Course title: Intermediate Macroeconomics-II			
Course code: UEO 206	No. of credits: 4	L-T-P: 56-4-0	Learning hours: 60
Pre-requisite course code and title (if any): Intermediate Macroeconomics-I			
Department: Policy and Management Studies			
Course coordinator: Dr. Malvika Tyagi		Course instructor: Dr. Shantanu De Roy	
Contact details: shantanu.roy@terisas.ac.in			
Course type: Major		Course offered in: Semester 4	

Course description:

This is a follow-up course of Intermediate Macroeconomics-I that is offered in Semester 3 of the Four-Year Undergraduate Programme. It starts with a revision of the Simple Keynesian and the IS-LM Models that are introduced to the students in Intermediate Macroeconomics-I. This is followed by discussions on the theories of expectations formations and market outcomes. These discussions will focus on the monetary and real explanations of the business cycle.

Subsequent discussions centre on the various theoretical formulations of the Phillips curve, with expectations. In these discussions, prices and wages are flexible and competition is the dominant feature in the market.

The focus of discussions shifts to the analysis of the labour and commodity markets with the relaxation of the assumptions of wage and price flexibilities, and competition in the market. The relevance of policy interventions in a rigid price (and wage) regime is an important conclusion of these discussions. This contrasts with the flexible price (and wage) regime where policies are irrelevant.

Within the ambit of policy interventions, there is a dominance of monetary policy in the New Keynesian macroeconomic thought. In this paradigm, interest rate is the monetary policy instrument rather than an exogenously given money supply, for the central bank. This is the main theme of discussion in Module 6.

In Module 7, the discussion focusses on the behaviour of the households in terms of making choices between consumption and savings and work-effort and leisure. For instance, a rise in the rate of interest motivates households to save more and consume more in the future.

Course objectives:

- To acquaint the students with diverse macroeconomic thoughts that vary in terms of formation of expectations, nature of the market, operations of the market forces like price and wage and relevance (or irrelevance) of policies.
- To understand the impacts of inflation in the economy and society.
- To understand, theoretically, the nature and scope of policy interventions by the central bank in the modern capitalist economies, including in India.
- To understand the intertemporal consumption choices of the households.

Course contents

Module	Topic	L	T	P

1.	Simple Keynesian Model and the IS-LM Model in a closed economy • Determination of output and employment • Effectiveness of fiscal and monetary policy	4	1	
2.	Theories of Expectation Formation and the Market Outcomes • Static Expectations, Adaptive Expectations and Rational Expectations • Aggregate [surprise] supply function of Robert Lucas • Technology shocks, and market outcomes • Determination of equilibrium in the market	10	2	
3.	Theories of Inflation and Analysis of the Phillips Curve • The trade-off between inflation and unemployment under static expectations • Money illusion and expectation augmented Phillips curve • Policy irrelevance under Rational Expectations	11		
4.	Output, Unemployment and Inflation • Okun's law • Effects of the growth of money supply on output, unemployment and inflation	6		
5.	The Macroeconomics of Price and Wage Rigidity • Imperfect competition and price rigidity • Labour market under wage rigidity: policy relevance under rational expectation	8		
6.	Monetary Policy in New Keynesian Paradigm • The IS-MP-IA model • Controlling of inflation: The Monetary Policy Committee and inflation targets • A theoretical critique of the monetary policy	10		
7	Intertemporal Consumption-Savings Choice • Budget constraints for two periods • Choosing consumption over two periods—interest rate and intertemporal substitution	8		
	Total (in hours)	**57**	**3**	

Evaluation criteria

1. Minor 1: Written test [after the completion of Modules 1, 2 and 3] – 30% [learning outcome 1]
2. Minor 2: Written exam [after the completion of Module 4] – 30% [learning outcome 1]
3. Major exam: Written test [after the completion of the course; based on Modules 5, 6 and 7] – 40 % [learning outcomes 1, 2 and 3]

Learning outcomes

After the completion of the course, students will develop:

1. A comprehensive understanding of diverse macroeconomic thoughts in terms of its core features, labour and commodity market outcomes, application of expectations formation and policy interventions.
2. An understanding of the role of the central bank in macroeconomic stabilization.
3. Understanding the behaviour of households with respect to consumption (and savings) and work effort across periods.

