EC 451 Micro-Economic theory

The Microeconomics course is a 4 credit course designed to provide students with advanced topics in the field of consumer behavior, Production and Markets which are not normally covered in an undergraduate program. The module on the theory of the firm sees the firm as a separate entity that requires separate analysis and not one that is reduced to a production function alone. Similarly, the sections on natural Monopoly introduce students to other forms of Markets structures that are generally not taught at the undergraduate level. The module on an Introduction to general equilibrium and Welfare is designed to equip students with the basics of General Equilibrium theory and the related concepts of Welfare.

Evaluation: three minor examinations of 20 marks each (Best two will be considered for a total of 40 marks) and one End semester examination 60 marks. Total of 100 marks.

MODULE I: CONSUMER BEHAVIOUR

PART A

(II) The revealed Preference Approach: WARP and SARP
(III) Inter-temporal Choice
(IV) Consumer Surplus: The three measures of Consumer Surplus

PART B

(I) The Integrability conditions and the problem of aggregation across agents
(II) Re-Examining rational choice
(III) Choice under Uncertainty
(IV) Behaviour under imperfect information: adverse selection and Moral hazard

MODULE II: Production and the theory of the Firm

Part A: Production & Distribution

(i) Technology: The Production Possibility Set, Feasible Technology set, Input requirement sets, Production Functions and the idea of Technical Efficiency.
(ii) The derivation of Cost functions
(iii) Returns to Scale: Traditional Approach, The Neo-Classical reformulation
(iv) The Marginal Productivity theory of Distribution
Part B: THE FIRM

(I) The nature of the Firm: Transaction Costs and the nature of governance
(II) Separation of ownership from control : The principle-Agent problem
(III) The Behavioral theory of the firm
(IV) Satisficing behavior

MODULE III: MARKETS

(I) An Overview of Perfect Competition and Monopoly Markets.
(II) Monopoly
(III) Marginal Cost Pricing rule compared with a monopoly pricing rule: Welfare loss
(IV) Regulation of a single product Monopoly: Traditional approach
(V) Comparison of the perfectly competitive market structure and a Monopoly Market structure: Sub-additive Costs and the idea of a Natural monopoly.
(VI) Oligopoly: Curnot, Stackelberg, collusion, and quasi-competitive solutions. Dominant firm and price rigidity models.

MODULE IV: INTRODUCTION TO GENERAL EQUILIBRIUM AND WELFARE

(i) Overview: General equilibrium and partial equilibrium.
(ii) Existence of equilibrium (a) pure exchange economy (b) with production.
(iii) Adjustment mechanism: Walrasian tatonnement, stability of equilibrium
(iv) The First and Second theorem of Welfare economics.

RECOMMENDED READINGS:

Text Books:
Varian, Hal R. Microeconomic Analysis (W.W.Norton & Company, 3rd edition
Bowles, Samuel, Microeconomics: Behaviour, Institutions and Evolution (OUP press 2004),
Andreu Mas-Colell, Michael D. Whinston and Jerry R. Green: Microeconomic Theory

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# EC 452 - PUBLIC FINANCE

## COURSE OUTLINE

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1. INTRODUCTION

I. Significance and importance

Public finance touches our everyday life - not just the taxes, but the social welfare expenditure schemes, the growth and economic development. Every year, when government presents its annual accounts we witness a lot of excitement, media coverage, discussions and debates. But public finance is much more than glancing at the annual budgets and reacting to that.

II. Course Objectives:

This course aims to bring together the various streams of thought on the subject and also make you understand the institutional aspects. It is designed to provide necessary tools and conceptual framework to understand fiscal situations around the world. The main objectives of the restructured course are:

- To provide basic understanding of the conceptual and theoretical issues in Public Economics.
- To give students an appreciation of the analytical methods in economics for the study of the public sector, and the role of the State in principle and in practice around the world.
- To provide a thorough grounding in the principles underlying tax and nontax design, the provision of goods in the public sector, and tax enforcement.
- To enable students to understand the practical problems involved in implementing these principles.

