

## **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**

- (I) Axiomatic approach to preference orderings: The Rational Preference ordering.
- (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: Cournot, 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.

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## **RECOMMENDED READINGS:**

### **Text Books:**

Varian, Hal R. : Intermediate microeconomics: A Modern Approach (5<sup>th</sup> Edition),

Varian, Hal R. Microeconomic Analysis (W.W.Norton & Company, 3<sup>rd</sup> edition

Bowles, Samuel, Microeconomics: Behaviour, Institutions and Evolution (OUP press 2004),

Andreu Mas-Colell, Michael D. Whinston and Jerry R. Green: Microeconomic Theory

Henderson and R. Quandt, Microeconomic theory: A Mathematical Approach (latest edition)

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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

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2. Auerback, A. J., & Feldstein, M. J. (1985). *Hand Book of Public Economics* (Vol. 1 & 2). New York/ Amsterdam: North-Holland.
3. Backhaus, J. G. (2002). Old or New Public Finance? A Plea for the Tried. *Public Finance Review*, 30, 612-30.
4. Backhaus, J. G., & Wagner, R. E. (2004). *Handbook of public finance* (Vol. 1). Dordrecht, Netherlands: Kluwer Academic Publishers.
5. Bagchi, A. (1994). *Reform of Domestic Trade Taxes in India: Issues and Options*. New Delhi: National Institute of Public Finance & Policy.
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7. Bhagwati, J. N., & Desai, P. (1970). *India: Planning for Industrialization*. Oxford Press.
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9. Boadway, R. W., & Wildasin, D. E. (1984). *Public Sector Economics* (2nd ed.). Boston: Little Brown.
10. Buchanan, J. M. (2003). *Public choice: Origins and development of a research program*. Fairfax, Virginia: Centre for Study of Public Choice, George Mason University.
11. Buchanan, J. M., & Musgrave, R. A. (1989). *Public Finance and Public Choice: Two Contrasting Visions of the State*. MIT Press.
12. Chelliah, R. J. (1966). *Fiscal Policy in Underdeveloped Countries*, . London: Allen & Unwin.
13. Dalton, H. (1971). *Principles of Public Finance*. London: Allied Publishers.
14. Due, J. F. (1987). *Indirect taxation in developing economies*. Baltimore: John Hopkins University Press.
15. Edgeworth, F. Y. (1897). The pure theory of taxation. In R. A. Musgrave, & A. T. Peacock, *Classics in the theory of public finance* (1958 ed., pp. 119-136). London: Macmillan.
16. Fischer, S. (1988, June). Recent developments in macroeconomics. *Economic Journal*.
17. Forte, F; Peacock, A. (1985). *Public Expenditure and Government Growth*. Basil Blackwell.
18. Friedman, M. (1968, March). The role of monetary policy. *American Economic Review*.
19. Goode, R. (1970, March). Public finance in the International Encyclopedia of the Social Sciences: A Review. *Journal of Economic Literature*, 8(1), 27-34.
20. Goode, R. E. (1986). *Government Financing in Developing Countries*. New Delhi: Tata McGraw-Hill.
21. Gulati, I S. (1987). *Centre-State Budgetary Transfers*. Oxford University Press.
22. Gulati, I. S. (1957). *Capital Taxation in Developing Economy*. Calcutta: Orient Longmans.
23. Hockley, G. C. (1979). *Public Finance - Introduction*.
24. Jha, R. (2009). *Modern public economics - second edition*. Routledge.
25. Justi, J., & Gottlob, H. v. (1771). *Natur und Wesen der Staaten*. Darmstadt: Scientia Verlag Aalen.
26. Keynes, J. M. (1936). *The general theory of employment, interest and money*. London: Macmillan.
27. King, D. N. (1994). *Fiscal Tiers: The Economics of Multilevel Government*. London: Allen and Unwin.
28. L K Jha Committee. (1986). *Committee on Administration of Indirect Taxes*. New Delhi: Government of India.
29. Lewis, S. R. (1984). *Taxation for Development*. New York: Oxford University Press.
30. Lybeck, J A; Henderson, M. (1988). *Explaining the Growth of Government*. North-Holland.
31. Manu. (n.d.). Manusmriti - The Laws of Manu.
32. Miles, G. D. (1995). *Public Economics*. Cambridge: Cambridge University Press.

