

Macroeconomics
Shastri Second Year
Nepal Sanskrit University

Full Marks: 100
Pass Marks: 40
Lecture Hours: 160
Subject: Economics

Level: Sashtri
Year: II
Code:
Paper: III

General Objectives

The course of macroeconomics aims to enhance understanding of students on macroeconomic theories and develop skills of students in using these theories in decision making of the required field under a given economic environment.

Specific Objectives

1. Upon the completion of Unit 1 and 2, students will be able to comprehend the nature of macroeconomics and national income.
2. Upon the completion of Unit 3 and 4, Students will be able to understand the classical approach to employment and output determination. They will also understand the nature of Keynesian approach to different aspects of macroeconomics particularly consumption, investment and investment multipliers.
3. Upon the completion of Unit 5 and 6, Students will be able to examine consumption, saving and investment.
4. Upon the completion of Unit 7 and 8, Students will be gaining the knowledge of business cycle and various aspects of IS-LM model.
5. Unit 9 and 10 equip the students with the knowledge of different models of economic growth and the issues concerning unemployment and inflation.

Course Description

This course of macroeconomics makes students capable of understanding macroeconomic theories and contemporary macroeconomic issues in reference to Nepal. This course consists of introduction to macroeconomics, national income accounting, classical theory of employment, Keynesian macroeconomics, inflation, business cycles, monetary theory and policy, government finance and fiscal policy and contemporary issues.

Course Details

Section	Content	Marks	Teaching Hours
Section A: 1, 2, 3, 4	Introduction, National Income, Classical and Keynesian Theory	35	60
Section B: 5, 6, 7, 8	Consumption, Saving and Investment, ISLM model, Business Cycle	45	75
Section C: 9,10	Economic Growth, Unemployment and Inflation	20	25

Contents

I: Introduction.

Lecture Hours: 10

- Concept and scope of macroeconomics.
- Basic macroeconomic terms: Static, comparative static, dynamic equilibrium, stock and flow.
- Application of macroeconomics in policy analysis.

II: National Income Accounting

Lecture Hours: 20

- Concept and importance of national income accounting (NIA).
- Economic aggregates: GDP, NDP, GNP, NNP, personal income, and disposable income.
- Measurement of national income: Value added, income and expenditure approaches.
- Measurement of GDP in Nepal: Difficulties in measurement of national income.
- Circular flow of income: Two, three and four sectors

III: Classical Macroeconomics

Lecture Hours: 15

- Classical macroeconomics: Assumptions, Say's law of market, labor market equilibrium, quantity theory of money and price determination, interest rate determination.
- Classical model determination of income and employment without saving and investment, and its critical assessment.

IV: Basic Keynesian models.

Lecture Hours : 15

- Evolution of Keynesian macroeconomics
- Principle of effective demand
- Equilibrium level of income in two three sectors economy

- Multiplier analysis in two and three sectors economy: Derivation, uses, and leakage
- Critical assessment of Keynesian models.

V: Consumption

Lecture Hours: 15

- Meaning of consumption and consumption function
- Propensity to consume: APC and MPC in short run and long run
- Determinants of consumption
- Importance of consumption in demand management
- Keynesian psychological law of consumption.

VI: Saving and Investment

Lecture Hours: 25

- Saving: Meaning of saving and saving function: Propensity to save; Relationship between APS and MPS in short run and long run; Determinants of saving, paradox of thrift.
- Investment: Meaning of investment and investment function. Classification, determinants of private investment, investment demand; Marginal efficiency of capital (MEC) and its determinants; Marginal efficiency of investment (MEI); Measures to increase investment; Principle of acceleration; Role of saving and investment in economic growth; Status of saving and investment after 1990s in Nepal.

VII: Extended Keynesian Models

Lecture Hours: 20

- Concept of money demand and money supply: Liquidity preference theory
- IS-LM Model: Concept, product market equilibrium, derivation of IS curve, money market equilibrium, derivation of LM curve
- General equilibrium of the economy using IS and LM curves.

VIII: Business Cycle

Lecture Hours: 15

- Concept and phases of business cycle
- Theories of business cycle: Schumpeter, Hawtrey, and Hayek
- Measures to control business cycle
- Global recession of 2007/08.

IX: Economic Growth

Lecture Hours: 15

- Concept and importance of economic growth.
- Computation of growth rates; Harrod-Domar Models and its application in planning; Factors leading to economic growth; Growth scenario of Nepal (after 1990).

