**PAPER - II**

**MACROECONOMICS**

**Total Marks: 100**

**PART I**

1. **What is Macroeconomics?:** Major macroeconomic issues. Economic models.

Stocks and flows, National income accounting, circular flow of income, real versus

nominal GDP, the GDP deflator, the consumer price index, economic growth, actual

versus potential output, business cycles and their phases, definition of full employment,

unemployment, GDP gap, Inflation.

2. **Classical Macroeconomics:** The classical revolution, production, employment,

labour demand and labour supply. Equilibrium output and employment. The quantity

theory of money. The Cambridge approach to the Quantity theory. Aggregate Demand

and Aggregate Supply in the classical system. The classical theory of rate of interest.

Complete classical model and classical dichotomy.

3. **The Keynesian Macroeconomics:** Aggregate expenditure and its components.

Consumption function and Savings function. Investment and the real rate of interest.

The equilibrium GDP in a closed economy simple multiplies. Government spending and

taxes. Tax multiplier. GDP in an open economy. The net export function and the foreign

trade multiplier. The augmented saving-investment approach. Fiscal and monetary

policies.

4. **Investment and its determinants:** Marginal efficiency of capital and optimal

capital stock, the marginal efficiency of investment. The stock market and Tobin’s qtheory.

Inventory investment and the accelerator model. The interaction of multiplier and

accelerator. The derivation of IS- curve and its slope. Factors that shift the IS- curve.

5. **The money market and LM-curve.** Keynes Theory of Liquidity preference.

Supply of money. Monetary equilibrium and the rate of interest. Derivation of LM-curve

and its slope. Factors that shift the LM-curve. Keynes liquidity tap. Interaction of IS-LM

curves. Adjustment to equilibrium in the IS-LM curve model. The algebra of the IS-LM

model.

6. **Aggregate Demand and Aggregate Supply:** Macroeconomic equilibrium in the

short run. The effect of aggregate demand and aggregate supply shocks on the price

level and GDP. Long run consequences of aggregate demand shocks. Long run

aggregate supply curve. Inflationary and recessionary gaps. The theory of fiscal

stabilization and its effectiveness. Transmission mechanism. Comparison of the

Classical and Keynesian models and policy conclusions.

7. **Inflation and unemployment:** Types of inflation, Supply shock and demand

Shock. Inflation as a monetary phenomena. Stagflation. The theory of Philip’s Curve.

The short run and the long run Philips curve. The expectations augmented Philip’s

curve. Adaptive expectations. Unemployment. Frictional, structural and cyclical

unemployment. Okun’s law. Hysteresis and the natural rate hypotheses.

8. **Consumption theories and their implications:** Keynesian absolute income

hypothesis, Simon Kuznets findings, Duesenbury’s hypothesis, Permanent income

hypothesis, life cycle hypothesis, Robert Hall and the Random- walk hypothesis.

**RECOMMENDED BOOKS**

*1. Lipsey & Chrystal, Economics, Oxford University Press.*

*2. Mankiw, G.N., Macroeconomics, Worth Publishers, New York.*

*3. Froyen, R.T., Macroeconomics, Theories and Policies, Pearson education.*

*4. Glahe, F.R., Macroeconomics, Theory and Policy, Harcourt Brace Jovanovich Inc.*

**PART II**

**ECONOMICS OF PAKISTAN**

1. **Economic Development**

Economic Development versus Economic Growth. Measurement of economic

development. Characteristics of a developing economy. Obstacles to economic

development. Determinants or Pre-requisites of economic development. The state of

Pakistan’s economy and its comparison with other economies of the world.

2. **Strategic Sectors.**

Importance and problems of the agricultural, industrial and foreign trade sectors of the

economy. WTO and its implications. Foreign direct investment, foreign debt burden and

debt servicing problems of Pakistan.

3. **Monetary and Fiscal policies.**

The role of monetary and fiscal policies in promoting economic growth and tackling the

problems of inflation and unemployment in Pakistan. Deficit financing and the annual

budget.

**RECOMMENDED BOOKS**

*1. Nasir, M.S. and Kamal S. Hyder, Economy of Pakistan.*

*2. Zaidi, S. Akbar, Issues of Pakistan’s Economy. Oxford Univ. Press.*

*3. Pakistan Economic Survey, Published by the Government of Pakistan.*

*4. Todaro. M.P., Economic Development in the third world. Latest edition. Heinemann.*

*London.*