Course Objective:
This is the second module of a three-module sequence on Macroeconomics. This course introduces students to formal modelling of the macroeconomy in terms of analytical tools. It discusses various
alternative theories of output and employment determination in a closed economy in the short run as well as medium run, and the role of policy in this context. It also introduces students to various micro-founded theories of macro behaviour, e.g., consumption and investment behaviour of households and the demand for money generated in the household sector.

**Course Learning Outcomes:**
This course enables students to analyse the macroeconomic performance of various countries using formal analytical tools. It also allows them to evaluate important macroeconomic policies and their implications.

**Course Outline:**

**Unit 1**
- **The labour market**
  
  Wage determination; wages, prices and employment; natural rate of unemployment; from employment to output

**Unit 2**
- **Aggregate demand and aggregate supply curves**
  
  Derivation of aggregate demand and aggregate supply curves; interaction of aggregate demand and supply to determine equilibrium output, price level and employment

  Readings for unit 1 and 2:
  Rudiger Dornbusch and Stanley Fischer (1994, 6th edn.), Chs.5 (5.1 to 5.3) and 7.
  Estimated number of lectures: 17 (Unit 1 and Unit 2)

**Unit 3**
- **Inflation, unemployment and expectations**
  
  Phillips curve; adaptive and rational expectations; policy ineffectiveness debate
  Estimated number of lectures: 15

  Readings:

**Unit 4**
- **Microeconomic foundations**
  
  Estimated number of lectures: 30

  A. Consumption
Keynesian consumption function; Fisher’s theory of optimal intertemporal choice; lifecycle and permanent income hypotheses; rational expectations and random-walk of consumption expenditure.

Readings:
1. Branson, Macroeconomic Theory & Policy (3rd ed), ch 12, pp. 239-268

B. Investment
Determinants of business fixed investment; residential investment and inventory investment.
Readings:

C. Demand for Money
Interest sensitivity of money demand function; Baumol’s, Tobin’s and Friedman’s approach to money demand.

Assessment:

1. Internal Assessment (25 marks): The internal evaluation will consist of two class tests of 10 marks each, with 5 marks being allocated for attendance.

2. The End-semester Examination (75 marks):
The question paper of end-semester examination will have two sections (A and B). Section A will ask 6 short-types of answer out 7 questions, giving equation weightage to each topic. Section B would ask to answer 3 out of 4 long-type of questions (preferably from one topic with possible sub-parts). Two questions from topics 1, 2 and 3 and two questions from Topic 4 are suggested. All question (in short and long-types) can be mathematical in nature.

References

Additional Reference: