

Course: MA

Course Title: Macroeconomics 1

Course Type: Core

Course Teacher: Dr Brishti Guha and Dr Ajit Sahoo

Credits: 4

Contact hours: 4 per week

Course Objectives: The course brings you in close contact with contemporary topics in macroeconomic theory concerning output, unemployment, inflation, wages, interest, consumption and investment, and fiscal and monetary policies. Starting with the basic building blocks, the course is designed to make a systematic and formal coverage of fundamental concepts and relationships among various macroeconomic aggregates. In particular, the course focuses on the interaction of markets in an economy to understand the fluctuations in output, employment, and prices under different schools of thought in macroeconomics. The focus lies primarily in understanding how an economy functions, the reasons for macroeconomic fluctuations and the corrective measures taken from various spheres such as monetary, fiscal and international trade.

Learning Outcomes: Students will acquire a sound theoretical background in macroeconomic theory. They will be able to understand and critically compare the strengths and weaknesses of various schools of thought in macroeconomics, by judging under what conditions a specific theory does better than others. They will learn the analytical tools required to understand the policy implications of a particular macroeconomic intervention. They will also be equipped to apply theories to real world situations and use this to frame research problems.

Evaluation: 50% weight each on a midterm and an endterm exam.

Course Content:

1. Basic Building Blocks: Aggregate Demand, Aggregate Supply and Business Cycles (Concepts covered: aggregate labour market -demand for labour and the supply of labour; aggregate supply under adaptive expectations and perfect foresight; aggregate demand: The IS-LM Model and the AD curve; effectiveness of monetary and fiscal policy under different schools of thought in macro.)
2. Dynamics in Aggregate Demand and Supply (Concepts covered: the adaptive expectations and stability analysis; investment, capital stock and stability; wealth effects and the government budget constraints.)
3. IS-LM Model, Keynes vis-à-vis Classics, Phillips Curve (Concepts covered: comparative statics, open economy, stabilization policy, wage-price rigidity, involuntary unemployment, expectations-augmented

Phillips curve, core inflation, cyclical behaviour of the real wage.)

4. New Classical Economics (Concepts covered: imperfect information, certainty equivalence behaviour, rational expectations, Lucas supply curve, random walk with drift, white noise, Lucas Critique, anticipated and unanticipated money.)
5. New Keynesian Economics (Concepts covered: long term and short term wage contracts, rational expectations, optimal money supply rule, menu costs, coordination failures, reaction function, sunspots, unique equilibrium and multiple equilibria, fragile equilibrium. Efficiency wages, insider outsider wage theory.)
6. Consumption
7. Investment
8. Unemployment (if time permits).

Readings

1. Advanced Macroeconomics by David Romer, Third Edition, McGraw Hill Publishers.
2. The Foundation of Modern Macroeconomics by Ben J. Heijdra, Second edition, Oxford University Press.

Topic-wise readings are listed below:

Topic 1

- *Chapter 1 of Heijdra*

Topic 2

- *Chapter 2 of Heijdra*

Topic 3

- *Chapter 5 of Romer*

Topic 4

- *Chapter 6, Part A of Romer*
- *Chapter 3 of Heijdra*

Topic 5

- *Chapter 6, Part C of Romer*
- *Chapter 10, 10.2 and 10.6 of Romer*

Topic 6

- *Chapter 7 of Romer*

Topic 7

- *Chapter 8 of Romer*

Topic 8

- *Chapter 9 of Romer*