNIT X: CURRENCY AND BANKING PRINCIPLES (10 lectures)

- 10.1 Principles of note issue
- 10.2 Credit control: objectives and instruments
- 10.3 Role of central bank in economic development

UNIT XI: NON-BANKING FINANCIAL INSTITUTIONS (15 lectures)

- 11.1 Formal Sector: characteristics and role of development banks including insurance and financial companies
- 11.2 Informal sector: characteristics and role of individual and group money lender

GROUP C: INTERNATIONAL TRADE

UNIT XII: THEORIES OF INTERNATIONAL TRADE (15 lectures)

- 12.1 Heckscher-Ohlin theory
- 12.2 Balance of trade and terms of trade
- 12.3 Balance of payments: causes of disequilibrium and methods of adjustment
- 12.4 Theories of exchange rate: determination of equilibrium exchange rates under floating and fixed exchange rate system
- 12.5 Methods of exchange control
- 12.6 Concept of privatization, liberalization and objectives of World Trade Organisation (WTO) and South Asian Free Trade Area (SAFTA)

BASIC REFERENCES

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- [DUE02+] Due, John F. and Ann F Friedlaender; (2002). *Government Finance: Economics of the Public Sector*, AFBBS, Delhi
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- [SING04] Sing, S. K. (2004). *Public Finance in Theory and Practice*, S. Chand & Co. Ltd, New Delhi

SUPPLEMENTARY READINGS

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- [BISTA61] Bista, Bal Govinda (2001). **Public Enterprise Management and Social Responsibility**. Pairabi Prakashan, Kathmandu
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- [PAUL92] Paul, R. R. (1992). **Monetary Economics**, Kalyani Publishers, New Delhi
- [PREST95] Prest, A. R. (1995). **Public Finance in Developing Countries**, EBBS, Weidenfeld and Nicolson, London
- [SCHUURMAN01+] Schuurman, F. J. (ed.) (2001). **Globalization and Development Studies: Challenges for the 21st Century**, Visaar publications, New Delhi
- [SHRESTHA01] Shrestha, A. P. (2001). **WTO Globalization and Nepal**, NEFAS, Kathmandu
- [SHRESTHA02+] Shrestha, Shyam K. and Baral Nirajan (2002). **WTO South Asia and Nepal**, Book Palace, Kathmandu
- [VAISHH02+] Vaish, M. C. and Sudama Singh (2002). **International Economics**, Oxford and IBH Pub., New Delhi
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DEVELOPMENT ECONOMICS & NEPALESE ECONOMY

ECO.315

Paper: V

Full Marks: 100

Pass Marks: 35

Year: III

OVERALL OBJECTIVE

The students will be able to understand and explain the concept of development; historical perspectives and determinants of development; issues in development; concept of development planning; features of economic systems; characteristics and issues related to various aspects of Nepalese economy and the development performance of Nepal during the previous plan periods and the features of the current plan of Nepal.

SPECIFIC OBJECTIVES

The specific objectives of Development Economics and Nepalese Economy curriculum are to enable the students to understand:

- need for the study of development economics, features of developing economies and yardsticks of development
- historical perspectives of development with reference to the concepts of sequence of development stages, economic backwardness and indicators of development performance of developing countries
- determinants of development with reference to concept and role of capital, human and natural resources, technology, values and institutions and gender in economic development
- issues in development with reference to basic concept and causes of poverty and inequality, nature, types and causes of unemployment, problems of urbanisations, concept of rural development and its approaches
- basic features of capitalism, socialism and mixed economy
- concepts, objectives, rationale, types of planning, planning process and tools of planning
- economic and demographic characteristics of the Nepalese Economy and status, role, problems and prospects of development of natural and human resources in Nepal
- characteristics, role, problems and prospects of development of Nepalese agriculture, features of Agriculture Perspective Plan and issues in agriculture development
- status, role, problems and prospects of development of manufacturing and agro-based industries and tourism and problems and prospects of development of industrial finance and recent labour act
- situations of foreign trade and balance of payments, their problems and prospects and features of current trade policy and objectives and role of WTO
- situations of money supply, money markets and capital markets, role and policies of central bank; role of commercial banks and financial institutions in economic development, growth of government expenditure, revenue and public debt and mode of financing resource gap and sources of public debt
- development experiences of previous plans, objectives, priorities, strategies, policies and targets of current five year plan

GROUP A: DEVELOPMENT ECONOMICS

UNIT I: CONCEPT OF DEVELOPMENT (11 lectures)

- 1.1 Need for the study of development economics
- 1.2 Problems and characteristics of developing economies
- 1.3 Indicators of development

