

# CONTENTS

## PRICE THEORY OR MICRO ECONOMICS

Chapter		Pages
	<b>PART I: NATURE AND METHODOLOGY OF ECONOMICS</b>	
1.	<b>NATURE OF ECONOMICS: DEFINITION</b> Early Definitions: Science of Wealth. Marshallian Definition: Science of Material Welfare. Criticism of Marshallian View. Robbins' Definition: Science of Scarcity or Science of Choice. Superiority of Robbins' Definition. Criticism of Robbins' Definition. Modern Definition. Conclusion regarding Definition. Major Economic Problems.	3-8
2.	<b>NATURE OF ECONOMICS: SCOPE AND METHOD</b> Introduction: Subject-Matter: Micro and Macro Economics. Micro Economics. Importance of Micro Economics. Limitations of Micro Economics. Macro Economics or the Theory of Income and Employment. Utility of Macro Analysis. Limitations of Macro Analysis. Need for Integrating Macro and Micro Economics. Three Branches of Economics. Nature and Scope of Economics. Is Economics a Science? True Nature of Economics. Positive or Normative Science. Ends and Means. Economics—a Social Science. Can Economics Solve Practical Problems? Laws of Economics. Definition. Nature of Economic Laws. Applicability of Economic Laws. Basic Assumptions in Economics. Methods of Economics. Deductive Method. Merits of Deductive Method. Limitations of Deductive Method. Inductive Method. Merits of Inductive Method. Shortcomings of Inductive Method. Proper Method. Value of Economic Analysis.	9-19
3.	<b>PARTIAL EQUILIBRIUM AND GENERAL EQUILIBRIUM ANALYSIS</b> Meaning of Equilibrium. Types of Equilibria. Partial Equilibrium Analysis: Meaning, Applicability, Significance, Limitations. General Equilibrium Analysis. Why General Equilibrium Approach? Essence of General Equilibrium Approach. General Equilibrium and Macro Economic Equilibrium. Uses of General Equilibrium Analysis. Limitations of General Equilibrium Analysis.	20-26
4.	<b>STATICS, DYNAMICS AND COMPARATIVE STATICS</b> Economic Statics: Meaning. Stationary State. Significance of Economic Statics. Limitations of Economic Statics. Economic Dynamics. Significance of Economic Dynamics. Limitations of Economic Dynamics. Comparative Statics.	27-33
	<b>PART II: THEORY OF DEMAND</b>	
5.	<b>UTILITY ANALYSIS OF DEMAND</b> Basic Assumptions of Marginal Utility Analysis. Law of Diminishing Marginal Utility: Statement of the Law, Diminishing Marginal Utility Curve, Limitations of the Law. Marginal Utility: Marginal Utility of Money. Marginal Utility and Price, Marginal Utility and Supply. Marginal Utilities of Related Goods. Practical Importance of the Law of Diminishing Marginal Utility. Law of Equi-Marginal Utility. Statement of the Law. Limitations of the Law. Practical Importance of the Law. Consumer's Equilibrium: Equilibrium with One-Commodity Purchase Equilibrium with Two Commodities-Purchase. Demand: Meaning of Demand. Types of the Demand. Demand Curve. Why Demand Curve Slopes Downwards. Exceptional Demand Curves. Law of Demand. Limitations of the Law. Derivation of the Demand Curve and the Law of Demand from the Law of Diminishing Marginal Utility. Derivation of the Demand Curve and the Law of Demand from the Law of Equi-Marginal Utility. Causes of Changes in Demand. Shortcomings of the Utility Analysis.	34-50
6.	<b>INDIFFERENCE CURVE TECHNIQUE</b> Scale of Preferences. Indifference Curves. Marginal Rate of Substitution. Principle of Diminishing Marginal Rate of Substitution. Properties of Indifference Curves.	51-56

