Course Title	**Macroeconomics 2: Theories and Applications**		
Programme Title	**Master of Arts in Economics**		
Specialisation	**Economics**		
Mode	**M1**	**Level**	2
Course ID		**Credits**	3
Course Type	Core	**Semester**	2
Version	1.0	**Academic Year**	2024-25
Course Development Team	**Raghav Srinivasan**		

Rationale and Introduction

Macroeconomics 2: Theories and Applications is a core course in the MA Economics program. Macroeconomics is one of the two central planks of core theory in Economics. This course introduces and lays the foundational theoretical knowledge for students to effectively engage and examine contending macroeconomic theories, a curricular goal in the MA Economics program. This course will develop student's capabilities in macroeconomics theory, using stock-flow accounting framework to introduce the concepts and analytical frameworks of modern monetary economy and use them to study the monetary-real sector dynamics. At the same time, the applied part of the course aims to engage and equip students with the analysis of fiscal and monetary policies in India in the context of modern financialization. The course will serve as the second foundational course and will help students to pick up advanced topics in growth, trade and development in courses in second year courses such as Advanced Macroeconomics (elective) and Macroeconomics of Development (elective).

Prerequisites

None

Intended Learning Outcomes

After successful completion of the course, the student will be able to

1. Describe the interrelation between real and financial spheres
2. Distinguish the mechanisms by which output, employment and liquidity preference interact under endogenous money

3. Explain the key features and mechanisms of monetary policy transmission in India under financialization
4. Evaluate alternative fiscal policy rules and their implications under modern monetary economic constraints
5. Analyse alternative macroeconomic policy frameworks from the Heterodox perspectives on growth and distribution under financialization.

Syllabus & Readings

This course aims to prepare the groundwork for pursuing advanced topics in Macroeconomics. The novelty of the course is the use of the stock-flow accounting framework (SFC) to introduce and analyse contending perspectives in modern monetary macroeconomics. It equips the students with the alternative analytical frameworks that underpin and inform macroeconomic policy making in the context of modern financialized economies. In addition to the traditional theories of money such as the theory of liquidity preference, Tobin's wealth effect in the standard treatment of Macroeconomics, this course introduces more recent frontier topics on real economy-financial economy interaction and its implications for distribution and growth through stock-flow accounting approach.

Unit name	Weeks
1. Modern Monetary Economy	2
2. Endogenous money and the macroeconomy	2
3. Endogenous money and alternative micro foundations	2
4. Endogenous money and Business cycles	2.5
5. Macroeconomic policies in modern monetary economies	2.5
6. Long run growth under financialization	2
7. Review week	1
8. Non-instruction exam week	1

<u>Unit 1: An Introduction to Modern Monetary Economy (2 Weeks)</u>

This unit introduces alternative ways of conceptualizing the macroeconomy. In particular, it describes the economy in the stock flow accounting framework to elicit contending perspectives in monetary theory in macroeconomics. The framework also introduces a way for the student to think about the interrelation between real and financial spheres that is discussed in the latter units.

Required reading: week 1

1. Godley, W., & Lavoie, M. (2006). *Monetary economics: an integrated approach to credit, money, income, production and wealth*. Springer (Chapter 2)

Required reading: week 2

2. Nikiforos, M., & Zezza, G. (2018). Stock-Flow Consistent macroeconomic models: a survey. *Analytical Political Economy*, 63-102.

Optional reading: week 2

3. Narayan, A., Jayadev, A., & Mason, J. W. (2017). Mapping India's Finances: 60 Years of Flow of Funds. *Economic and Political Weekly*, 49-56.

Unit 2: Endogenous Money and the Macroeconomy(2 Weeks)

This unit describes the Endogenous money creation through the relation between the government, central bank and the commercial banking sector. The unit aims to contextualize the contending theories both methodologically and analytically, using the SFC framework to elicit the substantive differences between them and implications for the macroeconomic saving-investment causality.

Required reading: week 3

1. Godley, W., & Lavoie, M. (2006). *Monetary economics: an integrated approach to credit, money, income, production and wealth*. Springer (Chapter 3.1-3.3)

Required reading: week 4

2. Godley, W., & Lavoie, M. (2006). *Monetary economics: an integrated approach to credit, money, income, production and wealth*. Springer (Chapter 3.4-3.6)

Optional reading: week 4

3. Palley, T. I. (2013). Horizontalists, verticalists, and structuralists: the theory of endogenous money reassessed. *Review of Keynesian Economics*, *1*(4), 406-424.

Unit 3: Endogenous money and alternative micro foundations (2 weeks)

The aim of the unit is to provide alternative micro foundations for macroeconomics. This unit will have two topics and will provide an alternative macroeconomic approach based on the SFC framework modelling demand for money and the building blocks for the analysis of monetary policy transmission mechanism that will be discussed in the later units.