References

Textbooks

Barro, R. (1997). *Macroeconomics (5th edition)*, MIT Press.
Begg, D., Vernasca, G., Fischer, S., and Dornbusch, R. (2014). *Economics (11th edition)*, McGraw Hill Education.
Andrew, A. B., Bernanke, B.S., and Croushore, D. (2011). *Macroeconomics (7th edition)*, Pearson.
Mankiw, N. G. (2015). *Macroeconomics (9th edition)*, Worth Publishers.

CORE reading materials (module-wise):

Module 1: Simple Keynesian Model and the IS-LM Model in a closed economy

Dornbusch, R. and Fischer, S. (2010). *Macroeconomics (6th edition)*. McGraw Hill India.

Module 2: Theories of Expectation Formation and the Labour Market Outcomes

Snowdon, B., and Vane, H.R. (2006). Chapter 5 in *Modern Macroeconomics: Its Origins, Development and Current State*, Edward Elgar Publishing Limited.

Module 3: Theories of Inflation and Analysis of the Phillips Curve

Blanchard, O., and Johnson, D. R. (2013). Chapter 8 in *Macroeconomics (6th edition)*, Pearson.
Andrew, A. B., Bernanke, B.S., and Croushore, D. (2011). Chapter 12 in *Macroeconomics (7th edition)*, Pearson.
Snowdon, B., and Vane, H.R. (2006). Chapters 4 and 5 in *Modern Macroeconomics: Its Origins, Development and Current State*, Edward Elgar Publishing Limited.

Module 4: Output, Unemployment, and Inflation

Blanchard, O. (2007). Chapter 9 in *Macroeconomics (4th edition)*, Pearson.

Module 5: The Macroeconomics of Price and Wage Rigidity

Andrew, A. B., Bernanke, B.S., and Croushore, D. (2011). Chapter 12 in *Macroeconomics (7th*

edition), Pearson.

Module 6: Monetary Policy in New Keynesian Macroeconomics
Romer, D. (2000). Keynesian macroeconomics without the LM curve. *Journal of economic perspectives*, *14*(2), 149-170.
Begg, D., Vernasca, G., Fischer, S., and Dornbusch, R. (2014). Chapter 22 in *Economics (11th edition)*, McGraw Hill Education.
Azad, R. (2016). The New Keynesian Paradigm of Monetary Policy: A Theoretical Critique. *Economic and Political Weekly*, 79-85.
Reserve Bank of India (various years). *Monetary Policy Reports*, available at https://www.rbi.org.in/scripts/Annualpolicy.aspx

Module 7: Intertemporal Consumption-Savings Choice
Barro, R. (1997). Chapter 3 in *Macroeconomics (5th edition)*, MIT Press.
Branson, W. H. (2011). Chapter 12 in *Macroeconomic Theory and Policy (3rd edition)*, East-west press.

Additional reading materials:
Mankiw, N. G. (2003). *Principles of Macroeconomics*. South-Western College Publishing House.
Stiglitz, J. E. and Walsh, C. E. (2005). *Economics (4th edition)*, W. W. Norton and Company.
Carlin, W. and Soskice, D. (2015). *Macroeconomics: Institutions, Instability and the Financial System*. Oxford University Press.

Pedagogical Approach:

- Classroom lectures

Additional information (if any):

Course prepared by: Dr. Shantanu De Roy

Student responsibilities: Attendance, feedback, discipline: as per university rules.

Course reviewers:

Dr. Jyotirmoy Bhattacharya, Associate Professor, School of Liberal Studies, Dr. B. R. Ambedkar University Delhi.
Dr. Naveen Joseph Thomas, Associate Professor, Jindal School of Government and Public Policy, O. P. Jindal Global University