A. Intended Learning Outcomes

By the end of the course the students should be able to:

- Discuss critically the major issues relating to public economics.
- Present a coherent argument orally and in writing on topics in public economics
- Use methods of independent research to prepare a short dissertation on a topic in public economics of their choosing

III. Course structure

The course is organized into the following modules and lectures.
A. The Basics

1. Introduction

The starting point: is there a need for government intervention?

2. What is the need for and role of government intervention

The Classical economists and their supporters argued that the economy can take care of itself and there is no need for government intervention. On the contrary the Keynesians argued that there is no built in forces for the economy to reach the full employment equilibrium and in the absence of government intervention the economy is prone to wide fluctuations in the growth and employment. This is so primarily because of the inherent delays in market adjustments. Government intervention might reduce such delays in market adjustments and help in attaining the equilibrium.

But all through there have been two basic assumptions: all goods are ‘private’ and ‘marketable’. And free markets operate under perfect competition and therefore function efficiently. As we know that these assumptions rarely hold, and therefore market failures are more common necessitating significant government interventions.

3. Theories and issues relating to ‘public’ or ‘social’ goods

If the government intervention is needed for the ‘public good’ reasons and market inefficiency reasons, then the possible solution is government participation in the provision of such goods and services. What are these ‘public goods’ and why they are not amenable for the market mechanism.

4. How to assess the collective preferences of the society? Issues in assessing the public choice mechanism

The issues then would be to determine: what goods and services are to be provided by the government, in what quantities, how to distribute them and how to finance the acquisition of such goods and services. In the case of ‘private’ goods and services the types of quantities and prices as also the distribution mechanism are determined by the market forces. But this is not so in the case of ‘public’ goods where markets cannot function. Thus there is need to find alternative mechanisms.

B. Public expenditure issues

5. Public expenditure evaluation through cost-benefit analysis

Assuming that we found a way to assess the social welfare and also we found a way to sum up the individual preferences for a set of public goods and services, even then there are some more crucial choices to make. Suppose there exist two or more alternative sets of public goods that might deliver the same amount of social welfare, the issue would be how to choose or rank them. Here one way could be to consider the respective costs of providing
the alternative sets of goods and services in relation to the expected benefits. Thus the issue would be to conduct cost-benefit analysis for each set.

6. Public expenditure, growth and structure

Public expenditure generated in this way in most free-enterprise democratic economies has been growing by leaps and bounds. Exactly what could be main factors that guide the aggregate government expenditure patterns? We have seen that government expenditure forms an important component of aggregate expenditure of an economy and national income expenditure identity. This calls for a closer examination of the trends and patterns of total government expenditure. Also it will be useful to empirically see how it is related to the economic growth.

7. Measuring the impact of public expenditure

Underlying the aggregate causality relation between the national income and government expenditure is a process of inter-linkages between different sectors of the economy. A disaggregated sectoral impact of the government expenditure on the national income and output would be more useful. How to measure the sectoral impact? The Input-output analysis can be one method.

C. Public revenues - Direct Taxes

Assessing how to meet the costs of provision of public goods – either by production or by direct purchase or import – is another side. The financing of the cost of providing public goods and services can be done basically, in three ways: taxation, public borrowing, direct sale of goods and services, profits of public sector undertakings.

Each method of raising the finance involves certain economy-wide macro impact and the extent and quality of the impact differs from one method to another. Therefore it is necessary to maintain a balance, keeping in view the overall impact.

It should be now clear the expenditure allocations for the provision of public goods and services and the revenue raising instruments together form the overall fiscal policy. Compared to the monetary policy, fiscal policy tools are much more varied and therefore fiscal policy is found to be more effective in influencing the macroeconomy.

Also, between the expenditure tools and revenue tools, the latter are more powerful with far less side effects. That is the reason why government policy makers are more concerned about the taxation side.

8. Principles of taxation

Since the ancient times, most governments use the tax instrument to raise revenue extensively. There are quite a few agreed principles of taxation.
9. Issues in individual income taxation

The policy instruments under direct taxation are more forthright. Taxation requires accurate tax law, efficient tax collection machinery, simple and persuasive system. The concept of income should be unambiguous. There is the issue of adopting either the global rate system or the scheduler system. Besides the main issues are: inflation adjustment, choice of taxable unit, the tax progressivity issue, etc.