33. Moggridge, D. (1973). *The Collected Writings of John Maynard Keynes*, XIII. London: Macmillan.
34. Mueller, D. C. (1979). *Public Choice*. Cambridge University Press.
35. Musgrave, R. A. (1959). *The Theory of public finance*. New York: McGraw-Hill.
36. Musgrave, R. A. (1969). *Fiscal Systems*. New Haven: Yale University Press.
37. Musgrave, R. A., & Musgrave, P. A. (1973). *Public Finance in Theory and Practice*. New York: MIT Press.
38. Musgrave, Richard A; Shoup, Carl S. (1962). *Classics in the Theory of Public Finance*. Macmillan.
39. Myles, G. (2006). *Intermediate Public Economics*. MIT Press.
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41. Peacock, A. T., & Shaw, G. K. (1976). *The Economic Theory of Fiscal Policy*. London: Allen and Unwin.
42. Plato. (350BC). *Republic*. Athens.
43. R J Chelliah Committee. (1992). *Final Report of the Tax Reforms Committee, Ministry of Finance*. New Delhi: Government of India.
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45. Rosen, S. H. (2001). *Public Finance*. Amazon.
46. Sarma, J V M (1986, March-June). Methods of estimating income elasticity of taxes: A review. *Vishleshan*.
47. Sarma, J V.M (1988, October 22). Investment Allowance and Private Corporate Investment in India. *Economic and Political Weekly*.
48. Sarma, J V M. (1990). *Taxation and Corporate Dividend Behavior in India*. New Delhi: Harman Publishing Co.
49. Sarma, J V. M(1991, January). Panel Data Models and Measurement of Relative Tax Effort of States in India. *Journal of Quantitative Economics*.
50. Sarma, J V M (1997). Federal fiscal relations in India: The issue of horizontal transfers. *Economic & Political Weekly*, 1719-1723.
51. Sarma, J V M (2001, November). Transaction Value Tax: An Alternative Tax Regime for India. *Asia-Pacific Tax Bulletin*.
52. Sarma, J V M, & Rao, M. G. (1989, April 1). Measuring Tax Potential - Some Clarifications. *Economic and Political Weekly*.
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54. Schumpeter, J. A. (1954). *History of economic analysis*. Paris: Oxford University Press.
55. Shamasastri, R. (1909). *Kautilya's Arthashastra*. (R. Shamsastri, Trans.) [hub.rasakali.com/](http://hub.rasakali.com/).
56. Smith, A. (1776). *An Inquiry Into the Nature and Causes of the Wealth of Nations*. (1. R H Campbell and A S Skinners, Ed.) Clarendon Press.
57. Vithal, B. P., & Sarma, J. V. (2002, August 24). Twelfth Finance Commission: Framing its Terms of Reference. *Economic and Political Weekly*.
58. Wagner, A. (1883). *Finanzwissenschaft*. Leipzig: C F Winter.
59. Waldaeur, C., Zakha, W. J., & Pal, S. (1996). Kautilya's Arthashastra: A neglected precursor to Classical Economics. *Indian Economic Review*, 31(1), 101-8.
60. Wicksell, K. (1896). A new principle of just taxation. In R. A. Musgrave, & A. T. Peacock, *Classics in the theory of public finance* (pp. 72-118). London: Macmillan.



	UNIVERSITY OF HYDERABAD  SCHOOL OF ECONOMICS	
Course: MA & IMA  Semester: MA II & IMA VIII	Duration: _____ Course Instructor: Will be decided when the teaching allocation is done. Email: _____	
Course No. EC 453 Core/ Optional: Core No. of Credits: 4 (Four) Lectures: 2 Sessions/ week (110 minutes/ session)	Title of the Course:  <b>Political Economy of Development</b>	

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

1. Howard, M.C. and J.E. King, *The Political Economy of Marx*, Chap. 3-4.
2. Marx: Capital Vol. I, *Prefaces and Afterwards* by Marx & Engel's to the German and French Editions. Chap. 1, 2 & 3.
3. Paul Sweezy, *Theory of Capitalist Development*, Chap. 1.
4. Lenin, *Materialism and Empiric-Criticism*, Chap. 2.
5. Lukas, *History and Class Consciousness: What is Orthodox Marxism?* and *"The Stand Point of the Proletariat"*.
6. Mao, *Four Essays on Philosophy* "On Practice", "On Contradiction".
7. Althusser and E. Balibar, *Reading Capital: The Basic Concepts of Historical Materialism*.
8. Frederick Engels, *Anti-Duhring: Introduction*, Preface.
9. Meghnad Desai, *Marxian Economics*, Chap. 1-3.
10. Maurice Dobb, *Studies in the Development of Capitalism*, Chap. 1, 2, 3.

