



## **Post Graduate Diploma in Management**

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

**2 Credit Course**

**Session Duration: 60/120 minutes**

**Term – II**

**Academic Year: 2021-22**

**Batch-PGDM (2021-23)**

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Consulting Hours: Tuesday and Thursday 3.00 P.M to 4.30 P.M  
Academic Year: 2021-22

#### **Course 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. The influence of pandemic on macro economy and India and other countries will be discussed at length in this course. The students will understand the influence of global political uncertainty on global welfare indicators and macroeconomic indicators of a nation. The course will also hint upon the

preparedness of policy makers in the time of uncertainty which adversely impact employment and growth of an economy. 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**

This course focuses on sharpening analytical skills of the students where they can understand and relate the principles of macroeconomics in decision making process. Specifically, at the end of the course, the student will be able:

- To demonstrate an understanding of concepts, content and scope of macroeconomic principles in business decision making (LO-1)
- To be familiar with functioning of a macro-economy and the role of the government (LO-2)
- To be able to analyze the intricacies of various policy decisions and their impact on macro economy and business environment (LO-3)
- 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 (LO-4)
- To show an awareness of the macroeconomic policy variables relevant to business environment of 10 largest economies of the world (LO-5)

### **Course 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.

## **Course Reading**

### **Reference 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

### **Additional Readings:**

Research Article by Stephen M Walt, “International Relations: One World, Many Theories”, Foreign Policy, Spring, 1998

### **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	LO Attainments
01	End Term Exam	40%	LO-3, LO-4 and LO-5
02	Mid-Term Exam	20%	LO1, LO-2, LO-3, LO-4 & LO-5
03	Quizzes (2)	20%	LO1, LO-2, LO-3, LO-4 & LO-5
04	Class participation *	10%	LO-1, LO-2, LO-3, LO-4 & LO-5
05	Group Term Paper**	10%	LO-3, LO-4 & LO-5

\*The student is expected to come prepared to class by reading the materials provided by faculty and constructively contribute to class discussions.

\*\*The group Term paper will be announced and assigned during the course. The guidelines regarding the term paper will be intimated to students.

## Plagiarism

Plagiarism is the use of or presentation of ideas, works that are not one's own and which are not common knowledge, without granting credit to the originator. The student may refer to the already available content just for the reference and to get the basic ideas. Only 20% of such content is acceptable, above that comes under the definition of Plagiarism which is unacceptable and will be treated seriously. All such cases will be referred to the appropriate body of the Institute for suitable disciplinary action. All the assignments and Term Papers will be subjected to plagiarism software. Before submission, the student must make sure that their submissions comply with the plagiarism policy of IMI, Bhubaneswar.

## **Session Plan: Macroeconomic Theory & Policy (EC-502)**

Session	Topic	Learning Outcomes	Readings
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
	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	LO1, LO-3 and LO-4	Dornbush Fisher and Starz -Chapter-5 on Aggregate Supply and Demand and Chapter 10 on

7-11	<p>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;</p> <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>		Money, Interest and Income and Chapter 16 on the Fed, Money and Credit
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. Fiscal prudence in the wake of Pandemic situations and Implications on Employment and Income</p>	LO-1, LO-4 and LO-5	Dornbush Fisher and Starz -Chapter-11 on Monetary and Fiscal Policy; Mankiw – Chapter 21
	<p>International Trade; Rationale for International Trade; Theories of International Trade; Principles of</p>	LO-1, LO-3, LO-4 and LO-5	Dornbush Fisher and Starz -Chapter-12 on

17-20	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.		International Linkages ; Mankiw-Chapter - 9  Case on: “The US Current Account Deficit”
21-23	Applications Based Learning-  Introduction of Global Databases on International Trade. Direction and Analysis of Global Trade.  World Bodies Promoting International Trade.	LO-1, LO-2 LO-3, LO-4 and LO-5	WTO Databases; RBI Databases; RBI Occasional Papers
24-25	Industry Applications -.  Impact of Covid-19 Pandemic on International Trade and Macroeconomic Indicators  International Relations and Economic Development; Influence of global geopolitical turmoil on International Trade and Macro-economic Indicators and Economic Welfare	LO-1, LO-2, LO-3, LO-4 and LO-5	UNCTAD and WTO Databases – Pre and Post Pandemic Era  Article by Stephen M Walt, “International Relations: One World, Many Theories”