

# 07. ECONOMICS

## DETAILS OF QUESTION PAPER

### I. MICRO ECONOMICS

#### **Demand Analysis**

Modern theories of demand-Revision of demand theory – revealed preferences-Choice under uncertainty.

#### **Theory of production and cost**

Production function short and long run-Technical progress-Capital and labour deepening-Production function and factor shares-Harrod's and Hick's versions-Empirical production functions-Cobb Douglass, CES, VES and translog production functions – Derivation of Cost functions from production functions. Traditional and modern theories of cost- Engineering cost curves.

#### **Price and output determination:**

Perfect competition – Marshall – Sraffa Views-Monopoly-Short run and long run equilibrium. Bilateral Monopoly- Price discrimination-Monopoly-Control and regulation. Monopolistic competition-Chamberlin model-Oligopoly-Non-Collusive-Kinked demand curve.

#### **Critique of Neo –Classical theory of firm:**

The basic assumptions of neo-classical theory. The Hall and Hitch Report and the full cost pricing principle. Gordon's attack on marginalism-Average cost pricing models- Bains limit pricing- Baumol's theory of sales maximization- Marris model of managerial enterprise, Williamson's model of managerial model discretion. The behavioural model of Cyert and March Bounded rationality.

#### **Distribution:**

Marginal productivity theory - Euler's theorem and adding up problem. Macro theories of distribution – Ricardian, Marxian, Kaleckian and Kaldors.

#### **Capital Controversy:**

Central issues in capital theory, Problems of definitions and measurement of capital.

### I. General Equilibrium and Welfare Economics:

Meaning of partial and general equilibrium - Walrasian 2x2x2 model  
critique of general equilibrium – theory of non-tatonnement process - Arrow and  
Debreu. Social Welfare function. The Pareto optimality Criterion - The Kaldor-Hicks  
compensation criterion-Theory of second best – Arrows impossibility theorem.

## **II. MACRO ECONOMICS**

Basic concepts - National Income Accounting - ISLM model - Keynesian and classical  
versions. Extension of ISLM model with government sector, labour market and flexible  
prices. Three sector macro models.

### **Aggregate Demand, Saving and Investment:**

Keynesian psychological law of consumption consumption, theories, multiplier  
accelerator interaction. Investment, investment theories.

### **Demand and supply of money:**

Classical and Keynesian approaches to demand for money- Friedman and modern  
quantity theory of money. Money supply determination in an open economy.

### **Macro economics in an open Economy:**

ISLM analysis for an open economy. Balance of payments and Keynesian analysis.  
Mundell Fleming Model- Monetary approaches to balance of Payments.

### **Theory of Inflation, Current Controversies in Macro Economics:**

Classical , Keynesian and Monetarist approaches to inflation – Phillips curve analysis –  
short run and long run Phillips curve-Rational Expectation Hypothesis. New classical  
macro Economics, Quantity constrained models- Dual decision hypothesis. New-  
Keynesian Economics- Supply side Economics, Real Business cycle approach.

### **Macro Ecc Policy:**

Monetary Policy, Fiscal Policy- crowding out effect. Main Policy issues –  
Keynesian, Monetarists and New Cambridge approach.

## **III. QUANTITATIVE METHODS**

### **Mathematical Methods**

Concept of functions and types of functions- limit continuity and derivatives-rules of differentiation-interpretations of revenue, cost , demand-supply functions- elasticities and their types-multi-variable functions- concept and types of production functions- rules of partial differentiation and interpretation of partial derivatives-problems of maxima and minima in single and multivariable functions- Un constrained and constrained optimization in simple economic problems- simple problems in market equilibrium – concept of integration – simple rules of integration – application to consumer surplus and producer’s surplus-growth of capital.

Determinants and their basic properties-Solution of Simultaneous equation through Cramer’s rule-Concept of Matrices-types-Matrix Algebra- Matrix inversion- Rank of a matrix- Eigen roots and vectors- introduction to input-output analysis- Leontief solution- Static and dynamic model of Leontief.

### **Statistical Methods**

Definition and scope of Statistics, Collection and organization, Presentation of data, Basic concept of Sampling – Random and non-random sampling – Simple random, Stratified random and proportionate sampling concept of an estimator and its sampling distribution.

Measures of central tendency, measures of dispersion, correlation concept of the least squares and the lines of regression- standard error of estimate. Partial and multiple correlation and regression and its applications.

Probability – Various types of events. Classical and empirical definition of probability, Laws of addition and multiplication. Conditional probability concept of interdependence.

## **IV. INDIAN ECONOMY – DEVELOPMENT / POLICY**

### **Planning in India**

Objectives and Strategy of Planning in India- Failures and achievement – developing grass root organizations for development-Panchayats, NGOs and Pressure groups. Demographic Features, Poverty and Unemployment: Broad demographic features of Indian population-population policy- unemployment.

### **Resource Base and Infrastructure**

Economic Resources, Social Infrastructure- education and health: issues and policies in financing infrastructure development.