11. Rodney Hilton, *The Transition from Feudalism to Capitalism*.
12. Karl Marx, Vol. I, Chap. 26 to 33 and Vol. III. Chap. 47.
13. Gottleib. R. (1984), “*Feudalism and Historical Materialism: A Critique and Synthesis*.” Science & Society, Spring. Vol. 48, No. 1.
14. Ibid, (1987), “*Historical Materialism, Historical Laws and Social Primacy: Further Discussion*”, Science and Society, Vol. 48. No. 3.
15. Laibman, D. (1984), “*Modes of Production and Theories of Transition*”, Science & Society, Vol. 48, No. 3.
16. Laibman, D. (1987), ‘*Modes and Transitions: Replies to the Discussion and Further Comments*’, Science and Society, Vol. 51, No. 2.
17. T.C. Smith, *Agrarian Origins of Modern Japan*.
18. R. Komiya, M. Okuno, and K. Suzumara, *Industrial Policy of Japan*.
19. Paul Sweezy, *The Theory of Capitalist Development*, Chap. 5, 6, and 7.
20. Meghnad Desai, *Marxian Economics*, Chap. 4-6.
21. Paul Sweezy, *The Theory of Capitalism Development*. Chap. 8-10.
22. Anthony Giddens, *A Contemporary Critique of Historical Materialism*.
23. James O Connov, *The Fiscal Crisis of the State*.
24. Immanuel Wallerstein, *The Modern World Systems*.
25. Paul Baran & Paul Sweezy, *Monopoly Capital*.
26. V.I. Lenin, *Imperialism: The Highest Stage of Capitalism*.
27. Robert Owen & B. Sutcliffe (eds.), *Studies in the Theory of Imperialism*.
28. Paul Baran, *Political Economy of Growth*.
29. A.G. Frank, *On Capitalist Development*.
30. Galbraith, *The New Industrial State*, Chap. 2-7.
31. J.O. Connor, ‘*The meaning of Economic Imperialism*’.
32. H. Radice (ed.), *International Firms & Modern Imperialism*.

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**EC 471 Econometrics – II: Advanced Econometrics**

1. Multivariate Analysis – Ref: Anderson, Drymes.
2. Ridge Regression: Solution to Multi-collinearity – Ref: Tintner, Chow, Apte, Hoerl.
3. Dummy Variables – Ref: Madalla, Gujarati.
4. Lag Models: Koyacks Distributed Lag Models – Howthakher & Taylor – Instrumental Variables, Ref: Madalla.
5. Other Estimates: GLSE, SURE, LIMLE, FIMLE.
6. Other Transformation: Specification Errors – RESET (Regression, Specification Error Test) – Box-Cox Test.
7. LIMDEP Model, LPM, Profit, Logit & Tofit Model.
8. Time Series – ARMA, ARIMA – Diagnostic Test – Casualty Test, Co-integration Test – Correcting Mechanism.
9. Simulation Equation – Bias – Identification – ILS – 2SLS – 3 SLS.

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**EC 473 Money, Banking and Financial Markets**

1. Overview of development of monetary theory Major issues and scope, etc.
2. What is Money? Money and related concepts – Framework of Monetary circulation – Barter versus Money Economy.
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.
4. Money in Keynesian Framework: Liquidity Preference (L-P) 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.

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## **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)

Mishra Lakshmidhar (2011): *Human Bondage; Tracing its Roots in India*, Sage; New Delhi.

Robb Peter (2007): *Peasant, Political Economy, and Law*; Oxford; New York.

### 2. Labour in Classical Analysis

Reading:

Stirati Antonella (1994): *The Theory of Wages in Classical Economics; A Study of Adam Smith, David Ricardo and their Contemporaries*, Edward Elgar, Brookfield.

### 3. Marxist Approach to Labour

Harvey David (2010): *Companion to Marx's Capital*, Verso; London.

Frederick Engles (1849): 'Wage Labour and Capital', **Online Version (Modified):** Marx/Engels Internet Archive (marxists.org) 1993, 1999.

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

Reading:

McConnell, R.Campbell and Brue, Stanley,L.Brue (1995): *Contemporary Labour Economics*, McGrawhill Co, Singapore

### 5. Macro Economic Approach – Keynes

Source:

Keynes, John Maynard (2007): *The General Theory of Employment, Interest and Money*, Palgrave Macmillan; New York. (Book 1 Chapter 2)

Labour Organisation, Collective Bargaining and Collective Action:

### 6. Minimum wages and Collective Bargaining

Reading:

Chamberlain Neil (1944): 'The Nature and Scope of Collective Bargaining', *The Quarterly Journal of Economics*, 58(3), May, 359-387.

#### 7. Hayek - Monopoly of Trade Unions

Reading:

Hayek Friedrich (1980): '1980s unemployment and the unions : the distortions of the relative prices by monopoly in the labour market, Institute of Economic Affairs, London.

