



**INTERNATIONAL MANAGEMENT INSTITUTE, BHUBANESWAR**

**Post Graduate Diploma in Management**

**Macroeconomic Theory & Policy (EC-502)**

**2 Credit Course**

**Session Duration: 60/120 minutes**

**Term – II  
2018-20  
Batch-I**

**Course Outline and Session Plan**

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Consulting Hours: Tuesday and Thursday 3.00 P.M to 4.30 P.M  
Academic Year: 2018-19

**Introduction**

This course titled “Macroeconomic Theory and Policy” provides an understanding of the functioning of an economy and an alternative perspective to the managers of corporate world. The main focus of this course will be on the macroeconomic policy variables of an economy which 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.

## **Learning Outcomes**

The course aims:

1. To demonstrate an understanding of concepts, content and scope of macroeconomic principles in business decision making.
2. To be familiar with functioning of a macro-economy and the role of the government
3. To be able to analyze the intricacies of various policy decisions and their impact on macro economy and business environment,
4. To be able to understand inherent political compulsions in formulation of economic policy policies and inter-sectoral interactions of policy decisions of the central governments
5. To show an awareness of the macroeconomic policy variables relevant to business environment of top 10 economies of the world.

## **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**

### **Books**

1. MACROECONOMICS, R. Dornbusch, S. Fisher and R. Startz (2015), McGraw-Hill Education, 11<sup>th</sup> Edition (INDIAN EDITION).
2. PRINCIPLES OF MACROECONOMICS, Mankiw N Gregory 6th Edition (2012), Cengage Learning.

### **Internet and Other Sources:**

There are several websites that have interesting information and analysis pertaining to macro economies of various countries. The students are advised to follow [www.ft.com](http://www.ft.com) (Financial Times)

and [www.economist.com](http://www.economist.com) (The Economist) on a regular basis. The Economist magazine (hard copy) is also available in IMI-B Library. The data pertaining to macroeconomic variables for Indian economy can be obtained from [www.rbi.org.in](http://www.rbi.org.in) and [www.mospi.gov.in](http://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 Indian Economy: A macroeconomic Turnaround; IVEY – W17463

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

Case 3: The US Current Account Deficit; HBS- 9-706-002

### **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	40%
02	Mid-Term Exam	20%
03	Quizzes	20%
04	Class participation *	10%
05	Assignment	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**

<b>Session</b>	<b>Topic</b>	<b>Learning Outcomes</b>	<b>Readings</b>
1-2	Introduction; Microeconomics vs. Macroeconomics; Fundamental Concerns of Macroeconomic Policy; Objectives and Instruments of Macroeconomics; Aggregate Supply and Aggregate Demand	LO-1 and LO-2	Dornbush Fisher and Starz Introduction - Chapter-1 Case on “The Indian Economy: A macroeconomic Turnaround”
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.	LO-1 and LO-2	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	LO-1, LO-2 and LO-3	Dornbush Fisher and Starz -Chapter-9 on Income and Spending and Chapter 10 on Money, Interest and Income
7-11	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;	LO1, LO-3 and LO-4	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

	<p>IS-LM Framework; The Multiplier; Multiplier in AS-AD Framework.</p> <p>Demonetization Initiatives by India in 2016 and Its Implications</p> <p>Classical, Keynesian and Post-Keynesian Economics; The monetarist approach; School of Rational Expectations; New Classical Economics</p>		
12-14	<p>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</p>	LO1, LO4 and LO5	<p>Dornbush Fisher and Starz -Chapter-6 on Aggregate Supply and Chapter 7 on Inflation and Unemployment</p> <p>Case: Monetary Policy in Japan (A)</p>
15-16	<p>Fiscal Policy and macroeconomic equilibrium; Government Budgets; Indian Budget in 2017-18; 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 Major Economies of the World</p>	LO-1, LO-4 and LO-5	<p>Dornbush Fisher and Starz -Chapter-11 on Monetary and Fiscal Policy; Mankiw – Chapter 21</p>
17-20	<p>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;</p>	LO-1, LO-3, LO-4 and LO-5	<p>Dornbush Fisher and Starz -Chapter-12 on International Linkages ; Mankiw-Chapter - 9</p>

	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		Case on: “The US Current Account Deficit”
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