

Code: ECON-202

Title: Intermediate Macroeconomics

Credit Hours: 03

Prerequisite: Principles of Macroeconomics

Objectives:

This course is built on the macroeconomic concepts developed in the course on Principles of Macroeconomics. It will enable students to use various macroeconomic concepts to study the dynamics of an economy at a more advanced level. Students will be able to think critically and to formulate their own perspective on various macroeconomic issues

Course Contents

Introduction

The Keynesian revolution and growth of Macroeconomics, Actual vs. Potential Output, Analytical approach to macroeconomics, Okun's Law and unemployment, Price Indices and Inflation, the simple macroeconomic models, Lead and Lagged variables, Exogenous and Endogenous variables and their functional relationships, Introduction to the Classical and Keynesian Schools of Thought.

Theories of Consumption

Consumption as a function of income, Theories of Consumption: The Absolute income, Relative income, Permanent income and Life-cycle income hypotheses, Kuznet's findings and Reconciliation of Marginal and Average Propensity to Consume, Random Walk hypothesis.

Saving and Investment

Definition of Investment, Real and Financial investment, Autonomous and Induced investment, Determinants of investment: The Present Value, IRR and benefit-cost ratio Criteria, Investment Demand and capital formation, Tobin's Q-Theory, Lags in Investment Demand, Volatility of Investment, Investment by the Public sector, Equilibrium in the goods market, Derivation of IS curve (graphic), Factors affecting the position and slope of the IS curve, The Saving-Investment gap in developing countries.

The Demand for and Supply of Money

The demand for money, The Quantity Theory of money, The Liquidity Preference/ Portfolio Balance Approach, the supply of money: M1, M2, M3 concepts, the money supply multiplier and the role of banking system, Instruments of credit control and the role of central bank, Equilibrium of the money market, Derivation of LM Curve (graphic), Factors affecting the position and slope of the LM curve.

Determination of National Income

The Keynesian model for a simple two-sector economy, inflationary and deflationary gaps, the concepts of multiplier, Interaction of the IS and LM functions and derivation of the aggregate demand function, The impact of changes in public expenditure, taxation and money supply on aggregate demand and the rate of interest.

Aggregate Supply and the Labour Market

The aggregate production function, Demand for Labor in the short run, Labor market and its Equilibrium: The flexible and sticky wage models, the imperfect information model, the short-run aggregate supply function, The concepts of full-employment and underemployment, Supply shocks and stabilization, Interaction of aggregate demand and supply and price determination.

Inflation and Unemployment

Types, causes and measurement of inflation, the structural and monetary approaches to inflation, Global inflation and its impacts on developing economies, Transitory and structural unemployment, the problem of unemployment with special reference to Pakistan, the

relationship between inflation and unemployment, Phillips curve in the short-run and long-run, Remedial measures to combat inflation and unemployment.

Recommended Books:

- Shapiro, Edward – Macroeconomic Analysis- Latest Edition–Harcourt Brace Inc.
- Froyen, Richard–Macroeconomics: Theories and Policies–Latest Edition–Macmillan
- Mankiw, Gregory N.- Macroeconomics –Latest Edition, Worth Publishers, NY.
- Blanchard, Oliver – Macroeconomics –Latest Edition - Prentice Hall International.
- Dornbusch & Fisher – Macroeconomics- Latest Edition- McGraw Hill Inc.