10. Issues in corporate income taxation

Taxing the companies has also been not easy. Designing the tax system involves resolving the following issues: determining the rate structure, the dividend double taxation issue, the interest deductibility issue, the inflation adjustments, the tax depreciation and tax incentives issues.

11. Issues in income tax integration

Need for the integration. Different forms of integration. The effects of integration

12. Issues in international taxation

There are several thorny issues with the companies spread over different countries, emphasizing the need for cross-border harmonization of income taxes. There is the issue of determination of the residence, issue of which country should have the right to tax such multi-national companies, how to harmonize the tax systems so that the tax system is neutral to the capital movements, the role of bilateral and multi-lateral double taxation avoidance agreements etc.

D. Public revenues – issues of indirect taxation

Coming to the indirect taxation the main issues pertain to the reduction of the cascading and pyramiding effects so that the tax burden on the consumers is minimized. For this purpose, the commodity tax systems world over are revamped into the value added tax or the goods and services tax which includes taxation of services.

13. Indirect taxation – principles and structures

It is useful to have an overview of the indirect tax structures that include, customs, central excise, sales taxes and local commodity taxes such as octroi. The various problems in defining the tax bases for each tax, the exemptions, incentives and the administrative problems in implementation will be discussed. The need for reform will be looked into.

14. VAT and GST – principles and issues

The indirect tax reform recently took the shape of redesigning in the form of VAT and GST. The issues and problems in the new system as also in the transition especially in the federations like in India will be discussed.
E. Federal fiscal issues

Several big countries have adopted the federal form of governance due to various reasons. However the sharing of fiscal powers always posed problems. The periodic adjustment mechanisms through federal transfer institutions have not always been successful. Cases of the major federations along with India will be taken up.

15. Indian federal fiscal sharing – a case study

The federal fiscal sharing in India is primarily in the hands of the Finance Commission institution. A review of this system and the possible reform will be discussed.

F. Macro-fiscal economics and economics of public debt

An alternative instrument to raise revenues has been the government borrowing. The structure and role of this source will be examined. There are different types of government borrowing with varied implications on the macroeconomy.
Bibliography

1. **Karl Marx and the Theory of Capitalist Development**
   i. Classical political economy and Karl Marx
   ii. The dialectical and historical materialism
   iii. The essentials of capitalist production
   iv. Commodities and money
   v. Value or exchange value.

2. **The So-called Primitive Accumulation**
   i. Feudalism as a mode of production
   ii. Internal and External Sources of Primitive accumulation
   iii. The transition from Feudalism to capitalism

   **The Experience of Japan**
   i. The nature of Japanese Feudalism
   ii. Meiji Restoration
   iii. The State and Enterprise in Japan
   iv. The Accumulation and laws of motion

3. **The Accumulation and Laws of Motion**
   i. Simple reproduction
   ii. Accumulation and the value of labour power
   iii. The reserve army of labour
iv. Competition of capitals and tendency towards the equalisation of the rate of profit
v. The falling tendency of the rate of profit
vi. The transformation of values into Prices.

4. **Crises and Depressions**

i. The nature of capitalist crisis
ii. Crisis associated with the falling tendency of the rate of profit
iii. Realization crisis

5. **Imperialism**

i. The state and development of Monopoly capital
ii. Imperialism, the highest stage of capitalism
iii. The critiques of Gunder Frank and Paul Baran
iv. Science, Technology, Capitalism
v. Globalisation of capital, the highest stage of imperialism

**Reading List**

5. Lukas, *History and Class Consciousness: What is Orthodox Marxism?” and “The Stand Point of the Proletariat”.
31. J.O. Connor, 'The meaning of Economic Imperialism'.
32. H. Radice (ed.), *International Firms & Modern Imperialism*.

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5. Other Estimates: GLSE, SURE, LIMLE, FIMLE.
7. LIMDEP Model, LPM, Profit, Logit & Tobit Model.
8. Time Series – ARMA, ARIMA – Diagnostic Test – Casualty Test, Co-integration Test – Correcting Mechanism.

