

# KARACHI UNIVERSITY BUSINESS SCHOOL

## UNIVERSITY OF KARACHI

BBA – II (Hons.)	
<b>Course Title</b>	: <b>MACROECONOMICS</b>
<b>Course Number</b>	: <b>BA (H) – 302</b>
<b>Credit Hours</b>	: <b>03</b>

### Objective

Economics is a vital component of any student's education because an understanding of economic principles is essential for success in modern world. The rapid evolution of global interdependence among both highly industrialized and developing economies affects everyone's life. This course will enable the students to learn a new way of looking at the world. This course will establish student's understanding of key economic issues.

### Course Contents

#### 1. Introduction to Macroeconomics

1.1 The Roots of Macroeconomics (Great Depression + Recent Macroeconomic History)

1.2 Objectives and Instruments of Macroeconomics

1.3 Component of Macro Economy

- a. Circular Flow diagram
- b. Three Market Arenas

1.4 Macroeconomic Indicators:

- a. Inflation
  - b. Aggregate Output and Business Cycle
  - c. Unemployment and Global Issues
- 1.5 The Role of Government in the Macro Economy

#### 2. Measurement of Economic Activity

##### 2.1 Gross Domestic Product

- a. Final Goods + Services
- b. Exclusion of Used Goods and Paper Transactions
- c. Exclusion of Output Produced Abroad by Domestically Owned Factors of Production

## 2.2 Calculating GDP

### a. Expenditure – Approach

1. Personal Consumption Expenditure (C)
2. Gross Private Investment (Ig)
3. Government Purchases (G)
4. Net Exports (Xn)
5. The GDP Equation :  $C + I_g + G + X_n$

### b. Income – Approach

- I. Compensation of Employees
- II. Rents
- III. Interest
- IV. Proprietor's Income
- V. Corporate Profits  
Three Adjustments (Indirect business Taxes, Depreciation, Net-Foreign)
- VI. Factor Income)

## 2.3 Other National Accounts:

- a. Net Domestic Product (NDP)
- b. National Income (NI)
- c. Personal Income (PI)
- d. Disposable Income (DI)

## 2.4 Nominal versus Real GDP

## 2.5 Consumer Price Index

## 2.6 Limitations of GDP Concept

## **3.Components of Aggregate Demand and Aggregate Supply and Determinants :**

### 3.1 Aggregate Demand and Aggregate Supply

### 3.2 Macroeconomics Equilibrium

### 3.3 Recessional and Inflationary GDP Gap.

### 3.4 Classical Model of Macroeconomic Equilibrium

### 3.5 Keynesian Model of Macroeconomic Equilibrium

### 3.6 Wage – Price Spiral

### 3.7 Supply – Side Shocks

### 3.8 Stagflation

### 3.9 Consumption Function and Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS)

### 3.10 Investment Function and Its Determinants

### 3.11 The Multiplier Model

- a. The Basic Multiplier Model
- b. Fiscal Policy in the Multiplier Model
  - i. Government Spending Multiplier
  - ii. Tax Multiplier
  - iii. Balance – Budget Multiplier

#### 4. Fiscal Policy

- 4.1 Instruments of Fiscal Policy
- 4.2 Derivation of IS Curve
- 4.3 Discretionary Fiscal Policy

- a. Expansionary Fiscal Policy
- b. Contractionary Fiscal Policy
- c. Financing of Deficits and Disposing of Surpluses
- d. Policy Options : G or T (Government Spending / Taxes)

#### 5. Monetary Policy

- 5.1 Instruments of Monetary Policy
- 5.2 Derivation of LM Curve
- 5.3 Expansionary and Contractionary Monetary Policy
- 5.4 Combining the Goods and Money Market
- 5.5 Crowding Out Effect
- 5.6 The Macroeconomic Policy – Mix

#### 6. Macroeconomic Problems

##### 6.1 Unemployment and Inflation

- a. Recessions, Depressions and Unemployment
- b. Defining and Measuring Unemployment
- c. Components of Unemployment Rate
- d. Cost of Unemployment
- e. Benefit of Recession

##### 6.2 Inflation

- a. Defining and Measuring of Inflation
- b. Kinds of Inflation
  - i. Demand – Pull Inflation
  - ii. Cost – Push Inflation
- c. Cost of Inflation



## **7. Balance of Trade**

7.1 Export Transactions

7.2 Import Transactions

## **8. Balance of Payment**

8.1 (a) Current Account (b) Capital Account (c) Official Reserves Account

8.2 Payment, Deficits and Surplus

## **9. Public Finance**

9.1 Incidence of Taxes (Progressive, Regressive etc.)

9.2 Government Budget

## **10. Economic Growth and Development**

10.1 Economic Development and Economic Growth

10.2 Measurement of Economic Development

10.3 Pre – requisites of Economic Development

10.4 Measuring of the term “Under Developed”

10.5 Different Criteria of Under Development

### **Recommended Books:**

1. Karl E. Case and Ray C. Fair, Principles of Economics, Prentice Hall International Inc. 8th Edition, 2007.
2. McConnel and Bruce, Economics, McGraw Hill Inc., 15/e, 1999
3. Michael Parkin, Economics, Addison-Wesley International Inc., 1990
4. Samuelson, Paul A. and Nordhaus, William D., Economics, McGraw Hill Inc., 18th Edition, 2005.