

Discipline Specific Core Course- 7.1(DSC-7.1): Business and Macroeconomic Policy

*Students who have studied GE (Principles of Macroeconomics I – ECON026 and Principles of Macroeconomics II- ECON028) shall not be allowed to study this paper (DSC 7.1). These students shall study ‘Banking and Insurance’ (DSC 7.2).

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Business and Macroeconomic Policy DSC- 7.1	4	3	1	0	Pass in Class XII	NIL

Business and Macroeconomic Policy

BCH: DSC- 7.1

Learning Objectives

The course aims to provide the learners with a deep understanding of how businesses operate within the macroeconomic context. They will learn key concepts related to business, macroeconomic policy, money market, and foreign exchange. The course will also equip learners with the analytical skills to understand and evaluate macroeconomic data for effective business decision-making.

Learning Outcomes

After the completion of the course, the learners will be able to:

1. Examine the conceptual framework of business and macroeconomic policy.
2. Analyse fiscal and monetary policy implications through the IS-LM framework.
3. Compare the different theories of demand for money, supply of money approach and working of money multiplier.
4. Analyse the causes and effects of different types of inflation and the trade-off between inflation and unemployment.
5. Examine the role of saving and investment on trade and exchange rates in small and large open economies.

Course Contents:

Unit 1: Introduction to Business and Macroeconomic Policy (4 hours)

Macroeconomics: Concepts, Importance, Variables and Subject Matter; Macroeconomic Policies and Business Decisions; Business Policy; Circular flow in three sectors. Growth and GDP, Business cycle, Output gap.

Unit 2: Economy in the Short Run (12 hours)

Determination of Aggregate Demand: Consumption, Saving and Investment; Aggregate Demand and Equilibrium Output: AD-AS and S-I approach, Multiplier (two and three sector) and numerical; IS-LM framework and numerical; Monetary and Fiscal Policy: Meaning, Objectives and Effectiveness; Aggregate Demand-Supply Analysis. and Tax Rate, Monetising Budget Deficit.

Unit 3: Demand for Money and Supply of Money (9 hours)

Money in Contemporary Macroeconomic Frameworks; Demand for Money: Motives and Interest Rate; Gresham's Law; Supply of Money: Meaning, Measures and Money Multiplier; Role of Banks in the Monetary System; Instruments of Monetary Policy and Monetary Transmission Process; Theory Demand for Money: Quantity Theory of Money (Fisher's Transactions approach), Tobin's Portfolio Balance, Baumol-Tobin Transaction. Role of PMJDY in Banking System, UPI and Digital Payment, Central Bank Digital Currency.

Unit 4:

Part A: Inflation and Unemployment (8 hours)

Inflation: Causes and Effects; Fisher Equation; Demand Pull and Cost Push Inflation, Social Costs of Inflation, Strategies to Control Inflation; Unemployment: Natural Rate of Unemployment, Frictional and Wait Unemployment; Okun's Law; Phillips Curve: Trade-off between Inflation and Unemployment. Recession and Unemployment.

Part B: Small and Large Open Economy (12 hours)

Flows of Goods and Capital; Saving and Investment in a Small and a Large Open Economy, Exchange Rates; Mundell-Fleming model, Policies in a Large Open Economy. Contemporary Macroeconomic Issues: Trend of INR against major currencies.

Exercises:

The learners are required to:

1. Examine the nature, concept and scope of macroeconomic policies and business decisions.
2. Analyse the impact of change in government spending on the circular flow.
3. Analyse and interpret the impact of economic growth on the AD-AS model and equilibrium output.
4. Evaluate and discuss the equilibrium in good and money markets.
5. Analyse the effects of fiscal and monetary policy on output, interest rates, and investment.
6. Analyse the significance and relationship of credit creation and economic growth.
7. Evaluate the factors that influence the public's desire to hold cash.
8. Analyse and interpret
 - (i) The role of the Phillips curve and Stagflation in macroeconomic policy.
 - (ii) How supply shocks affect the Phillips curve.

9. Analyse the potential impact of international capital flows on economic growth and stability in both small and large open economies.
10. Analysing the behaviour of the exchange rate of INR against major currencies.