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1. Overview of development of monetary theory Major issues and scope, etc.
3. Classical and Neo-classical theories of Money: Early versions. Pigou and Cambridge School, etc. the dichotomy between the monetary theory and value theory. Patinkin’s Critique of Neo-classical theory.
5. Further Developments in L-P approach; Tobin, Boumal models.
6. Friedman, New Monetarism and its critique.
7. Supply of Money – Various theories.
8. Monetary Management and Monetary Policy. Instruments of control, planning etc. – Rules vs. discretion in monetary management.
9. Monetary Policy in India since Independence – Role and Functioning of the Reserve Bank of India.
10. Money Supply in India, its components and trends.
11. Further Issues of Monetary Policy and Monetary Management in India, such as Credit planning, Inflation, Debt Management, etc.
Wage Determination and Employment:

1. Un-free Labour

Reading:

Richard Hellie: Slavery, Internet Source: [www.britannica.com/blackhistory/print?articleId=109538&fullArticle=true&tocId=24155](http://www.britannica.com/blackhistory/print?articleId=109538&fullArticle=true&tocId=24155)


2. Labour in Classical Analysis

Reading:


3. Marxist Approach to Labour


4. Neo-classical Analysis of Labour - Demand and Supply of Labour

Reading:


5. Macro Economic Approach – Keynes

Source:


Labour Organisation, Collective Bargaining and Collective Action:

6. Minimum wages and Collective Bargaining
Reading:


7. Hayek - Monopoly of Trade Unions

Reading:


8. Solow - Labour as a Social Institution

Reading:

Solow Robert (1990): Labour Market as a Social Institution, Basil Blackwell; Cambridge

Skill, Technology and Labour Relations:


10. Technology and Deskilling Harry Braverman

Reading:
Peter Armstrong: Labour and Monopoly Capital

Labour in Society:

11. Approaches to Discrimination:

Reading:

12. Gender Discrimination:
   
   Reading:

13. Social Structures of Accumulation
   
   Reading:

14. Social Closure and Social Exclusion
   
   Reading:

**Labour in Development Discourse:**

15. Wage Differential in a Dual Sector Model - Arthur Lewis
   
   Reading:

16. Mobility and Rational Choice - Michel Todaro
   
   Reading:

17. Circulation of Labour - Guy Standing
   
   Reading:

**Labour in Formal and Informal Sector Debate**
18. Formalisation Thesis of Labour Markets - Immanuel Wallerstein

Reading:

19. Regulation and Informal Sector - Hernando De Soto


20. ‘Informal Sector’ a Structuralist Critique of Dual Sector - Jan Breman


**Labour and Business Organisation:**

21. Lazonick - Innovation and Labour relations

Reading:

Labour and Globalization:

22. Flexible Specialisation Technologies - Piore and Sabel
Reading:

23. Global Value Chains and Global Production Networks
Reading:

24. Varieties of Capitalism Debate –
Reading:

Brief Note about the Course:
This course is meant to introduce different perspectives in economics of labour. The Classical school has given labour the unique role as a technical and conceptual category in wealth generation and measure of value. However, apart from being a factor of production human labour has multiple roles as social, political and cultural actors. For classical school wage determination is not free from these dynamics. The analysis of labour by classical economists has however come under severe criticism for its lack of understanding of the social phenomenon in taking recourse to ‘natural’ categories to explain economic processes. This criticism therefore effectively brings the institutions and labour relations as a crucial variable into the analytical debate. The Marxist analysis brings to relief the dimension of the exploitative nature of the production relations and the dehumanizing effect of surplus appropriation on labour. Some of the neo-classical economists have faced the criticism by discussing the impact of institutions on wage determination.

The Development school faces the questions such as the reasons for static social relations and proposes wealth expansion that can cause increase in levels of productivity through inter-sectoral mobility. Possible resolution of wage differentials is seen by the dualistic model. The stratification school however argues that inequality may not be undesirable, it is rather a necessary condition for motivating wealth expansion. Inequality may be a persistent factor even with wealth expansion. The Neo-Marxists have critiqued both dualism and stratification theories. According to them, productivity neither resolves nor explains inequality. Relational analysis is brought back to explain inequality. Inequality is shown to have roots in the structure of the economic and social relations governed by (power) institutional and historical conditions that generate systemic discrimination, segmentation and informal employment patterns that cause insecurity and lack of bargaining power to certain sections of labour. The structure of linear mobility across sectors and income groups is refuted by producing evidence from the ‘informal sector’. As an extension the neo-Marxists have looked at similar influences of technological choices made in pursuit of profits. Those schools articulating the labour perspective have asserted the need for class mobilization, and collective action.

