



INTERNATIONAL MANAGEMENT INSTITUTE, BHUBANESWAR

Macroeconomic Theory & Policy (EC-502)

PGDM-II [2015-2017]

CREDIT: Full (3 credits)

SESSION DURATION: 90 Minutes

Course Outline and Session Plan

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Consulting Hours: Tuesday and Thursday 3.00 P.M to 4.30 P.M

Introduction

This course titled “Macroeconomic Theory and Policy” emphasizes on understanding and functioning of an economy which provides alternative perspectives to the managers of corporate world. The main focus of this course will be to show how policy variables of an economy are intertwined. This course deals with macroeconomic policies with their implications in both free market as well as government regulated economies of the world. Also, it provides a robust understanding of macroeconomic scenario especially in the Indian context that will help business students to comprehend business problems from a holistic perspective. The initial modules deal with basic macroeconomic concepts such as national income and its various aggregates, Consumption, Savings and Investment with their implications to provide an understanding of how economy functions which is essential to understand how business takes place in an economy. Later modules deal with macroeconomic equilibrium to explain optimal levels of employment and Output with their implications on inflation, growth and development aspects of a country. The final modules deal with various macro parameters such as fiscal deficit, public debt, trade deficits in the context of an open economy and theories of international trade. There will be discussion of issues which have had profound influence on business as well as economy in recent times in US, Europe, Japan and South East Asia. Throughout the course, emphasis will be on applications and sharpening of reasoning skills in a business environment that the student will be able to relate to.

Objectives

The course aims to:

- Demonstrate an understanding of concepts, content and scope of macroeconomic principles in business decision making.
- Be familiar with functioning of a macro-economy and the role of the government

- Be able to analyse and interpret economic data for use in decision making situations and report solutions to decision making problems, highlighting key aspects of the business problem in the context of political and economic environment.
- Show an awareness of the macroeconomic policy variables relevant to business environment of any country.

Pedagogy

The course will be delivered through a combination of lectures and classroom case discussions. I shall encourage more peer learning in this course as contemporary current data will be used to demonstrate macroeconomic problems. Students are expected to be up to date on all macroeconomic indicators from the internet, newspapers and other sources as advised. For maximum impact, students are expected to take group exercises to develop further insights to macro-economic problems. Also, students are expected to come prepared for the class by reading the prescribed materials. A few relevant cases shall be discussed in the class to strengthen the learning. Power point slides of class lectures and all other relevant material will be made available to students.

Reading Materials

Text book(s)

MACROECONOMICS, R. Dornbusch, S. Fisher and R. Startz (2012), Tata McGraw-Hill, 10th Edition.

Reference book(s)

1. PRINCIPLES OF MACROECONOMICS, Mankiw N Gregory 4th Edition, Cengage Learning.
2. MACROECONOMICS: THEORY AND APPLICATIONS, Baumol and Blinder (2009) India Edition, Cengage Learning.
3. MACRO ECON, William A. McEachern and A Indira (2012), Cengage Learning.

Internet Sources:

There are several websites that have interesting information and analysis of pertaining to macro economies of various countries. The students are advised to follow www.ft.com (Financial Times) and www.economist.com (The Economist) on a regular basis. The data pertaining to macro economic variables for Indian economy can be obtained from www.rbi.org.in and www.mospi.gov.in. Also, other government websites of India and other countries need to be followed to update relevant macro-economic parameters.

List of Cases

Case 1: The Great Depression, Mass Unemployment and Business Leadership; HBS-9-804-163

Case 2: Kinyuseisaku: Monetary Policy in Japan (A); HBS 9-708-017

Case 3: Brazil 2003: Inflation Targeting and Debt Dynamics; HBS- 9-704-028

Case 4: Deflation in Japan; IMI Bhubaneswar Caselet

Case 5: US Fiscal Deficit; IMI Bhubaneswar Caselet

Case 6: US Trade Deficit; IMI Bhubaneswar Caselet

Case 7: Argentina's Convertibility Plan; HBS -5-703-002

Evaluation Criteria

The evaluation for the course will have various components like quizzes, case presentations, End-Term and Mid-Term examinations as well as class participation. The final grade will be calculated as follows:

| Components | | Weight |
|------------|-----------------------|--------|
| 01 | End Term Exam | 30% |
| 02 | Mid-Term Exam | 20% |
| 03 | Quizzes | 20% |
| 04 | Class participation * | 10% |
| 05 | Assignment | 10% |
| 06 | Presentation | 10% |

*The student is expected to come prepared to class by reading the materials provided by faculty and constructively contribute to class discussions. Similarly, for case discussions, the student is expected to read the case and advised to surf the net to have a grip on specific case-related issues and contribute to the discussion. The students are advised to keep themselves updated on any latest news/happenings nationally/internationally. The student is expected to be proactive in enriching the discussion for this component. Please note that *mere attendance* has no weightage for this component.