Suggested Readings:

- Blanchard, O. (2021). *Macroeconomics*. (8th Ed.). Pearson Education.
- Branson, W. H. (2005). *Macroeconomic Theory and Policy*. (3rd Ed.). East West Book Pvt. Ltd.
- Chaturvedi, D. D. *Macro Economics*. Kitab Mahal, New Delhi.
- Deepashree & Aggarwal, V. (2021). *Macro Economics*. Scholar Tech Press, New Delhi.
- Dornbusch, R., Stanley, F., & Startz, R. (2018). *Macroeconomics*. (12th Ed.). McGraw Hill Education.
- Gupta, G. S. (2015). *Macroeconomics: Theory and Applications*. (4th Ed.). McGraw-Hill Education.
- Lipsey, R., & Chrystal, A. (2011). *Economics*. (13th Ed.). Oxford University Press, USA.
- Mankiw, N. G. (2019). *Macroeconomics*. (10th Ed.). Macmillan Learning.
- Mankiw, N. G. (2021). *Principles of Economics*. (9th Ed.). Cengage Learning.
- Samuelson, P. A., William D. Nordhaus & Chaudhary S. (2021). *Macroeconomics*. (20th Ed.). McGraw-Hill Education.

Note: Suggested readings will be updated by the Department of Commerce and uploaded on Department's website.

Discipline Specific Core Course- 7.2 (DSC-7.2): Banking and Insurance

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Banking and Insurance DSC- 7.2	4	3	1	0	Pass in Class XII	NIL

Banking and Insurance

BCH: DSC- 7.2

Learning Objectives

This paper aims to develop critical thinking among learners about the banking and insurance industries, their functioning, relevance for the world at large and reasons for regulation.

Learning Outcomes

After the completion of the course, the learners will be able to:

1. Analyse balance sheets of banks.
2. Evaluate both the need for regulation of banks as well as the challenges it creates.
3. Analyse the importance of premium pricing for insurance companies.
4. Evaluate the incentives guiding business conglomerates to set up captive insurance and the concerns associated with it.

Course Contents:

Unit 1: Banking (13 hours)

Banking- core business, Transformations- risk, size and maturity, Assets of banks, Liabilities of banks, Asset liability mismatch, Bank capital- constituents and relevance, Fund based and fee based activities, Off balance sheet activities, Trends in banks' balance sheets and causes and implications of the same.

Unit 2: Banking Regulation (12 hours)

Reasons for tight regulation on banks, Interconnectedness among banks, Interconnectedness among banks and other financial institutions (eg. NBFCs), Capital adequacy regulation and its rationale, Deposit insurance and its relevance.

Unit 3: Insurance (10 hours)

Evolution of insurance from reciprocal insurance to modern times, Problems of adverse selection and moral hazard, Solutions for the same, Pricing of premium and its relevance, Claim settlement ratio, Different types of insurance.

Unit 4: Insurance Industry (10 hours)

Insurance penetration and density- India and the world, Reinsurance industry, Captive insurance, Catastrophe insurance, Regulation of insurance industry.

Exercises:

The learners are required to:

1. Analyse the balance sheet of a leading Indian bank and compare it with that of a bank from a developed country. Emphasis should be on why the differences exist, what could be the implications of the same and not just the how of things.
2. Download a case of a bank failure, for example the Silicon Valley Bank, from resources such as Investopedia and apply what they have studied to develop a deeper understanding of the real world scenario.
3. Compare the premium required to be paid by an adult, non smoking female of a certain age across different types of life insurance policies and ascertain the likely reasons for the differences.
4. Identify two business conglomerates which have their own captive insurance arms and analyse the reasons behind their geographical locale, and their costs and benefits.

Suggested Readings:

- Kidwell, D.S., Blackwell, D.W., Whidbee, D.A. & Sias, R.W. (2016). *Financial Institutions, Markets and Money*. Wiley.
- Kohn, M. (2013). *Financial Institutions and Markets*. Oxford University Press.
- Mishkin, F. (2018). *The Economics of Money, Banking and Financial Markets*. Pearson.
- Saunders, A., Cornett, M.M. & Jain, A. (2021). *Financial Markets and Institutions*. McGraw Hill Education.

Note: Suggested readings will be updated by the Department of Commerce and uploaded on Department's website.