X: Unemployment and Inflation

Lecture Hours: 10

- The expectations-augmented Phillips curve.
- The shifting Phillips curve.
- Macroeconomic policy and the Phillips curve.
- Problem of unemployment: cost of unemployment, and the long term behavior of the unemployment rate.

Note: Numerical Exercises when need arises

Question Grid

Types of questions	Units	Total Marks
Very short answer questions	One from each Unit	10
Short answer questions	Five questions covering all units. Each question is from a different unit.	35
Short Notes	Three questions covering all units. Each question is from a different unit.	15
Long Answer questions	Four questions covering all units. Each question is from a different unit.	40
Total		100

Books

- **Macroeconomics: Theories and Policies**, Richard T. Froyen, Pearson, Eighth edition or Higher
- **Macroeconomics**, Andrew B. Abel, Ben S. Bernake, Dean Croushore, Pearson, Seventh Edition or Higher
- **Macroeconomics**, Brue, McCONNELL, McGraw Hill

References

- **Macroeconomics**, Madhav P. Dahal, Buddha Publication
- **Business Economics - II, Macroeconomics**, Rijan Dhakal, Samjhana Publication
- Gyanwaly, R. P. (2017). **Macroeconomic performance of Nepal**. In Political Economy of Nepal. Edited by R. P. Gyanwaly. Kathmandu: Central Department of Economics T.U.

**Macroeconomics
Shastri 2nd Year**

Model Questions

**FM: 100
PM: 40**

Group 'A'
Very short answer questions

[10 x 1 = 10]

1. Define macroeconomics
2. What is marginal propensity to consume (MPC)?
3. What is real GDP?
4. State any three types of unemployment
5. Define investment multiplier
6. Why does the IS curve slope downwards?
7. What is stagflation?
8. Name any three instruments of monetary policy
9. Define Phillips Curve
10. State the major sources of economic growth.

Group 'B'
Short answer questions
(Attempt any Five)

[5 x 7 = 35]

11. Describe the psychological law of consumption using the appropriate diagram.
12. How is national income measured through expenditure method? Explain.
13. Explain the Say's law of market
14. Derive the LM Curve
15. What is demand for money according to Keynes?
16. Describe the Phillips Curve.

Group 'C'
Short notes answer questions.

[3 x 5 = 15]

17. Phases of business cycle
18. Sketch the circular flow diagram of the three sector economy.
19. Paradox of thrift

Group 'D'
Long answer questions
(Attempt any four)

[4 x 10 = 40]

20. Explain the role of saving and investment in economic growth.
21. Explain the relationship between inflation and unemployment using the Phillips curve.
22. Explain the general equilibrium of the economy through the IS and LM curve.
23. How does marginal efficiency of capital (MEC) help in investment decisions? Explain.
24. Explain the scope of macroeconomics.

Public Finance, Financial System and International Trade

Level: Shastri

Full Marks: 100

Year: II

Pass marks: 40

Code:

Teaching Hour: 160

Paper: IV

Course Introduction

This course is designed to make sound knowledge about the concept of public finance, financial system and international trade.

Course objectives: The objectives of this course are -

- * to provide knowledge of basic concepts of public Finance and its role.
- * to enhance the Financial systems.
- * to understand the knowledge of Financial Instruments.
- * to gain the knowledge of International trade and International Institutions (IMF, WTO and SAFTA).

Detailed Course Contents and Learning Outcomes

Group A

(Public finance 70)

Unit: I Introduction to Public Finance: [Lecture Hours 10]

Meaning; Historical evaluation of public Finance; classical, Keynesian and post-Keynesian view of public finance; comparison of private finance and public finance, Role of Public Finance in Developing countries.

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * able to compare public and private finance.
- * to understand the role of public finance.
- * to solve the problems of public finance.
- * to analyze the role of public finance in Nepal.

Unit: II Public Expenditure [Lecture Hours 15]

Concept; Causes and Growth in public Expenditure; Classification of public Expenditure, Effect of public Expenditure on Production, Employment, Economic Stability and Growth; Principle of Social advantage; Canon of Public Expenditure and Trends of Public Expenditure in Nepal.

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to know the concept of public expenditure.
- * to understand effect of public expenditure in various field.
- * able to explain canon of public expenditure.
- * to show the feature and trend of expenditure in Nepal.

