

<b>Course title:</b> Macroeconomics-I				
<b>Course code:</b> MPE 127		<b>No. of credits:</b> 4	<b>L-T-P distribution:</b> 60-0-0	
<b>Learning hours:</b> 60				
<b>Department:</b> Department of Policy and Management Studies				
<b>Course coordinator (s):</b> Dr Shantanu De Roy			<b>Course instructor(s):</b> Dr Shantanu De Roy	
<b>Contact details</b> <a href="mailto:shantanu.roy@terisas.ac.in">shantanu.roy@terisas.ac.in</a>			<b>Course offered:</b> Semester 1	
<b>Course type:</b> Core				
<b>Course description</b> Macroeconomics—the study of the dynamics of economic aggregates—is one of the foundational areas of economics. Attempts to understand macroeconomic phenomena have been one of the major drivers of modern economic theory and the fruits of this study have helped to improve economic policy. This course aims to introduce students with the major schools of macroeconomic thought with the objective to expose them to different debates in macroeconomic theory.				
<b>Course objectives</b> 1. Acquaint students to the different schools of macroeconomic thought. 2. Exposing students to the debates on macroeconomic theories and policy making at different points in time.				
<b>Module</b>	<b>Course content</b>	<b>L</b>	<b>T</b>	<b>P</b>
1	<b>Introduction</b>  - Classical theory of output, employment, and money - Macroeconomic aggregates, circular flow of income, Simple Keynesian Model, IS-LM model	6		
2	<b>Keynesian Macroeconomics</b>  - The principle of aggregate demand Saving-Investment balance and the realization of profits; quantity and price adjustments and the multiplier analysis; money and real wage; wage-unit and the wage-cut controversy; pricing of industrial commodities.  - Determination of investment The marginal efficiency of capital; the role of expectations; financing of investment plans.  - Liquidity preference theory The social device of money; the general theory of the rate of interest	16		
3	<b>Neo-classical Synthesis and Monetarism</b>  Neoclassical synthesis: Hicksian interpretations of the General Theory Monetarism: The role of monetary policy; A heterodox critique of monetarism: the limitations of monetarism	4		
4	<b>New Classical Approach: Micro-foundations in Macroeconomics</b> - A mainstream critique of monetarism—rational expectations and neutrality of money	4		
5	<b>Real Business Cycle Theory</b>  - Explaining macroeconomic fluctuations from a mainstream perspective— General equilibrium models with microeconomic foundations; behaviour of a representative household—optimization problem of a representative household; Effects of technology shocks and effects of changes in government purchases on macroeconomic variables	6		
6	<b>New Keynesian Framework</b>  Basic framework; Price rigidity in the product market; Wage rigidity in the labour market: Efficiency wage theories and existence of involuntary unemployment; Macroeconomics without the LM curve; Relationship between output and inflation—Keynesian, Monetarist, New Classical and New Keynesian Phillips Curve	18		
7	<b>Dynamic Stochastic General Equilibrium Modelling</b>	6		