**Agricultural sector-** Agricultural pricing-Issues in food security- agricultural policy.

**Industrial sector** – Industrial growth and policy prior and after the economic reforms in 1991. Public Sector enterprises and performance . Privatisation and disinvestment debate. Exim policy – issues in labour market reforms, approaches to employment generation.

## **Economic Policies.**

Economic Policies pursuit between 1950's and 1980's – Mixed Economic framework- Market intervention policy. Structural adjustment reforms since 1991. Performance of Indian economy during the post reform period.

## **Kerala Economy:**

Kerala economy at the eve of creation of the state- growth and structural change- Kerala model of development and other hypothesis. Agricultural performance during the post- liberalization period- changing cropping pattern and agricultural productivity – changing agrarian relations- Labour Shortage in agricultural sector. Industrial growth since 1981- traditional and modern small scale industries- growth of information technology – Development of infrastructure and services during the pre and post liberalisation period ( since 1981) – Power , Road, Water and air transport, Railways, development of tourism, commercial banking, health and Education. Trends in educated unemployment. Changing trends in urban and rural poverty. Trends and patterns of migration to other states of India and abroad remittances and economic impact of gulf migration. Trends in state finance- Trends in revenue, expenditure and fiscal deficits- Economic Policies and Planning – Economic Policies of LDF and UDF governments . Impact of the policies on promotion of investment, technological change, economic growth, employment and poverty. Performance and problems of decentralized planning.

## **V. INTERNATIONAL ECONOMICS**

### **Theories of International trade**

Theories of foreign trade before Adam Smith – classical and Neo –Classical theories of trade – Modern theories of international trade – Heckscher – Ohlin theory of trade – Leontief Paradox- Factor Price Equalization theorem- The neo – Heckscher Ohlin model - trade models based on imperfect competition – Oligopolistic models – Krugman model.

### **Trade Policy**

Free trade – Protection – tariffs effects of tariffs – partial and general equilibrium approach – optimum tariffs – Import quotas- effects of quotas – Stolper Samuelson theorem. The Metzler Paradox – The Lerner Symmetry Theorem – Trade Policy and imperfect competition – the Falvey – neo Heckscher – Ohlin model – The Krugman neo – Chamberlin model – Tariffs and monopolies – Tariffs, subsidies and duopoly.

### **The theory of Regional Blocks:**

Forms of economic co-operation – Reforms for the emergence of trading blocks at the global level. Rationale and economic progress of SAARC/SAPTA and ASEAN regions – Problems and prospects of forming customs union- in the Asian region – Regionalism (EU, NAFTA) – multilateralism.

### **Balance of payments / Foreign Exchange/ International Monetary system**

Balance of payments accounting – Elasticity and absorption approaches – Foreign Exchange master – Flexible, floating exchange rates, Managed floats – fixed and pegged exchange rate.

Bretton Woods System – Growth crisis and collapse – conditionality clause of IMF – International liquidity crisis – Debt trap – Latin American experience – Debt management – International financial institutions – IMF – IBRD-IDB-role in helping third world countries – Their achievements and failures.

### **New International Economic Order**

Advances towards NIEO – Reforms of International Monetary System – Reforms of World Trading System – Globalization – New issues of globalization – India's external economic relation - Impact of globalization in the Indian Economy.

## **VI. ECONOMICS OF DEVELOPMENT AND ENVIRONMENT**

Relevance of development – world distribution of income – development Gap – measuring development and development gap – Human development Index – PQLI and alternative indices of development. Economic development and institutions – markets and market failures. State and state failures.

### **Modern theories of Economic growth:**

Harrod – Domar model, Kaldors growth model, Meades model. Karl Marx: theory of social evolution - Variable capital and constant capital – surplus value and exploitation – Reserve army concept – Marx's theory of under consumption. Dualism – technical, behavioural and social – dependency theory of development.

### **The theory of Environmental Policy:**

Environmental externalities – Coase's bargaining solution and collective action. Informal regulation and the new model of pollution control. Monitoring and enforcement of environmental regulation. Environmental institutions and grass root movements Trade and environment in WTO regions.

### **Economics of National Resource Management and Sustainable development.**

Theories of optimal use of exhaustible and renewable resources. Environmental and development trade off and the concept of sustainable development. Macro economic policies and environment.

## **VII. PUBLIC ECONOMICS**

Role of government in organized society , changing perspective government in a mixed economy. Public and Private sector for Co-operation or competition, Government as an agent for economic planning and development: Government as a tool for operationalizing the planning process. Private goods, public goods and merit goods.

### **Rationale for Public Policies**

Pareto optimality – market failure: Imperfections, decreasing cost, externalities, uncertainty, information asymmetry.

### **Public expenditure**

Wagner’s law of increasing state activities. Principles of public expenditure. Structure and growth of public expenditure.

### **Public Revenue.**

Sources – Kinds of taxes, canons of taxation , principles, taxable capacity- shifting and incidence

### **Public Debt:**

Classical view of Public debt- sources of Public debt. Classification of Public debt – Effects of Public debt.

### **Fiscal Policy**

Link between fiscal and monetary policy . Budgetary deficits and its measurement. Fiscal policy for stabilization.

### **Indian Public Finance**

Fiscal federalism- Centre State Financial Relations – Finance Commissions.