

# ECO 202: Macro Economics

*Credits: 3*

*Lecture Hours: 48*

## Course Objectives

This module aims to develop students' understanding of the macroeconomic concepts to enhance their skills in analyzing business environment for decision-making.

## Course Description

Macroeconomics: concepts and importance. National income accounting: concepts, measurement approaches and measurement difficulties of national income. Consumption, saving and investment functions, paradox of thrift, acceleration coefficient. Income determination models: classical and Keynesian theories, IS – LM model, concept of multipliers. Business cycles: phases and economic stabilization policy. Inflation: theories of inflation, computation of rate of inflation, Unemployment, macroeconomic policies: monetary policy, fiscal policy. Macroeconomic issues: Nepalese perspective.

## Course Details

### Unit 1: Introduction to Macroeconomics

**LH 2**

Meaning and scope of macroeconomics, Static and dynamic analysis of Macroeconomics, Macroeconomics and business environment.

*Case Studies*

### Unit 2: National Income Accounting

**LH 7**

Circular flow of income and expenditure (two, three and four sector economy), Meaning of national income: Various concepts of NI: GDP, NDP, GNP and NNP (both in – market price and factor cost terms), Nominal GDP, Real GDP and GDP deflator, **Potential and actual GDP**, Personal income, Disposable income and **Saving**, Per capital income. Three approaches of measurement of NI (Product, Income and Expenditure), Measurement Difficulties of NI.

*Numerical assignments and Case studies*

### Unit 3: Consumption, Saving and Investment

**LH 8**

- . Meaning, technical attributes and determinants of consumption function
- . Psychological law of consumption function
- . Meaning, Technical attributes and determinants of saving function
- . Paradox of thrift
- . Meaning and types of investment
- . Concept of MEC and investment demand curve
- . Determinants of induced investment
- . Principle of acceleration coefficient (Tabular explanation)

*Numerical assignments and case studies*

### Unit 4: Theories of National Income Determination

**LH 12**

Classical Theory of output and Employment

Keynesian Model of Income Determination

- . Income determination in a Two sector economy, change in aggregate demand and investment multiplier
- . Income determination in a Threesector economy, fiscal multipliers (tax multiplier, government expenditure multiplier and balanced budget multiplier)
- . Income determination in a Four sector Economy, foreign trade multiplier IS – LM Model of Income Determination

- . Derivation of IS curve and product market equilibrium
- . Derivation of LM curve and money market equilibrium
- . Determination of equilibrium income
- . Shift in IS curve and effect on equilibrium income
- . Shift in LM curve and effect on equilibrium income
- . Shift in IS and LM curves and simultaneous effect on equilibrium income
- . Monetary policy and effect on equilibrium income
- . Fiscal Policy and effect on equilibrium income
- . Monetary– Fiscal Policies mix and effect on equilibrium income

***Numerical assignments and Case studies***

**Unit 5: Inflation, Unemployment and Business cycles**

**LH 7**

**Inflation:** Meaning, types (on the basis of rate and control), Theories of inflation – Demand-pull and cost-push, Effects (production and distribution of income and wealth), Computation of rate of inflation (Using PPI, CPI and GDP inflator only), Meaning of Deflation and stagflation  
**Unemployment:** Meaning and types, costs of unemployment, Inflation and unemployment

**Business cycles:** Meaning and characteristics, Phases of business cycles, Economic stabilization policy.

***Numerical assignments and Case studies***

**Unit 6: Macroeconomics Policies**

**LH 5**

**Macroeconomic Policy:** Meaning and Objectives

**Money Supply:** Meaning and sources

**Monetary policy:** Meaning, types, instruments, indicators, targets, goals.

**Fiscal Policy:** Meaning, methods, instruments, goals

**Deficit Financing:** Meaning and significance

**Budget:** Meaning and components

***Case studies***

**Unit 7: Macroeconomics Issues: Nepalese Perspective**

**LH 7**

**Balance of Payments :** Meaning and components

**Exchange rate:** Meaning and types, exchange rate determination (demand supply approach)  
 Economic growth and development, Sources of economic growth, Privatisation, economic liberalisation and globalization, market failure, Foreign direct investment Foreign employment: current status and role.

***Case studies***

### ***References***

- Bernake and Abel , ***Macroeconomics***, Singapore, Pearson Education latest edition Froyen, R.T. *Macroeconomics and Policies* (8th edition)
- Lipsey, R.S. and C. Harbury, ***Elementary Macroeconomics***, New York, Oxford University Press latest edition
- Mankiew, NG (1998), ***Principles of Macroeconomics***, Orlando, The Dryden Press, Harcourt Brace College Publishers
- McConnell and Brue, ***Economics : Principles, Problems and Policies***, New York, McGraw Hill. Latest edition
- Shrestha, R.G. and Adhikari, G.M. ***Macroeconomics***, fifth edition
- Todaro, M.P ***Economics in the Third World***, Hyderabad, Orient Longman, Ltd. Latest edition
- Other suggested readings: Various Publications and Journals of Nepal Rastra Bank, Ministry of Finance, National Planning Commission, Central Bureau of Statistics, World bank, Central Department of Economics (TU) and So on.