Unit: III Public Revenue [Lecture Hours 25]

Meaning and sources of public revenue; classification of tax Direct and Indirect, International tax; shifting of tax- Concept, types, theories and factor influencing the shifting of tax; Incident and impact of taxation; Division of tax burden; expediency, socio political, benefit and received theory; ability to pay and benefit principle of taxation; effect of taxation, characteristics of good tax system; single and multiple tax ,proportional, progressive, regressive and digressive tax, role of taxation in Developing countries.

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to know the source of public revenue.
- * to understand the classification of direct and indirect tax.
- * to show the incident and impact of taxation.
- * to Explain the ability and benefit principle of taxation.
- * to learn the role of taxation in developing countries.

Unit -IV Public Debt and Foreign Aid [Lecture Hours 20]

Concept and classification of public debt; Effect of public debt internal and external; role of public debt in developing countries; public debt management- principle and technique; Debt trap- causes, Consequence and remedies; Foreign aid - Introduction, types and importance; public debt and foreign aid in Nepal: evaluation trend and issues.

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to know the concept and classification of public debt.
- * to forecast internal and external debt.
- * to understand the debt management and debt trap.
- * to define the concept of foreign aid.
- * to evaluate the trend of foreign aid.

Group -B**(Financial system 60)****Unit- 5 Basic Concept** [Lecture Hours 10]

Meaning, Function and Development.

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to know the concept of financial system.
- * to understand the function and development of financial system.

Unit - 6 Financial Institutions [Lecture Hours 20]**a) Banking Institutions**

Central bank- meaning, role and function, principle of note issues; Credit control- objective and Instruments.

Commercial Bank-Meaning, function and process of credit creation.

b) Non banking financial Institutions

Formal Sector- Development bank, financial company, Insurance company, Micro finance, Co-operatives and mutual fund.

Informal Sector- Individual and Group money lender.

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to learn the concept of central and commercial bank and its function.
- * to show the credit control and credit creation process.
- * to understand the concept of non financial institution formal and informal sector of Nepal.

Unit -7 Financial Instruments [Lecture Hours 15]

foreign currency; personal Cheque ; Traveler Cheque; Bank draft; Bank voucher; Certificated of Deposit; Government Bills and Bonds; Bill of Exchange; Debenture; promissory Note; Debit card; Credit Card; stock(ordinary, preferred and promoter).

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to learn the various types of financial instrument.
- * to get a depth knowledge of various kinds of financial instrument used in Nepal.

Unit- 8 Financial Market [Lecture Hours 15]

Meaning and Feature

Money and Capital Market - Meaning and Instruments.

Primary and Secondary Market

Derivative Market

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to know the basic concept of financial market.
- * to understand the knowledge of money and capital market.
- * to provide the knowledge of primary and secondary market (SEPSSE) of Nepal.

Group – C**(International Trade 30)****Unit -9 Theory of International Trade** [Lecture Hours 15]

Comparative cost theory and Heckscher - Ohlin Theory

Balance of trade and Balance of Payment: meaning and method of adjustment of BOP

Exchange rate: meaning and theory of exchange rate Determination.

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to gain the basic knowledge of international trade.
- * to understand of comparative and Heckscher- Ohlin theory of international trade.
- * to know the concept of BOT and BOP and adjustment method.
- * to derive the Method of exchange rate determination.

Unit -10 International Trade Institution [Lecture Hours 15]

Concept of privatization, liberalization and Globalization.

IMF, WTO and SAFTA : Origin and Goal .

Learning Outcomes: (After the completion of the unit, students will be able to...)

- * to understand the concept of International trade.
- * to gain the knowledge of advantage and disadvantage of privation, liberalization and globalization.
- * to know the concept of international trade institution IMF, WTO and SAFTA.

Reference

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- Singh, S. K. (1996). Public finance in theory and practice. New Delhi: S. Chand Company Ltd.
- Bhattarai, P. (2000). The Nepalese financial system. Kathmandu: Asmita Books Publishers.
- Chaudhary, R. K. (2001). Public finance and fiscal policy. New Delhi: Kalyani Publishers.
- Shah, R. K. (2019). Public economics. Vol: I & II. Kathmandu: Ekata Books.
- Lekhi, R. K. (2007). Public finance. New Delhi: Kalyani, Publishers.
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- Batra, G. S. & Dangwal, R. C. (2004). Globalization and liberalization. New Delhi: New Development, D and D Publications Private Ltd.
- Gupta, S. B. (1994). Monetary economics: Institutions, theory, and policy. New Delhi: S. Chand & Company Ltd.
- Paudel, N. P. (2010). Nepalese financial system & investment environment. Kathmandu: Ratna Pustak Bhandar.