Session Plan: Macroeconomic Theory & Policy

| Session | Topic | Readings |
|---------|--|---|
| 1-2 | Introduction; Microeconomics vs. Macroeconomics; Fundamental Concerns of Macroeconomic Policy; Objectives and Instruments of Macroeconomics; Aggregate Supply and Aggregate Demand | Textbook: Dornbush Fisher and Starz Introduction -Chapter-1 The Case on “The Great Depression, Mass Unemployment and Business Leadership” |
| 3-4 | Concept of National Income; Different Aggregates of National Income; Real and Nominal Income; National Income at Market prices and Factor cost; Depreciation; Problems in measuring national income; National Income and Social Welfare. | Textbook: Dornbush Fisher and Starz - Chapter-2 on National Income Accounting National Accounts Statistics Tables |
| 5-6 | Consumption and Saving: The Consumption Function; Marginal Propensity to consume; The Savings Function; Investment; Determinants of Investment; The Investment Demand Curve; Shifts in Investment Demand Curve | Textbook: Dornbush Fisher and Starz - Chapter-9 on Income and Spending and Chapter 10 on Money, Interest and Income |
| 7-10 | Aggregate Demand Curve; Shifts in Aggregate Demand; Factors Influencing Aggregate demand, Output Determination with Savings and Investment; Equilibrium Output Determination by Consumption and Investment; Money and Banking; The Demand for money, Money’s functions; Credit Creation by Banks; Credit Control by Central Bank; Supply and Demand for Money; Money, Interest and Income; Real vs. Nominal interest rates; IS-LM Framework; The Multiplier; Multiplier in AS-AD Framework. Classical, Keynesian and Post- Keynesian Economics; The monetarist approach; School of Rational Expectations; New Classical Economics | Textbook: Dornbush Fisher and Starz - Chapter-5 on Aggregate Supply and Demand and Chapter 10 on Money, Interest and Income and Chapter 16 on the Fed, Money and Credit Case: Monetary Policy in Japan (A) |

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| 11-13 | Price Stability and Inflation; Price Indices for Inflation, Economic Impact of Inflation; Prices in AD-AS framework; WPI and Inflation scenario in India and other countries; Features of Business Cycle; Unemployment; Types of Unemployment; Impact of Unemployment; Economic Interpretation of Unemployment; Employment scenario in India and Other Countries; Inter-relationship between Inflation and Unemployment; Phillip's Curve | Textbook: Dornbush Fisher and Starz - Chapter-6 on Aggregate Supply and Chapter 7 on Inflation and Unemployment The Case on "Brazil 2003: Inflation Targeting and Debt Dynamics" |
| 14-15 | Fiscal Policy and macroeconomic equilibrium; Government Budgets; Indian Budget in 2013-14; Fiscal Deficits; Concepts and trends of Fiscal Deficits in India; Burdens of Deficits and Debts; Government Debt and Economic Growth; External and Internal Debt; Interaction of Monetary and Fiscal Policies; Debt Implications for India and other Countries | Textbook: Dornbush Fisher and Starz - Chapter-11 on Monetary and Fiscal Policy The Case on US Fiscal Deficits |
| 16-18 | International Trade; Rationale for International Trade; Theories of International Trade; Principles of Absolute and Comparative Advantage; Economic Gains from Trade; Protectionism; Supply and Demand Analysis of Trade and Tariffs; Determination of Exchange Rates; The Balance of Payments; Trade deficits; current and Capital Account convertibility; Trends in BOP for India in recent years; Foreign exchange reserves; Trends in trade deficits of India and Other countries | Textbook: Dornbush Fisher and Starz - Chapter-12 on International Linkages Case on US Trade Deficit Case on: "Argentina's Convertibility Plan" |
| 19-20 | Class Presentations | The presentation topics will be announced during the course |