

# MACROECONOMICS FOR BUSINESS

BBS 2<sup>ND</sup> YEAR



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B U D D H A



P U B L I C A T I O N S

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## MACROECONOMICS FOR BUSINESS

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# PREFACE

Macroeconomic concepts and theories are widely applicable in managerial and business decision making. Managers of business organization involved in the production of goods and services have to make decision on: What goods and services to produce? How to produce? Whom to produce? Where to produce? They have to determine prices of their product. Likewise, they have to pay to the suppliers of factors of production like land, labour, capital and basic raw materials. The study of macroeconomics helps managers and entrepreneurs to make decision on these various issues.

Realizing this fact, like various Universities of the world, the Universities of Nepal offering Management Education also offer courses on microeconomics and macroeconomics in the undergraduate level of business studies. The present book **Macroeconomics for Business** is prepared for the Second Year as per the *new syllabus* of **BBS Four Years Programme** of Tribhuvan University. We have explained each of the topics in great detail using sound theoretical explanation with examples as far as possible. We have included numerical problems with solution, three different types of model questions: conceptual, descriptive and analytical are added at the end of each chapter. We have tried to make the book student friendly with full coverage of the designed syllabus. We hope that the book will also be equally useful for other Bachelor Level Program on Microeconomics of other Universities of Nepal.

We have tried to minimize the errors. However, some errors might have escaped from our eyes! We hope suggestions from our valuable teachers, students and readers and their constructive suggestions will be incorporated in next edition.

We thank Mr. Nabaraj Bajgain, the Managing Director of Buddha Publications for undertaking the responsibility of publication and distribution. We really appreciate Mr. Jagadish Baskota for their efforts to layout the book.

**Authors**



# SYLLABUS

## MACROECONOMICS FOR BUSINESS

Course No.: MGT 206

Nature of the Course:

Full Marks: 100

Pass Marks: 35

Lecturer hours: 150

### COURSE DETAILS

#### Unit 1: Introduction to Macroeconomics

8 LHs

Meaning, scope, uses and limitations of macroeconomics, Difference and interdependence between macro and microeconomics, Concept of new classical school and new Keynesian, Macroeconomic concept: Stock and flow variables; Equilibrium and disequilibrium; Static, comparative static and dynamic analysis.

#### Unit 2: National Income Accounting

20 LHs

Circular flow of income and expenditure in two sector, three sector and four sector economy, Meaning of national income, Different concept of national income: GDP, NDP, GNP, NNP, national income at factor cost (NI), personal income (PI), disposable personal income (DI), per capita income (PCI), Real and nominal GDP, GDP deflator, Computation of National income: Product, Income and Expenditure method, Difficulties in measurement of national income, Importance of national income accounting (*Numerical exercise*).

#### Unit 3: Classical Theory of Employment

7 LHs

Concept and types of unemployment, Say's law of market and its implications, Determination of equilibrium level of employment and output under classical theory, Critical evaluation of classical theory (*Numerical exercise*).

#### Unit 4: Keynesian Macroeconomics

30 LHs

Keynesian theory of employment: Principle of effective demand, Consumption function: Concept, classification, Psychological law of consumption, determinants of consumption function, Saving function: Concept, classification, determinants of saving and paradox of thrift, Investment function: concept and types of investment, Marginal efficiency of capital, investment demand curve, determinant of investment, Income and output determination in two sector economy, Investment Multiplier: Concept, income generation process, leakages and criticism (*Numerical exercise*).

#### Unit 5: Income determination (IS-LM) model: Hicks-Hansen Approach

8 LHs

An Introduction to Product market equilibrium (derivation of IS curve), Money market equilibrium (derivation of LM curve), General equilibrium in the product market and the money market.

- Unit 6: Inflation** **14 LHs**  
 Meaning and types of inflation, Measurement of inflation through consumers price index (CPI), Demand pull inflation and cost push inflation: concept and causes, Effects of Inflation, Anti-inflationary measures, Inflation and unemployment: Phillips curve, Concepts of Deflation and Stagflation (*Numerical exercise*).
- Unit 7: Business Cycles** **8 LHs**  
 Concept, types and characteristics of business cycle, Phases of business cycle, Measures to control business cycle.
- Unit 8: Monetary Theory** **15 LHs**  
 Money supply: Concept and determinants, Demand for money: Keynesian approach, Money market and capital market: Meaning and function, Monetary Policy: Concept, types, objectives and instruments of monetary policy, Exchange rate: Determination of equilibrium exchange rate under fixed and flexible exchange rate system.
- Unit 9: Government Finance** **15 LHs**  
 Government budget: Concept, classification, and component and Government budget, Deficit financing: Concept, objectives and methods of deficit financing, Fiscal policy: Concept, types, objectives and instruments of fiscal policy.
- Unit 10: Contemporary Issues (with reference to Nepal)** **25 LHs**  
 Privatization, Liberalization and Globalization: Concepts, benefit and defects, Foreign direct Investment: Benefit, defects and current status of Nepal, Economic growth and Development: Concept and sources of economic growth, Foreign employment: Benefits, defects and current status of Nepal, Poverty: Concept, types, causes and remedies, Economic inequality: Concept, causes and remedies.

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