Institutionalists have put-forth alternative analytical perspectives which bring into the debate the role for a welfare state and have chosen to treat labour as a social institution or recognised uncertainties and market failure as in Keynesian economics by acknowledging the crucial significance of a sustained effective demand and the need for institutional intervention for market expansion. Other perspectives have argued for better treatment of labour as a strategy for market dominance. Formalisation of Trade unions and Collective bargaining was an outcome of such analysis.

However, the crisis of Capitalist markets after the oil shock brought severe criticism of the welfare perspective and saw it as unsustainable. The need to redefine labour politically and a need to build competitive labour markets was reasserted by neo-liberal scholars. A section of neo-Marxist scholarship saw formalisation of the labour markets and consequentially saw a crisis building up in
Capitalism due to a falling rate of profits which could bring about a need to transform the existing structure of Capitalism. Alternative perspectives from liberal school argued for technological resolutions by proposing flexible specialization model as a via-media for sustained capital expansion and to prevent deterioration of labour standards. More specifically, scholars working on the third world however have brought to fore the distortions of the flexible-specialisation model brings in the third world labour markets by analyzing processes of informalisation, feminisation, vulnerabilisation, and the insecurity thesis in the labour markets.

This course would also include the recent policy debates with reference to the Labour markets in India.

Course Teacher: Dr.G.Vijay
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Development Economics as a discipline encompasses different approaches to the problems of unemployment, poverty, income generation, industrialization from different perspectives. The present course enables the student with different tools of analysis while simultaneously equips the student to appreciate alternative perspectives in development theory and policy.

I. Economic Development: Concepts and Approaches

The concepts of Development - Underdevelopment and Dependence
Alternative Approaches to Development Economics.

READING GUIDE: The thrust of this section is to draw attention to the changing emphasis on the conceptualisation of ‘development’ more in terms of Qualitative aspects both from the liberal and Marxian approaches.

READING LIST:


II. The State of Development Theory:


READING GUIDE:

Inspite of the growing number of theories and strategies of development, there has been persistence of poverty, unemployment and inequality in the Third World. There has not been a single comprehensive theory of development that can provide an answer. As a result there has been increasing number of writings expressing despair about the unsatisfactory nature of the development theories, strategies and practices, which are often treated together as ‘Development Economics’. Beginning with Seers (1979) there has been a large number of writings critical of the state of ‘development economics’ and these are now referred to as part of the on going debate on the crisis in “Development Economics” of which we specifically concerned with the theory. While Lewis (1984) finds that the crisis if at all, is a passing one. Seers (1979) feels that there is much scope for development theory to regain its primacy. While Seers (1979) Hirschman (1982) and Streiten (1983) are critical that the Neo-Marxists made much contribution to the ‘Crisis’, Weisskopf (1983) tries to locate the crisis in the viability of the traditional theories to explain the major problems faced by the underdeveloped countries. In a couple of recent papers Cohen (1985) and Livingstone (1986) provide summary of the debate on the crisis in development economics.

READING LIST:


III. Alternative World Views of Development:  

Outline: Two World Views of Development: Unilinear and Non-linear - Two groups of theories - Alternative paradigms within two groups of theories.  

A. Unilinear: i) Mainstream Paradigm  

ii) ‘Counter Revolution’ paradigm  

iii) Structuralist paradigm  

iv) Marxist paradigm.
B. Non-Linear: i) Neo-Marxist Paradigm  
ii) Populist Paradigm.

Reading Guide:

This section is a rather unorthodox approach. There is no published material on such a classification. Bardhan’s (1988) classification of alternative approaches does not conform to this. Work is not accessible as yet. Reliance is on classroom lecture. Stewart (1984) refers to the limitations of the Neo-classical approach which is part of the mainstream paradigm.

Reading List:


IV. Alternative Paradigms of Development:

A. 1. Mainstream Paradigm:

a) Balanced Growth (Rodan)  
b) Unbalanced Growth (Hirschman-Singer)  
c) Stage Theory (Rostow-Gershen Kron)  
d) Dualism (Lewis - Ranis - Fei)  
(Only Lewis Model would be taken up for detailed study).

1. Outline:

a) Development : transition from pre-capitalist stage of capitalist stage - transformation of a predominantly primary producing subsistence economy to secondary and tertiary producing modern economy - ‘big push’ in savings from less than 5 per cent to more than fifteen per cent of national income - as an harmonious and mutually advantageous process.  

Underdevelopment: A condition preceding development and caused by one or the other barrier which should be overcome. State : to play an important
role through planning or through adoption of appropriate strategies that would
induce necessary pressures or incentives for sustained development.

b) A brief survey of the theories under the Mainstream Paradigm: From
Rosenstein-Rodan to Rostow.

c) W.A. Lewis and his Model of Economic Dualism - A Detailed Study,
Lewis Model as an explanation of development as a process of transition
from subsistence dominated dualism to capitalism.

Closed Model:

Classical assumptions of the Model - Two sectors-- the subsistence and the
modern, and their characteristics. - The dynamics of the expansion of the capitalist
sector. - The limitations of expansion.

Open Model:

Terms of Trade between temperate developed countries and the tropical
underdeveloped countries.
Comparative cost doctrine and protection.
Certain extensions to formalise Lewis Model: Ranis and Fei.

Lewis Model and the Indian Growth Experience:

S. Chankaravarthy’s Explorations.

ii) Reading Guide:

A good text for most of the theories under the Mainstream Paradigm is
of the course, however, is on the contribution of W.A.Lewis. Reading of Lewis
1954 essay is a must and it is reproduced in Agarwala and Singh (1963). A good
summary is found in Higgins (1966) and Meier (1980). Gersovitz (1982) contains
a good collection of essays in appreciation (especially the one by Bhagawati) and
extension (especially Ranis and Fei) of Lewis model. For a critical appraisal
Szentes (1972)

Chakravarthy (1974) made an attempt to capture the growth experience of
Indian Economy within Lewisian frame work but a decade later (1984) he appears
to have changed his mind. Nevertheless these two papers contain certain
interesting characterisation of the Indian economy and could be viewed as an
effort to search of an appropriate framework for the analysis of the Indian Economy.

iii) Reading List:


IV. A.3. Structuralist Paradigm: Methodological Underprinings of Prebisch:

i. Outline:

Structuralism: The traditional Latin American Variant. The two Variants of Traditional Structuralist:


ii) Domestic Economics, Latin America (short-term)

Methodology: Methodological Realism Seven elements of structuralism:

The Theory: The World division: Centre - Periphery.

Terms of Trade between the Centre and Periphery-Secular Deterioration.

Disparity in the income elasticity of demand for imports. Flow of benefits of technical progress and productivity to the Centre.
Transfer of incomes from periphery to the Centre.


**Domestic Structuralism** and **Domestic Structure** - Supply inelasticity of agriculture and primary exports and urbanisation and industrial growth - inflationary pressures.

**Critical Appraisal:**

**Research Guide:** The focus is on the contribution of Prebisch which comes under ‘International Structuralism’. Prebisch’s own writings underwent changes over a period of forty years beginning with 1943 - A good summary of his contribution is contained in Baer (1962).

For methodological discussion James Mason (1986) is useful. Those who are inclined towards a deeper study of the methodology of realism, may refer to Keat and Urry (1978).

**Reading List:**


**Neo-Marxist Paradigm:**

(a) Paul Baran - Paul Sweezy
(b) Andre Gunder Frank
(c) Samir Amin
Anthony Brewer’s *Marxist Theories of Imperialism* provides a critical survey which shall be combined with the works of Baran, Sweezy, Frank and Amin. Debraj Ray and Yujiro Hayami provide detailed surveys on development economics in their respective text books.
EC 478 FINANCIAL ECONOMICS

The basic objective of the course is to provide a comprehensive introduction to the functioning of financial markets in the emerging context of deregulations and globalization of markets. Accordingly, topics such as the capital asset pricing models, market efficiency, market volatility and corporate capital structure are covered in this course to equip the students with the tools and technical apparatus necessary to analyze modern literature on financial markets and financial institutions.