#### 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:

#### 9. Human Capital Theory and Labour Stratification Theory– Schultz/Grusky

Schultz, Theodore (1961): 'Investment in Human Capital', *American Economic Review*, 51(1), 1-17.

#### 10. Technology and Deskilling Harry Braverman

Reading:

Peter Armstrong: *Labour and Monopoly Capital*

### **Labour in Society:**

#### 11. Approaches to Discrimination:

Reading:

Arrow, Kenneth.J (1998): 'What has Economics to say about Racial Discrimination?', *Journal of Economic Perspectives*, Vol-12, No.2, pp.91-00.

## 12. Gender Discrimination:

Reading:

Folbre, Nancy (2009): *Greed, Lust and Gender; History of Economic Ideas*, Oxford; New York. (Introduction chapter).

## 13. Social Structures of Accumulation

Reading:

White, Barbara Harriss (2003): 'The Workforce and its Social Structures', in *India Working; Essays on Society and Economy*, Cambridge University Press; New York.

## 14. Social Closure and Social Exclusion

Reading:

Thorat, Sukhadeo and Katherine S.Newman (2010) : 'Introduction: Economic Discrimination; Concept, Consequences and Remedies'. In Thorat, Sukhadeo and Katherine S.Newman (2010): *Blocked by Caste; Economic Discrimination in Modern India*, Oxford University Press; New Delhi.

## **Labour in Development Discourse:**

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

Reading:

Lewis, V.A (1954): 'Economic development with unlimited supplies of labour', *Manchester School*, pp.139-91.

### 16. Mobility and Rational Choice - Michel Todaro

Reading:

Todaro, Michael.P (1977): *Economic for Developing World: An Introduction to Principles, Problems and Policies for Development*, Longman, London.

### 17. Circulation of Labour - Guy Standing

Reading:

Standing Guy (1985): *Labour Circulation and Labour Process*, Croom Helm; London.

## **Labour in Formal and Informal Sector Debate**

## 18. Formalisation Thesis of Labour Markets - Immanuel Wallerstein

Reading:

Hopkins, Terence K. et.al.(1996): *The Age of Transition: Trajectory of the World System, 1945-2025*, Palgrave Mcmillan:London.

## 19. Regulation and Informal Sector - Hernando De Soto

De Soto, Hernando (1989): *The Other Path: The Invisible Revolution in the Third World*, Harper & Row, New York.

## 20. 'Informal Sector' a Structuralist Critique of Dual Sector - Jan Breman

Parry Jonathan, Jan Breman, and Karin Kapadia (eds)(1999): *The Worlds of Indian Industrial Labour*, Sage Publication, London.

## **Labour and Business Organisation:**

## 21. Lazonick - Innovation and Labour relations

Reading:

Lazonick, William (1994): *Business Organisation and the Myth of the Market Economy*, Cambridge University Press; Cambridge.

Labour and Globalization :

## 22. Flexible Specialisation Technologies - Piore and Sabel

Reading:

Piore, Michael.J and Charles F.Sabel (1984): *The Second Industrial Divide: Possibilities of Prosperity*, Basic Books, New York.

## 23. Global Value Chains and Global Production Networks

Reading:

Gereffi, Gary; John Humphrey and Sturgeon, Timothy. 2005. "The Governance of Global Value Chains." *Review of International Political Economy*. 12(1): 78-104.

## 24. Varieties of Capitalism Debate –

Reading:

Hall A.Peter and David Soskice (2009): 'An introduction to varieties of capitalism' in Bob Hancke (ed.): *Debating Varieties of Capitalism*, Oxford University Press; New York.

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  
School. of Economics  
University of Hyderabad.

UNIVERSITY OF HYDERABAD  
DEPARTMENT OF ECONOMICS

COURSE OUTLINE

COURSE TEACHER: J.MANO HAR RAO

**E-477 : DEVELOPMENT ECONOMICS-I**

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 : OUTLINE

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:

- |                      |  |
|----------------------|--|
| A.K. Sen (1983)      | "Development Which Way Now? <i>Economic Journal</i> December   |
| A.K. Sen (1986)      | "Economic Distance and Living Standard" in Krishna Ahuja Patel et.al., (ed) <i>World Economy in Transition</i> , Pergamon            |
| A.K. Sen (1988)      | "The concept of Development" in Hollis B. Chenery and (ed) <i>Hand book of Development Economics</i> Vol.1 North-Holland, Amsterdam. |
| Meier, M (ed) (1984) | <i>Leading Issues in Economic Development</i> , OUP. pp.1-25   |
| Szentes, T. (1972)   | <i>The Political Economy of Under-development</i> , Akademi Kaido, Budapest'. Chapter I, Part I and Chapter I, Part II               |
| T. Dos Santos (1973) | The crisis of Development theory...." In H.Bernstein (ed) <i>Underdevelopment and Development</i> Penguin.                           |

- W.Arthur Lewis (1988) “The Roots of Development Theory” in Hotlis B. Chenery and T.N.Srinivasan (ed) *Handbook of Development Economics*, North-Holland, Amsterdam.
- Karl Marx (1844) *The Economic and Philosophic Manuscripts of 1844* (especially “wages of labour and Human Requirements and Division of Labour...”)
- E.R. Mandle (1988) “Marxism and the Delayed Onset of Economic Development : A Reinterpretation” in John Curnningham Wood (Ed) *Karl Marx’s Economics : Critical Assessments*, Vol. IV, Croom Helm, London.

## II. The State of Development Theory:

Outline: Development Theory and Development Strategy---Failure of Development Strategies and the crisis in Development Theory. Location of the Crisis.

### 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 Streeten (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:



- D. Seers (1979) "Birth, Life and Death of Development Economics" *Development and Change*.
- A.O.Hirschman (1982) "The Rise and Decline of Development Economics" in Gersovitz et al (ed) *The Theory and Experience of Economic Development*, George Allen and Unwin, London.
- P. Streeten (1983) "Development Dichotomies" *World Development* October.
- T.W.Weisskopf (1983) "Economic Development and the Development of Economics: Some observations from the Left" *World Development*, October.
- W.A. Lewis (1984) "The State of Development Theory" - *American Economic Review*, March
- S.I.Cohen (1985) "The Controversial Debate on Development Economics: An Opinion" *The Pakistan Development Review*, Spring.
- I.Livingstone (1986) "The Further Development of Development Economics" *The Kashmir Economic Review* (Jan. June)
- A.K. Sen (1983) "Development: Which way Now"? *Economic Journal* (93 (372) December.
- Toye, JFJ (1983) "The Disparaging of Development Economics" *Journal of Development Studies*, 20(1).
- Collouch, C. (1982) "Lessons from the Development Debate" *International Affairs*, 58 (3) Summer.

### 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 class room lecture. Stewart (1984) refers to the limitations of the Neo-classical approach which is part of the mainstream paradigm.

Reading List:

Pranab Bardhan (1988) "Alternative Approaches to Development Economics"  
in  
Hollis B. Chenery and T.N. Srinivasan (ed)  
*Handbook of Development Economics*, North Holland, (1987)  
*Alternative Paradigms of Development*,  
Whitesheaf.

IV. Alternative Paradigms of Development:

A. 1. Mainstream Paradigm:

- a) Balanced Growth (Rodan)
  - b) Unbalanced Growth (Hirschman-Singer)
  - c) Stage Theory (Rostwo-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 Higgins (1966). Meier (1980) also contains certain summary extracts. The focus 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 Bhagwati) and extension (especially Ranis and Fei) of Lewis model. For a critical appraisal Szentes (1972)

Chakravarty (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:

- W.Arthus Lewis (1954) “Economic development with Unlimited Supplies of Labour” in A.N.Agarwala and S.P. Singh (ed) (1963) *The Economics of underdevelopment*, OUP.
- B. Higgins (1966) Economic Development, Allahabad, Central Book Depot.
- G. M. Meier (1980) *Leading Issues in Economic Development*, OUP
- Mark Gersovitz (ed) (1982) *The Theory and Experience of Economic Development*, George Allen and Unwin.
- T. Szentes (1972) *Political Economy of underdevelopment*, Academi, Kaido, Budapest.
- S.Chakravathy (1974) “Reflections on the Growth Process in the Indian Economy” in C.D.Wadhwa (ed) *Some Problems of India's Economic Policy*, TMH, 1977.

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

i. Outline:

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

- i) The International Economy and Policy (Long term) (Presbisch).
- 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.

The Policy: Protection - Industrial Subsidies and Import Substituting Industrialisation - Export Taxes - Certain Guidelines.

Domestic Structuralism and Inflation 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:

1. Kenneth P. Jameson (1986) 'Latin American Structuralism: A Methodological Perspective' *World Development*, Vol.: 14 No.2 February.
2. Keat, R and Urry, J. (1978) *Social Theory as Science*.
3. Werner Baer (1962) "The Economics of Prebisch and ECLA" *Economic Development and Cultural Change*, January.

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.