	Dynamic New Keynesian models: basic framework; The Basic Three Equations in the New Keynesian DSGE model; Monetary policy from the New Keynesian perspective; Extensions of the basic model: financial frictions, unemployment			
<b>Total</b>		<b>60</b>		
<b>Evaluation criteria:</b> The course evaluates students on three grounds: <b>Minor Test 1</b> - (written exam): 25%. (at the end of teaching of module 1) <b>Minor Test 2</b> - (written exam) : 30%. (at the end of teaching of modules 2 and 3) <b>Major Test</b> - (written exam): 45%. (after the completion of modules 4, 5, 6 and 7, at the end of the semester)				
<b>Learning outcomes</b> By the end of the course, students will: -Command understanding of the basic concepts of Macroeconomics (Minor test 1) -Be equipped with alternative traditions of Macroeconomics through deeper understanding of the Keynesian school of thought and identify the key theoretical differences with the schools of thoughts that emerged as critiques of Keynesianism(Minor test 2) -Command critical understanding of the mainstream views and micro-foundations of Macroeconomics (Major test)				
<b>Pedagogical approach</b> -Class interactions and discussions				
<b>Additional information</b> 10+2 level knowledge of Mathematics is desirable				
<b>Materials</b> <b>Optional textbook:</b> Bhaduri, A. (1986). <i>Macroeconomics: The Dynamics of Commodity Production</i> , Macmillan India Ltd. Keynes, J. M. (1935): <i>The General Theory of Employment, Interest and Money</i> , Atlantic Publishers and Distributors, New Delhi. Patnaik, P. (2009): <i>The Value of Money</i> , Columbia University Press. Romer, D. (2012): <i>Advanced Macroeconomics</i> (fourth edition), McGraw-Hill Publishers. Woodford, Michael (2003). <i>Interest and Prices: Foundations of a Theory of Monetary Policy</i> , Princeton University Press. <b>Reading materials:</b> <b>Module 1:</b> Froyen, R. T. (2008). <i>Macroeconomics: Theories and Policies</i> , (Chapters 5-8), 9 <sup>th</sup> Edition, Pearson. <b>Module 2:</b> Bhaduri, A. (1986). <i>Macroeconomics: The Dynamics of Commodity Production</i> , (Chapters 1-4), Macmillan India Ltd. Kalecki, M. (1967). The Principle of Increasing Risk. <i>Economica</i> , 16(4), pp. 440-447. Keynes, J. M. (1975): <i>The General Theory of Employment, Interest and Money</i> , (Chapters 4, 11, 12, 13), Atlantic Publishers and Distributors, New Delhi. <b>Module 3:</b> Hicks, J. R. (1937). Mr. Keynes and the "Classics": A Suggested Interpretation. <i>Econometrica</i> , 5(2), pp. 147-159. Friedman, M. (1968). The Role of Monetary Policy, <i>American Economic Review</i> , 58(1), pp. 1-17. _____(1976). Nobel Memorial Lecture: Inflation and Unemployment. December 13. Kaldor, N. (1985). Why Monetarism Failed? <i>Challenge</i> , 28(2)pp.413. Patnaik, P. (2009): <i>The Value of Money</i> , (Chapters 2, 4 and 5) <b>Module 4:</b> Lucas Jr., R. E. (1978). Unemployment Policy, <i>The American Economic Review</i> , 68(2), pp. 353-357. ----do ----(1996). Nobel Lecture: Monetary Neutrality, <i>Journal of Political Economy</i> . 104(4), pp. 661-682. Patnaik, P. (2009): <i>The Value of Money</i> , (Chapter 6) <b>Module 5:</b> Romer, D. (2012). <i>Advanced Macroeconomics</i> (Chapter 5), 4 <sup>th</sup> Edition, McGraw-Hill. <b>Module 6:</b> Shapiro, C and Stiglitz, J. E. (1986). Equilibrium Unemployment as a Worker Discipline Device in Akerlof, G. A and J. L. Yellen (eds.), <i>Efficiency Wage Models of the Labour Market</i> . Cambridge University Press. Gordon, R. J. (1990). What is new-Keynesian Economics?. <i>Journal of Economic Literature</i> , 28(3), pp. 1115-1171. Romer, D. (2000). Keynesian Macroeconomics without the LM Curve, <i>The Journal of Economic Perspectives</i> , 14(2), pp. 149- 169. Snowdon, B. & Vane, H. R. (2005). <i>Modern Macroeconomics: Its Origins, Developments and Current States</i> (Chapter 7), Edward Elgar.				

**Module 7:**

Romer, D. (2012). *Advanced Macroeconomics* (Chapter 7), 4<sup>th</sup> Edition, McGraw-Hill.

Clarida, R., Gali, J. and Gertler, M. (1999). The Science of Monetary Policy: A New Keynesian Perspective, *Journal of Economic Literature*, 37(4), pp. 1661-1707.

Azad, R. & Saratchand, C. (2015). A Macro-theoretic Survey of Monetary Policy in a Closed Economy, in P. Patnaik (Ed.), *ICSSR Research Surveys and Explorations*, Volume 3, pp. 75-116, Oxford University Press

**Optional Readings:**

Kay, John (2015). *Other People's Money: The Real Business of Finance*, Public Affairs, New York.

Turner, Adair (2016). *Between Debt and the Devil: Money, Credit and Fixing Global Finance*, Princeton University Press, Princeton and Oxford.

## Course reviewers:

Dr. Mausumi Das, Associate Professor, Delhi School of Economics

Dr. Jyotirmoy Bhattacharya, Associate Professor, School of Liberal Studies, Ambedkar University, Delhi

Dr. Rohit Azad, Assistant Professor, Centre for Economic Studies and Planning, JNU

Prepared by: Dr. Shantanu De Roy

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