- Liquidity Preference and Endogenous Money (week 5)

This topic will examine the Liquidity preference theory under endogenous money using the Stock Flow Consistency framework. Issues such as the wealth effect on household consumption under financialization will be discussed.

Required reading: week 5

1. Godley, W., & Lavoie, M. (2006). *Monetary economics: an integrated approach to credit, money, income, production and wealth*. Springer (Chapters 3 and 4.1-4.5)

Optional readings: week 5

2. Bibow, J. (2005). Liquidity Preference Theory Revisited-To Ditch or to Build on It? *The Levy Economics Institute of Bard College Working Paper*, (427).
3. Bhaduri, A., Laski, K., & Riese, M. (2006). A model of interaction between the virtual and the real economy. *Metroeconomica*, *57*(3), 412-427.

- Theory of Firm: Alternative Micro-foundations (weeks 6 and 8)

This topic will introduce the alternative theory of firm and the three-way power struggle between shareholders, managers, and workers, and its implications for aggregate distributional struggle between the capitalists, rentiers and workers.

Required readings: week 6

1. Lavoie, M. (2014). *Post Keynesian Economics: New Foundations*. Edward Elgar (Chapter 3, pp. 123-137)

Required reading: week 8

2. Dallery, T., & Van Treeck, T. (2011). Conflicting claims and equilibrium adjustment processes in a stock-flow consistent macroeconomic model. *Review of Political Economy*, *23*(2), 189-211.

Optional reading: week 8

3. Van Treeck, T. (2009). The political economy debate on 'financialization'–a macroeconomic perspective. *Review of International Political Economy*, *16*(5), 907-944.

Unit 4: Endogenous money and Business cycles (2.5 weeks)

This unit would pick up from the previous units to develop models of business cycles induced by the interaction between the monetary and real spheres of the macroeconomy. Using the SFC framework, this unit will introduce some recent developments in the financial sector including the shadow banking, securitization, and other manifestations of modern financialization, and their implications to the macroeconomy via procyclical leverage, debt cycles, and abrupt collapse of financial markets.

Required reading: week 9

1. Godley, W., & Lavoie, M. (2006). *Monetary economics: an integrated approach to credit, money, income, production and wealth*. Springer (Chapter 7.1-7.4)

Optional reading: week 9

1. Palley, T. (2011). America's flawed paradigm: macroeconomic causes of the financial crisis and great recession. *Empirica*, *38*(1), 3-17.
2. Minsky, H. P., & Kaufman, H. (2008). *Stabilizing an unstable economy* (Vol. 1). New York: McGraw-Hill.

Required reading: week 10

3. Palley, T. I., & Palley, T. I. (2013). The simple analytics of debt-driven business cycles. *Financialization: The Economics of Finance Capital Domination*, 62-81.

Optional readings: week 10

4. Bhaduri, A., & Raghavendra, S. (2022). Financial Growth and Crash under Shadow Banking. *Review of Political Economy*, 1-18.
5. Correa, R. (2021). A Minsky-Levy-Kalecki Model. In *Bridging Microeconomics and Macroeconomics and the Effects on Economic Development and Growth* (pp. 64-78). IGI Global.

Unit 5: Macroeconomic policy in modern monetary economies: The case of India (2.5 weeks)

This unit aims to provide an analysis of macroeconomic policy frameworks from the perspective of endogenous money developed in the previous units. In particular, this unit will examine the monetary policy transmission mechanism in the India context. The unit will motivate students to look at the nature of financialization in the Indian context using the flow-of-funds (FOF) analysis. Then it will use the SFC framework to explore the transmission dynamics between the banking and non-banking sectors to the households and the corporate sectors. The unit will also compare the contending policy frameworks of the New Consensus and the Functional Finance approach to contextualize the recent macroeconomic policy debates in India.

Required readings: week 11

1. Cristadoro, R., & Veronese, G. (2011). Monetary policy in India: is something amiss? *Indian Growth and Development Review*, *4*(2), 166-192.
2. Narayan, A., Jayadev, A., & Mason, J. W. (2017). Mapping India's Finances: 60 Years of Flow of Funds. *Economic and Political Weekly*, 49-56.

Optional readings: week 11

3. Akcay, Ü., Hein, E., & Jungmann, B. (2022). Financialisation and macroeconomic regimes in emerging capitalist countries before and after the Great Recession. *International Journal of Political Economy*, *51*(2), 77-100.

Required readings: week 12

4. Mason, J. W., & Jayadev, A. (2018). A comparison of monetary and fiscal policy interaction under 'sound' and 'functional' finance regimes. *Metroeconomica*, *69*(2), 488-508.
5. Wray, L. R. (2018). Functional finance: A comparison of the evolution of the positions of Hyman Minsky and Abba Lerner. *Levy Economics Institute, Working Papers Series*.