SCHOOL OF ECONOMICS  
UNIVERSITY OF HYDERABAD

**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.
2. The cost of capital: The cost of debt and preferred stock – capital structure – financial leverage – dividend policy – cash dividends and dividend payments – stock repurchases – stock dividends and stock splits.
3. The supply of securities – regulations governing supply of securities – general characteristics – Government bonds - index linked bonds – corporate securities – equities, bonds, convertible securities – mutual fund shares – money market funds – claims on financial institutions.
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).
7. Security analysis and market efficiencies: modern view of security analysis – macroeconomic developments and securities market – performance of securities market – industry growth and firm specific factors – uses and pitfalls of price / earning ratios.
8. Derivatives: uses of derivatives – futures contracts and future markets – forward contracts.

9. Future prices: relation among spot prices and future prices – financial futures – commodity futures – closing out with futures – hedgers, speculators, market equilibrium – the role of expectations – futures and portfolio management.
10. Options and option pricing: institutional aspects – exchange traded stock options – the payoffs from buying and selling options – boundary conditions on option prices – the put-call parity – The Black Scholes formula – other option models.
11. Swaps, currency and interest rate swaps: Vanilla interest rate swaps – swaptions – other types of swaps – currency, equity and commodity swaps.
12. Regulations of financial markets: The ethics of finance and economic function of financial markets – the purpose of regulation – levels of regulation – Securities Contract Regulation Act – SEBI.

### Reading List


1. Ackert, L F and B.F. Smith (1993), “*Stock Price Volatility, Ordinary Dividends and Other Cash Flows to Shareholders*”, Journal of Finance, 48, 147-60.
2. All India Management Association (1998), *Global Trends in Finance*, Excel, New Delhi.
3. Arrow, K.J. (1981), “*Future Markets: Some Theoretical Perspectives*”, Journal of Future Markets, 1, 2, 107-16.
4. Avadhani, V.A. (2000), *Financial Economics: Theory and Practice*, Himalaya Publishing House, Mumbai.
4. Barsky, R. and J. De Long (1993), “*Why Does Stock Market Fluctuate?*”, Quarterly Journal of Economics, 108, 291-311.
6. Basu, S. (1977), “*The Investment Performance of Common Stocks in Relation to their Price to Earning Ratios: A Test of Efficient Market Hypothesis*”, Journal of Finance, 32, 663-82.
7. Benninga, S. (1997), *Financial Modelling*, MIT Press.
8. Bhole, L.M. (1991), *Financial Institutions and Markets: Structure, Growth and Innovation*, Tata McGraw-Hill Publishing Company Limited, New Delhi.
9. Black, F. and M. Scholes (1973), “*The Pricing of Options and Corporate Liabilities*”, Journal of Political Economy, 44, 1471-88.
10. Black, F, M.C. Jensen and M.A. Scholes, “*The Capital Pricing Model: Some Empirical Tests*”, in M.C. Jensen (ed.) *Studies in the Capital Markets*, Praeger, New York.



11. Bradford, C. and A.C. Shapiro (1988), "*Financing Corporate Growth*", Journal of Applied Corporate Finance, 1, 2, 6-22.
12. Brahmaiah, B. and P. Subba Rao (1998), *Financial Futures and Options*, Himalaya Publishing House, Mumbai.
13. Campbell, J.Y, A.W. Lo and A.C. Mackinlay (1997), *The Econometrics of Financial Markets*, Princeton University Press.
14. Chandra, P. (1999), *Financial Management: Theory and Practice*, Galgotia Publishers.
15. Chi-Fu Huang and R.H. Litzenberger (1988), *Foundations for Financial Economics*, North Holland, New York.
16. Dammon, R. and L.W. Senbet (1988), "*The Effects of Taxes and Depreciation on Corporate Investment Leverages*", Journal of Finance, 43, 357-73.
17. Damodharan, Aswath (1997), *Corporate Finance Theory and Practice*, John Wiley and Sons.
18. Duask, K. (1973), "*Futures Trading and Investor Returns: An Investigation of Commodity Market Risk Premiums*", Journal of Political Economy, 1387-1406.
19. Eicjberger, Jurgen and I R Harper (1997), *Financial Economics*, Oxford University Press.
20. Fama, E.F. (1970), "*Efficient Capital Markets: A Review of Theory and Empirical Works*", Journal of Finance, 25, 383-417.
21. Fama, E.F. (1984), "*The Information in the Term Structure*", Journal of Financial Economics, 13, 4, 285-99.
22. Fama, E.F. (1991), "*Efficient Capital Markets IP*", Journal of Finance, 46, 1575-617.
23. Fama, E.F. and J. MacBeth (1973), "*Risk, Return and Equilibrium: Empirical Tests*", Journal of Political Economy, 71, 607-36.
24. Goldberg, H.H. (1988), "*Asset Securitization and Corporate Financial Health*", Journal of Applied Corporate Finance, 1,3, 45-51.
25. Grainblatt, M. and S. Titman (1998), *Financial Markets and Corporate Strategy*, McGraw Hill International Edition.
26. Grossman, S.J. and R.H. Shiller (1981), "*Determinants of the Variability of Stock Market Prices*", American Economic Review, 71, 222-27.
27. Harris, M. and A. Raviv (1991), "*The Theory of Capital Structure*", Journal of Finance, 46, 297-355.
28. Houthakar, H.S. and P.J. Williamson (1996), *The Economics of Financial Markets*, Oxford University Press.
29. Hung, C. and R. Litzenberger (1998), *Foundations of Financial Economics*, North Holland.

