

ALLIED PAPER

MACROECONOMIC THEORY AND POLICY

Course Description

This course introduces the students to modelling of a macro-economy in terms of analytical tools. It discusses various alternative theories of output and employment determination in a closed economy in the short run as well as medium run, and the role of policy in this context. It also introduces the students to various theoretical issues related to an open economy. The course also discusses aspects of economic growth.

Course Outline

1. The Closed Economy in the Short Run

Simple Keynesian model of income determination; IS-LM model; fiscal and monetary multipliers.

2. Aggregate Demand and Aggregate Supply Curves

Derivation of aggregate demand and aggregate supply curves; interaction of aggregate demand and supply.

3. Open Economy Models

Short-run open economy models; Mundell-Fleming model.

4. Economic Growth

Solow model; golden rule; technological progress

Readings

1. Dornbusch, Fischer and Startz, *Macroeconomics*, McGraw Hill, 11th edition, 2010.
2. N. Gregory Mankiw. *Macroeconomics*, Worth Publishers, 7th edition, 2010.
3. Olivier Blanchard, *Macroeconomics*, Pearson Education, Inc., 5th edition, 2009.