Course title: Macroeconomics I
Number of credits: 4
Type of course: Core
Course scheduling: Monsoon Semester
Number of lecture hours: 42 (approximately)
Evaluation: Mid semester: 50%; End semester: 50%
Course Instructor: Prof. Meeta Keswani Mehra

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.

Textbooks

1. Advanced Macroeconomics by David Romer, Third Edition, McGraw Hill Publishers, 2006.
2. The Foundation of Modern Macroeconomics by Ben J. Heijdra, Second edition, Oxford University Press, 2009.
3. Lectures on Macroeconomics by Blanchard, O.J. and Fischer, Stanley), Cambridge: MIT Press, 1989
   Select additional teaching material may be prescribed as the course progresses.

Tentative Teaching Plan
(Each Session of One Hour Thirty Minutes Duration)

1. **Basic Building Blocks: Aggregate Demand, Aggregate Supply and Business Cycles**
   Chapter 1 of Heijdra
   (2 lectures = 3 hours)
   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.

2. **Dynamics in Aggregate Demand and Supply**
   Chapter 2 of Heijdra
   (2 lectures = 3 hours)
   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**
   Chapter 5 in Romer
   (3 lectures = 4.5 hours)
   Concepts covered: comparative statics, stabilization policy, wage-price rigidity, involuntary unemployment, expectations-augmented Phillips curve, core inflation, cyclical behaviour of the real wage.

4. **New Classical Economics**
   Part A of chapter 6 in Romer
   Chapter 3 of Heijdra
   (3 lectures = 4.5 hours)
   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**
   Section 6.11 in Romer, David, (2006) Advanced Macroeconomics, Third edition, McGraw-Hill International Edition.
   (3 lectures = 4.5 hours)
   Concepts covered: long term and short term wage contracts, rational expectations, optimal money supply rule, coordination failures, reaction function, sunspots, unique equilibrium and multiple equilibria, fragile equilibrium.

6. **Consumption**
   Sections 7.1, 7.2, 7.4, 7.5 and 7.6 in Romer
   (3 lectures = 4.5 hours)

7. **Investment**
   Section 8.7 in Romer
   Blanchard, O.J. and Fischer, Stanley (1989) section 5.1, p. 213-224, and section 9.6, p. 478-487
   (2 lectures = 3 hours)

8. **Unemployment**
   Chapter 9 in Romer
   (2 lectures = 3 hours)
   Concepts: efficiency wage, implicit contracts, insiders and outsiders, and hysteresis.

9. **Inflation and Monetary Policy**
   Sections 10.1, 10.2, 10.3, 10.4, 10.5, 10.8, 10.9 in Romer
   (3 lectures = 4.5 hours)
   Concepts covered: Fisher effect, liquidity effect, term structure of interest rates, expectations theory of the term structure, term premium, dynamic inconsistency, sub-game perfect, reputation, delegation, inflation targeting, seignorage, inflation-tax Laffer curve, hyperinflation, costs and benefits of inflation, steady inflation and variable inflation, deflation.

10. **Budget Deficits and Fiscal Policy**
    Chapter 11 in Romer, except sections 11.6 and 11.8, and Hjeidra, section on Ricardian equivalence.
    (3 lectures = 4.5 hours)
    Concepts and issues: The government inter-temporal budget constraint, primary deficit, some measurement issues, Ricardian equivalence, tax smoothing, deficit bias in fiscal policy, delayed stabilization, effects of sustainable and non-sustainable deficits, and debt crises.