30. King, David, N. (1999), *Financial Claims and Derivatives*, International Thomson Business Press.
31. Kledion, A.W. (1986), “*Variance Bound Tests and Stock Price Valuation Models*”, Journal of Political Economy, 94, 953-1001.
32. Krishna, B. and S.S. Narta (1998), *Security Markets in India*, Kanishka Publishers, New Delhi.
33. Mackie, R. (1990), “*Do Taxes Affect Corporate Financing Decision?*”, Journal of Finance, 1471-93.
34. Markowitz, H. (1952), “*Portfolio Selection*”, Journal of Finance, 7, 77-91.
35. Marsh, T.A. and R.C. Merton (1986), “*Dividend Variability and Variance Bound Tests for Rationality of Stock Market Prices*”, American Economic Review, 76, 483-98.
36. Martin, J.D, S.H. Cox and R.D. MacMinn (1998), *The Theory of Finance: Evidence and Application*, The Dryden Press, New York.
37. Merton, R. (1980), “*On Estimating the Expected Returns on the Market: An Empirical Test*”, Journal of Financial Economics, 8, 323-61.
38. Modigliani, F. and M. Miller (1963), “*Taxes and the Cost Capital*”, American Economic Review, 433-43.
39. Rastogi, R.P. (1998), *Financial Management: Theory, Concepts and Problems*, Galgotia Publishers.
40. Ross, S.A. (1976), “*Arbitrage Theory of Capital Asset Pricing*”, Journal of Economic Theory, 13, 341-60.
41. Ross, S.A. and R.W. Westerfield (1998), *Fundamentals of Corporate Finance*, McGraw Hill International Edition.
42. Shapiro, Alan, C. (1999), *Multinational Financial Management*, International McGraw Hills, 4<sup>th</sup> Edition, Prentice Hall of India.
43. Shleifer, A. and L. Summers (1990), “*The Noise Trader Approach to Finance*”, Journal of Economic Perspectives, 4, 19-33.
44. Van Horne, J.C. (1998), *Financial Management and Policy*, Prentice-Hall International.
45. Vishwanath, S.R. (2000), *Corporate Finance: Theory and Practice*, Response Books, New Delhi.
46. Waghmare, Tushar (ed.) (1998), *Future of India's Stock Markets*, Tata McGraw Hill, New Delhi.

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	UNIVERSITY OF HYDERABAD  SCHOOL OF ECONOMICS	
Course: MA & IMA  Semester: MA II & IMA VIII	Duration: _____ Course Instructors: Will be decided when the course is offered. Email: _____	
Course No. EC 479 Core/ Optional: <b>Optional</b> No. of Credits: 4 (Four) Lectures: 2 Sessions/ week (110 minutes/ session)	Title of the Course:  <b>Game Theory – I</b>	

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**

- a) Pure strategies: dominant and dominated strategies, best response functions, Nash equilibrium. Symmetric games and symmetric equilibria.
- b) Mixed strategies: definition and interpretation of a mixed strategy. Nash equilibrium in mixed strategies.
- 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*.
2. Prajit Dutta, *Strategies and Games*.
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**

1. Role of Government in Indian economy. Constitutional Objectives – Structure of Indian Fiscal Administration – Three-tier government – Constitutional arrangements. Revenue and Expenditure allocations, Planning and Finance Commissions – Institutions.
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.
3. Size and growth of Public Expenditure in India. Perceptions leading to mixed economic framework. Empirical work explaining the size and growth. Relevance of Wagner's Peacock – Wiseman's theories – Causality with national income – Developmental impact of the public expenditure.