Course Contents

1. Financial markets and financial instruments - The place of financial markets in the economy – real assets and financial assets – a frame work for macro economic analysis of financial and non-financial flows – the relation between stocks and flows – rate of interest – international transactions – exchange rate.


4. The demand for securities: The time dimension - present value and duration – calculation of yields on zero coupon bonds – term structure of interest rates – the risk dimension – measurement of risk.

5. Securities markets and their efficiency: stock exchanges – the over the counter market – operational efficiency and efficient market hypothesis (EMH).

6. The determinants of equity prices: shares as claims on future dividends and corporate net worth – the capital asset pricing models (CAPM), implications for portfolio management – modified CAPM – arbitrage pricing theories (APT).


Reading List


Course: M.A., Optional course.

No. of credits: 4

Lectures: 4 hours a week

**Introduction:**

This is an optional course, designed as an introductory one semester course in non-cooperative game theory for graduate students with no previous exposure to the area. The purpose of the course is to introduce students to the basic ideas, concepts and methods of game theory, enabling them to follow the use of these methods in other applied fields, within economics, as well as, possibly, other disciplines as well. While this is a tool-oriented course, the pure theory is sought to be developed with a constant eye on examples and applications. This first course introduces students to non-cooperative games of complete information. It serves as a pre-requisite course for Game Theory – II, to be taught in a later semester. The latter course deals with games of incomplete information.

Pre-requisites for the course are a knowledge of elementary calculus, up to the level presumed covered in the course on Optimisation in Economic Theory; some knowledge of probability theory, and above all, a degree of mathematical maturity.

**Course Outline:**

I. Introduction

Definition of a game: players, actions, payoffs, the ‘rules of a game’. Notions of strategies, information. First ideas of equilibrium.

II. Review of the Elements of Decision Theory

a) Review of probability theory in the context of games
b) Review of Utility theory in the presence of risk. von-Neumann-Morgenstern Utility; the Savage model.

III. Strategic Games with Complete Information
   c) Some examples and applications.
   d) Strictly competitive (constant sum) games; maxmin and minmax strategies and Nash equilibrium.

IV Extensive Games
   a) Games of perfect information with sequential moves: strategies and outcomes; Nash equilibrium, subgame perfect equilibrium; backward induction.
   b) Games of imperfect information (simultaneous moves): Nash equilibrium, subgame perfect equilibrium.
   c) Examples and applications.

V Repeated Games
   a) Finitely repeated games.
   b) Infinitely repeated games: introduction to trigger strategies, some subgame perfect equilibria; subgame perfect folk theorem.

Readings:

The main textbook for the course will be “An Introduction to Game Theory” by Martin J. Osborne, chapters 1-7, 14, 15.

Other textbooks that will be referred to:

1. Gibbons, R., A Primer in Game Theory.
3. Fudenberg, Drew, and Jean Tirole, Game Theory.
EC 587  Issues in Indian Fiscal Policy

General

The objective of this course is to make the students familiar with the intricacies of the Indian fiscal policy issues and appreciate better the need, design and implementation of the fiscal reforms in India.

While the compulsory course Public Finance (C10) offered in the Semester II provides the basic understanding of the conceptual and theoretical issues, this course is designed as an Optional for Semester III to equip the students with practical aspects and applications in the Indian context. There is a growing interest to studying the Indian fiscal situation and policy in view of the frequent situations of fiscal mismanagement, particularly, as India is passing through a critical phase of economic transition breaking away from the traditional closed and regulated policy regime.

The course will be of value to those who wish to pursue a career in the fiscal policy – either in government, international funding agencies, private consultancy firms, or media and journalism. Nowadays, several private consultancy firms are into the businesses of helping governments undertake fiscal reforms and are looking for people trained in fiscal policy intricacies. Besides media also prefer trainee journalists and reporters with a good understanding of applied fiscal economics.