Optional readings: week 12

6. Sen, S., & Dasgupta, Z. (2018). Financialisation and corporate investments: the Indian case. *Review of Keynesian Economics*, *6*(1), 96-113.
7. Raghavendra, S. (2013). Economics, politics and democracy in the Age of credit-rating capitalism. *Economic and Political Weekly*, 34-38.

Unit 6: Long Run Growth under financialization (2 weeks)

This unit will introduce models of long run growth under financialization. To set an historical context, the unit will provide an overview of the non-monetary growth models such as Harrod, Solow and Endogenous growth models. Then it will introduce the Post Keynesian models of long run Minsky inspired super-cycles, distribution and growth in the context of modern monetary economies.

Required readings: week 13

1. Hein, E., & van Treeck, T. (2008). 'Financialisation'in Post-Keynesian models of distribution and growth-a systematic review.
2. Onaran, Ö., Stockhammer, E., & Grafl, L. (2011). Financialisation, income distribution and aggregate demand in the USA. *Cambridge Journal of Economics*, *35*(4), 637-661.

Optional readings: week 13

3. Epstein, G. (2021). Financialisation: There's Something Happening Here 1. In *Global Political Economy* (pp. 270-293). Routledge.

Required reading: week 14

4. Palley, T. I. (2011). A theory of Minsky super-cycles and financial crises. *Contributions to Political economy*, *30*(1), 31-46.

Optional reading: week 14

5. Dasgupta and Raghavendra (2023). The dynamics of accumulation under financialization: The case of Indian Economy during the post liberalization period.

Week 15:
Non-instruction exam week.

Pedagogy

The course will be taught as a mix of in-person lectures, informal discussion boards, and group readings and exercises. The teaching methods used in this course will be informed and underpinned by the principles of the Universal Design for Learning (UDL). Recognising the diversity in the student cohort and to stimulate an inclusive learning environment, I will provide multiple modes of engagement for students to achieve the learning outcomes using alternative ways of representing the content and providing students flexibility in various options to show their understanding and learning. In the test-based assessments, I will provide alternative options for students who might have difficulties in concentrating in a short-time frame exercises, on an individual case-by-case basis. The group-based exercises will be devised along these principles, which would provide a way for the students to learn in a collaborative manner to create the 'social learning' environment that will enhance individual student's capabilities in a more firm and secure way as opposed to individualistic competitive approach to learning. In terms of coping with varying levels of mathematical background, I intend to offer small group tutorials and non-class contact hours to help students to review early in the semester.

Assessment and Grading

With a view to embed the social learning aspect in the assessments, the class will be organised into small groups in the first week of the semester and will do a number of graded tasks as a group. As discussed below, the group task is designed such that there is a space for individual students' expression and creativity even while they work as a group. There will also be sit-in exams to balance out the group tasks. These two modes are discussed in the following.

<u>Group tasks</u>

There will be two such group tasks during the semester, with the first one being assigned within the first 3 weeks. In this group exercise, all groups will be given a number of questions to study and prepare as a group. On the 3rd week, each student will be randomly assigned a question from the list of questions and will be asked to write their answer individually. Each student will be assessed out of 100 and the average score goes to everyone in the group. This group exercise is designed to help them work as a group and yet it provides them the space to showcase their individual creativity and expression. The UDL principles will guide me to provide multiple forms of assessing the group task and I plan to experiment with them depending on students need and requirement. I will be open and flexible in terms of the mode of assessments, and it can only be decided ex post. The second group task will also

follow the same format but will include a class presentation and hence has a slightly higher weightage. The group exercises will be on the material covered in the previous weeks and they will be designed to explore student's understanding of the content from multiple perspectives.

Sit-in Exams

There will be three open notes exams. All the exams will be well spaced out throughout the semester and the timing will be announced well in advance. The open-notes exam format allows students to consult their class notes (no books, no laptops, no devices etc), which provides an opportunity to assess student's understanding of the content as opposed to testing their memory and recall capabilities that underpin the conventional time-bound closed exams. The open notes format also allows students to be tested on higher level learning and application skills which is the purpose of the course. The exams will test both the understanding of the theoretical frameworks and the application of such frameworks to analyse real world issues, such as interest rate targeting policy for inflation, real-financial economy interactions, particularly in the Indian economy context. Again, in terms of the sit-in exams, the UDL principles will guide on the alternative forms depending on the needs and the requirements of the students, which will be assessed early on in the semester.

The assessments, weights for each assessment and their relation to the ILOs are given in the following table.

Assessment Type	Unit	Week	Weight	Intended Learning Outcome
Group work: task 1	1	3	20%	ILO 2,3 4
Exam 1	2,3	6	20%	ILO 1,2
Exam 2	2	9	10%	ILO 2,3
Group work: task 2 (with class presentation)	4,5	12	30 %	ILO 2,3 4
Exam 3	6	15	20 %	ILO 1,2,3,4