UNIT II: HISTORICAL PERSPECTIVES OF DEVELOPMENT (8 lectures)

- 2.1 Sequence of development stages
- 2.2 Economic backwardness in historical perspectives
- 2.3 Development performance of developing countries - growth oriented, equity oriented, low growth and rapid growth with equity

UNIT III: DETERMINANTS OF DEVELOPMENT (16 lectures)

- 3.1 Capital formation: meaning and role
- 3.2 Human resources: concept and role
- 3.3 Interrelationship between population and development
- 3.4 Natural resources: concept & role
- 3.5 Technology and choice of technology: concept & role
- 3.6 Values and institutions in traditional society and transition to modernity.
- 3.7 Role of women in economic development and need for women-empowerment.

UNIT IV: ISSUES IN DEVELOPMENT (15 lectures)

- 4.1 Poverty and inequality; concepts, causes and measurement
- 4.2 Unemployment: nature, types and causes
- 4.3 Urbanisation: process, trends, problems and remedies
- 4.4 Rural development
 - 4.4.1 concept
 - 4.4.2 approaches: sectoral development, integrated rural development and participatory rural development

UNIT V: ECONOMIC SYSTEMS (12 lectures)

- 5.1 Features of capitalism, socialism and mixed economy

UNIT VI: DEVELOPMENT PLANNING (15 lectures)

- 6.1 Objectives of planning
- 6.2 Rationale for planning in developing economies
- 6.3 Types of planning
 - 6.3.1 planning by direction (socialism) and planning by inducement (capitalism)
 - 6.3.2 planning under mixed economy
 - 6.3.3 physical planning and financial planning
 - 6.3.4 sectoral and comprehensive planning
 - 6.3.5 rolling plan
- 6.4 Precondition for successful planning
- 6.5 Process of plan formulation
- 6.6 Tools of planning: capital-output ratio and economic growth

GROUP B: NEPALESE ECONOMY

UNIT VII: FEATURES OF NEPALESE ECONOMY (12 lectures)

- 7.1 Features: economic and demographic
- 7.2 Natural resources
 - 7.2.1 importance of natural resources
 - 7.2.2 water resources: status, role, problems and prospects
 - 7.2.3 bio-diversity with reference to forest resources: status, role, problems and prospects
- 7.3 Human resources: status, role, problems and remedies

UNIT VIII: AGRICULTURE (17 lectures)

- 8.1 Characteristics, role, problems and prospects
- 8.2 Introduction to Agricultural Perspective Plan (APP)
- 8.3 Issues in Agriculture Development
 - 8.3.1 Agriculture marketing
 - 8.3.2 pricing policy and finance
 - 8.3.3 food security
 - 8.3.4 land reform
 - 8.3.5 agricultural labour

UNIT IX: INDUSTRY (13 lectures)

- 9.1 Present situation of manufacturing industries: status, problems and potentials
- 9.2 Agro-based industry: potentials and problems
- 9.3 Industrial finance: sources, problems and prospects
- 9.4 Industrial labour with reference to recent labour act
- 9.5 Tourism
 - 9.5.1 roles and prospects
 - 9.5.2 review of tourism policy and program under globalisation
 - 9.5.3 salient features of Tourism Sector Master Plan (TSMMP)
- 9.5.4

UNIT X: FOREIGN TRADE (10 lectures)

- 10.1 Composition and direction of foreign trade
- 10.2 Balance of trade and balance of payments: trends and situations
- 10.3 Problems and prospects of foreign trade
- 10.4 Features of recent trade policy of HMGN
- 10.5 World Trade Organisation (WTO)

UNIT XI: MONEY, BANKING AND GOVERNMENT FINANCE (14 lectures)

- 11.1 Money and banking
 - 11.1.1 money supply functions and current situations of money supply
 - 11.1.2 money and capital markets: current situation
 - 11.1.3 Nepal Rastra Bank: roles and recent policies
 - 11.1.4 role of commercial banks and financial institutions in economic development
- 11.2 Government finance
 - 11.2.1 government expenditure: composition and trends
 - 11.2.2 government revenue: sources and trends
 - 11.2.3 financing resource gap: revenue surplus, foreign aid - magnitude, sources and sectoral distribution
 - 11.2.4 public debt: internal and external

UNIT XII: DEVELOPMENT PLANNING (7 lectures)

- 12.1 Development performance during the previous plans
- 12.2 Current five year plan: objectives, priorities, strategies, policies, resource allocation and physical targets