4. Structure and Composition of public expenditure in India – Relevance of Plan-Nonplan, Developmental – Nondevelopmental and other classifications specific to India. Budgetary accounting procedures. Economic and Functional categorizations.
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.
7. Issues in Tax policy: State government. Sales tax, State Excise, VAT, Other 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.
11. Public debt in India – size, structure and composition – growth and Issues -Burden of debt and its shifting.
12. Deficit Financing and public debt management.
13. Fiscal Reform movement in India – Tax Reforms and their implementation – Debt management
1. Role of Reserve Bank of India and other financial institutions.
15. The parallel economy of black money.

## **Reading List**

1. Ambirajan, S. (1964), *The Taxation of Corporate Income in India*, Asia Publishing House, Bombay.
2. Bagchi A, Bajaj J.L, and Byrd W. (ed) (1992), *State Finances in India*, Vikas Publishing, New Delhi.
3. Bagchi, A. et al (1994), *Reform of Domestic Trade Taxes in India: Issues and Options*, National Institute of Public Finance and Policy, New Delhi.

4. Bhagwati, J.N., and Desai, P. (1970), *India: Planning for Industrialization*, Oxford.
5. Chawla, O.P. (1972), *Personal Taxation in India 1947-1970*, Somaiya Publishing Private Ltd, New Delhi.
6. Chelliah, R.J. (1960), *Fiscal Policy in Underdeveloped Country*, Allen and Unwin.
7. Chelliah, R.J. (1978), *Trends and Issues in Indian Federal Finance*, National Institute of Public Finance and Policy, New Delhi.
8. Government of India (1967), *Committee on Rationalization and Simplification of the Tax Structure*, Final Report, New Delhi.
9. Government of India (1992), *Tax Reforms Committee, Interim and Final Reports* [Chairman: R J Chelliah], New Delhi.
10. Government of India (1994), *Report of the Tenth Finance Commission* [Chairman: A.M. Khusro], New Delhi.
11. Government of India (1995), *Report of the Committee of State Finance Ministers on Sales Tax Reform*, National Institute of Public Finance & Policy.
12. Gulati, I.S. (1957), *Capital Taxation in a Developing Economy*, Orient Longman, Calcutta.
13. Kopits, G. (2001). 'Fiscal Responsibility Rules for India', *Economic & Political Weekly*, March 3.
14. Kurian, N.J. (1999), 'State Government Finances A Survey of Recent Trends', *Economic & Political Weekly*, May 8.
15. Premchand, A. (1966), *Control of Public Expenditure in India*, Allied Publications, Bombay.
16. Reddy, K.N. (1972), *The Growth of Public Expenditure in India*, Sterling Publications, New Delhi.
17. Toye, J.M. (1981), *Public Expenditure and Indian Development Policy 1960-1970*, Cambridge University Press, London.

**University of Hyderabad**

## **EC 586 - Urban Economics and Policy**

**Instructor: Dr. P.K. Mohanty & Dr. Alok Mishra**

**Semester: 3<sup>rd</sup> or 4<sup>th</sup> Semester**

**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:**

- 1. Jan Brueckner. 2011. *Lectures in Urban Economics*, Cambridge, Massachusetts: The MIT Press**
- 2. Edward L. Glaeser. 2008. *Cities, Agglomeration and Spatial Equilibrium*, New York: Oxford University Press**
- 3. Edward L. Glaeser. 2012. *Triumph of the City*. London: Pan Books.**
- 4. S.S. Rosenthal and W.C. Strange. 2004. Evidence on the Nature and Sources of Agglomeration Economies, in J.V. Henderson and J. Thisse eds. *Handbook of Urban and Regional Economics*, Elsevier, Amsterdam.**
- 5. Diego Puga. 2010. The Magnitude and Causes of Agglomeration Economies, *Journal of Regional Science*, 50, pp 203-219**
- 6. P.C. Melo, D.J. Graham and R. Noland. 2009. A Meta-analysis of Estimates of Urban Agglomeration Economies, *Regional Science and Urban Economics*, 39, pp 332-342**
- 7. High-Powered Expert Committee on Urban Infrastructure. 2011. *Report on Indian Urban Infrastructure and Services*. Ministry of Urban Development. Government of India.**
- 8. Isher Judge Ahluwalia, Ravi Kanbur and P.K. Mohanty. 2014. *Urbanisation in India: Challenges, Opportunities and the Way Forward*. Sage Publications, New Delhi**
- 9. P.K. Mohanty. 2014. *Cities and Public Policy: An Urban Agenda for India*. Sage Publications, New Delhi**
- 10. Arthur O' Sullivan. 2011. *Urban Economics*. New York: McGraw-Hill**
- 11. Brendan O'Flaherty. 2005. *City Economics*, Cambridge: Harvard University Press**  
**(11 and 12 are meant for students with no background of mathematical economics)**