The course is organized into the following topics with around 30 lecture and discussion sessions. The quizzes and tests follow the University practices.

Basic Topics


2. Budgetary process in India. The choice of fiscal year – Budget preparation – Budget structure – Budget presentation and implementation – Checks and balances – Role of CAG, NDC etc. Budget documents.


5. Structure of Government revenue of Centre, States and Local. Tax, Nontax and Debt sources.

6. Issues in Tax policy: Central government. Individual income tax, corporate tax, Central Excise, Customs and Service taxes. In each case, history and evolution, basic structure, revenue productivity, efficiency measures, issues in implementation and compliance.


8. Issues in Non-tax revenue policy – Cost recoveries on public utilities such as power, roads and irrigation.

9. Local finances. Revenue and Expenditure allocations – control and management of local fiscal bodies.

10. Issues in Indian Federal Fiscal Relations – Peculiarities and problems of Federal finance in India.


12. Deficit Financing and public debt management.

13. Fiscal Reform movement in India – Tax Reforms and their implementation – Debt management

14. Role of Reserve Bank of India and other financial institutions.

15. The parallel economy of black money.

Reading List


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Economic activities agglomerate. Economic growth localises. Cities act as engines of economic growth. They drive the structural transformation process in developing countries. Cities provide the benefits of co-location to firms, households and institutions, including external economies of agglomeration. At the same time they are faced with serious problems such as haphazard development, spiraling land prices, housing shortage, poor state of civic infrastructure and services, traffic congestion, slums, poverty, pollution, environmental degradation, weak local governance, etc. This course aims at understanding both the good and bad sides of urbanisation using tools of urban economics. We will also study some contemporary urban problems of India, the genesis of such problems, and how urban economics can contribute towards the design of public policy to deal with them.

Urban economics introduces space into economic analysis. It studies urban phenomena using tools of economics. The field of urban economics is vast. It has a rich and growing body of research literature, including recent contributions from new economic geography.

In this course we will cover basic theoretical models of urban economics to understand why cities form, grow or decline, what makes cities the engines of economic growth, and how urban problems can be studied from an economic point of view. We will also refer to empirical studies testing some key urban economic theories, especially those relating to agglomeration externalities. Further, we will examine some key urban problems in India and apply learning from urban economics for the design of urban policy in India.

Course Outline

Part I: Economics of Cities

1.1 Urban Economic Theory

- Urbanisation Trends and Patterns: World and India
- Why study Urban Economics?
- Why do Cities exist? Why do Cities grow or decline?
- Agglomeration Externalities
- Models of Rural-Urban Migration
- Migration and Public Policy
• Empirical Evidence on Agglomeration Economies

1.2 Spatial Structure of Urban Economy

• Concept of Spatial Equilibrium
• The von Thunen Model
• The Basic Alonso-Muth-Mills Model
• Extensions of the Basic Model
• Spatial Equilibrium in Cities
• Spatial Equilibrium across Cities
• Contribution from New Economic Geography

1.3 Urban Land Use and Zoning

• Determinants of Urban Land Prices
• Market Failure and Urban Sprawl
• Reasons for and Impacts of Land Use Zoning

1.4 Urban Transportation

• The Transportation System
• Roadway Congestion and Pricing
• Transport Investment Analysis
• Transit-Oriented Development

Part II: Urban Problems & Policies

2.1 Urban Housing Shortage

• Analysis of Housing Market
• Housing Shortage and Housing Policy

2.2 Urban Poverty

• Causes of Urban Poverty
• Policies for Addressing Urban Poverty

2.3 Environmental Pollution

• Socially Optimal Pollution
• Policies for Pollution Abatement and Control

2.4 Urban Public Finance

• Market for Urban Public Services
• Urban Public Finance and Implications for Policy
Part III. Study of India’s Urban Challenges

3.1 India’s Key Urban Challenges
3.2 Dimension of India’s Urban Problems
3.3 Approach to addressing India’s Urban Challenges
3.4 Role of Regional and Urban Policies

Course Prerequisites: Graduate level Micro-economics. Basic exposure to mathematical economics and econometrics will be useful.

Readings:


(11 and 12 are meant for students with no background of mathematical economics)