BASIC READINGS

- [CHOPRA97] Chopra, P.N. (1997). *Principles of Economics*, Kalyani Publishers, New Delhi
- [HIGGINS01] Higgins, B. (2001). *Economic Development: Principles, Problems and policies*, University Book Stall, New Delhi
- [LEWIS94] Lewis, W. Arthur (1994). *The Principles of Economic Planning*, University Book Stall, New Delhi
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- [SHRESTHA02+] Shrestha, Shyam K. and Nirajan Baral (2002). *WTO South Asia & Nepal*, 1st ed., Book Palace, Kathmandu

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- [MOE] MOE, Budget of Nepal, HMG/N, Ministry of Finance (MOF), Kathmandu
- [MOF] MOF, Economic Survey, HMG/N, Ministry of Finance, Kathmandu
- [MOI] MOI, Current Industrial Policy, HMG/N, Ministry of Industry (MOI), Kathmandu
- [MOT] MOT, Current Tourism Policy, HMG/N, Ministry of Tourism (MOT), Kathmandu
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- [NIRB98] NIRB (1998). Income and Employment Generation from Tourism in Nepal, Nepal Rastra Bank (NRB), Kathmandu
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BUSINESS FINANCE

Functional Paper

ECO-316

Paper: VI
Full Marks: 100
Pass Marks: 35
Year: III

OVERALL OBJECTIVE

The students will be able to understand and explain the financing aspects of business particularly the corporate capital structure, techniques of estimating financial requirements and the methods of raising funds for the firm in Nepalese context.

SPECIFIC OBJECTIVES

The specific objectives of Business Finance curriculum are to enable the students to understand:

- concepts of business and finance functions and objectives of a firm legal as well as financial environments under which a firm operates
- concept and technique of computing time value of money zero-profit level of output algebraically, graphically and numerically and apply it in business
- approaches to finance the capital requirements of the firm and concept of optimum capital structure, capitalization and capital forecasting
- needs of long term funds, concepts of corporate securities, debts, bonds, debentures and shares and the methods of marketing those securities, and apply the calculation of long term financing in business
- concept and sources of short term funds and assess the short term financial requirements of a business firm
- concepts, characteristics and importance of financial plan and budget, steps in financial planning and use of financial plan

UNIT I: INTRODUCTION (15 lectures)

- 1.1 Finance as a Discipline:
- 1.2 Nature and Scope of Business Finance
- 1.3 Finance Function
- 1.4 Organization of Finance Functions
- 1.5 Finance Function and Objectives of a Firm

UNIT II: THE FIRM AND ITS ENVIRONMENT (15 lectures)

- 2.1 Focus of business organization
- 2.2 The financial environment
- 2.3 Money, capital and share markets and taxes
- 2.4 Financial markets and interest rates

UNIT III: TIME VALUE OF MONEY (20 lectures)

- 3.1 Future and present value annuities, perpetuities
- 3.2 Growth models
- 3.3 Different models of cash flows and their time value

UNIT IV: COST VOLUME PROFIT ANALYSIS (15 lectures)

- 4.1 Concepts of revenue and cost, classification of cost: fixed, variable and semi-variable costs
- 4.2 Concept of break-even point
- 4.3 Concept of operating leverage
- 4.4 Application of cost-volume profit analysis in business

UNIT V: CORPORATE CAPITAL STRUCTURE (20 lectures)

- 5.1 Meaning of capital structures
- 5.2 Capitalization: meaning and theories of capitalization
- 5.3 Over-capitalization and under-capitalization: concepts, causes and remedial measures
- 5.4 Composition of capital forecasting, capital gearing and factors affecting it
- 5.5 Short term vs. long term funds, current assets and fixed assets

UNIT VI: RAISING OF LONG TERM FUNDS (25 lectures)

- 6.1 Need for long term funds
- 6.2 Sources of long term funds (external and internal)
- 6.3 Methods of marketing securities
- 6.4 Investment banking, regulation of securities

UNIT VII: RAISING OF SHORT TERM FUNDS (25 lectures)

- 7.1 Need for short term funds
- 7.2 Sources of short term funds
- 7.3 Trade credit
- 7.4 Short term bank credit
- 7.5 Obtaining funds by using Current Assets:
- 7.6 Methods of obtaining loan, and regulation of bank
- 7.7 Term loans or commercial papers from bank
- 7.8 Finding the right source

UNIT VIII: FINANCIAL PLANS AND BUDGETS (15 lectures)

- 8.1 Definition and objectives
- 8.2 Types of budget: static and flexible, master and capital

BASIC READINGS

- [PANDEY96] Pandey, I. M.(1998). *Financial Management*, 7th Edition, Vikas Publishing House Pvt Ltd, New Delhi
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SUPPLEMENTARY READINGS

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