<b>Chapter</b>	<b>Pages</b>
<b>7. INDIFFERENCE CURVE ANALYSIS OF DEMAND</b>	57-69
Price Line or Budget Line. Shifting the Price Line. Consumer's Equilibrium or Maximising Satisfaction. Conditions of Equilibrium. How Far is this Theory of Consumer Behaviour Valid? Income Effect. Substitution Effect. Price Effect. Price Consumption Curve and Elasticity of Demand. Derivation of Individual Demand Curve. Derivation of Market Demand Curve. Case of Competitive (or Substitute) Goods, and Complementary Goods. Indifference Curve Technique Versus Marshallian Utility Analysis: Similarities, Superiority of the Indifference Curve Technique Criticism of Indifference Curve Approach. Exceptional Cases of Consumer's Equilibrium.	
<b>8. SOME APPLICATIONS OF INDIFFERENCE CURVE TECHNIQUE</b>	70-72
Application in Consumption. Measurement of National Income. Rationing. Cost of Living Index. Price Discrimination. Taxation: Direct vs. Indirect Taxes. Effect of a Subsidy. Effect of Taxation on Willingness to Work. Effect of Increase in Wages on Supply of Labour. Other Uses of Indifference Curve.	
<b>9. REVEALED PREFERENCE THEORY</b>	73-76
The Theory. Assumptions. Demand Theorem with Revealed Preference Hypothesis. Critical Evaluation: Merits. Demerits.	
<b>10. RECENT DEVELOPMENTS IN DEMAND THEORY</b>	77-79
Hicks' Revised Theory of Demand. Neumann-Morgenstern Statistical Theory. Armstrong's marginal Preference Theory. Marginal Utility of Money. Bernoulli Hypothesis Friedman-Savage Hypothesis. Markowitz Hypothesis.	
<b>11. ELASTICITY OF DEMAND</b>	80-91
Meaning of Elasticity. Elastic and Inelastic Demand. Relation of Elasticity with the Law of Diminishing Utility. Types of Elasticity: Price Elasticity. Income Elasticity. Cross Elasticity. Substitution Elasticity. Relation Between Price Elasticity, Income Elasticity and Substitution Elasticity. Factors Determining Price Elasticity of Demand. Measurement of Elasticity: Total Outlay Method. Proportional Method. Geometrical Method: Point Elasticity. Arc Elasticity. Price Elasticity and Indifference Curve Technique. Slope of the Demand Curve and Price Elasticity. Practical Applications of Elasticity of Demand. Theoretical Importance. Demand as seen by an Individual Seller.	
<b>12. CONSUMER'S SURPLUS</b>	92-96
Meaning. Consumer's Surplus and the <u>Law of Diminishing Marginal Utility</u> . Difficulties of Measurement. Criticism of Consumer's Surplus. Measurement of Consumer's Surplus with Indifference Curves. Practical Utility of Consumer's Surplus.	
<b>PART III: THEORY OF PRODUCTION</b>	
<b>13. FACTORS OF PRODUCTION</b>	97-105
Theory of Production: Content and Importance. Meaning of Production. Factors of Production. Land: Meaning and Importance of Land. Peculiarities of Land. Labour: Meaning of Labour. Peculiarities of Labour. Factors Determining Efficiency of Labour. Division of Labour: Meaning and Types. Advantages. Disadvantages. Division of Labour is Limited by the Extent of the Market. Territorial Division of Labour. Localisation of Industries. Causes of Localisation. Causes of Further Concentration. Consequences of Localisation. Decentralisation of Industry. Capital: Meaning. Importance of Capital. Capital Formation: Importance of Capital Formation. Meaning of Capital Formation. Creation of Savings. Mobilisation of Savings. Investment of Savings in Real Capital. Foreign Capital. Deficit Financing. Disguised Unemployment. Enterprise: Entrepreneur's Role. Who is an Entrepreneur in a Joint Stock Compy? Why Low Capital Formation in Under-developed Countries.	
<b>14. FORMS OF ENTREPRENEURIAL ORGANISATION</b>	106-109
Individual Entrepreneur: Advantages; Limitations. Partnership: Advantages. Disadvantages of Partnership. Joint-Stock Company: Merits; Demerits. Co-operative Enterprise: Producers' Co-operation. Consumers' Co-operation. State Enterprise. Merits; Demerits. Role of Public Enterprise in Under-developed Economies	

<i>Chapter</i>	<i>Pages</i>
<b>15. POPULATION THEORIES</b>	110-118
Malthusian Theory. Criticism of Malthusian Theory. Modern Theory of Population: The Optimum Theory. Criteria of Over-population. Limitations of the Concept of Optimum Population. Malthusian Theory and Modern Theory Compared. Economic Effects of Over-population. Economic Development and Population Growth: Theory of Demographic Transition. Over-population an Impediment to Economic Growth.	
<b>16. SCALE OF PRODUCTION</b>	119-124
Economies of Large Scale Production. Diseconomies of Scale. Concept of Indivisibility. Internal and External Economies: Internal Economies. External Economies. Relation Between Internal and External Economies. Real and Pecuniary economies. Internal and External Diseconomies. Limits to the Expansion of a Business. Advantages of Small-scale Production. Disadvantages. Survival of Small Business. Role of Small-scale Industry in Under-developed Countries.	
<b>17. PRODUCTION POSSIBILITY CURVE AND PRODUCTION FUNCTION</b>	125-130
Production Possibility Curve. Marginal Rate of Transformation. Iso-Revenue Line. Output Expansion Path. Uses of Production Possibility Curve. Efficient Allocation of Resources. Production Function: Input-output Relationship. Types. Fixed Proportions Function. Variable Proportions Function. Linear Homogeneous Production Function; Cobb-Douglas Production Function.	
<b>18. LAWS OF RETURNS</b>	131-139
Law of Diminishing Returns: Statement of the Law. Three Aspects of the Law of Diminishing Returns. Economic Implications of the Law of Variable Proportions. Law of Variable Proportions: Assumptions of the Law of Variable Proportions. Average-Marginal Relations. Limitations of the Law of Diminishing Returns. How to Counteract The Law? Application of the Law. Why the Law Specially Applies to Agriculture? Law of Diminishing Returns in a General Form. Why the Law of Diminishing Returns Operates? Importance of the Law of Diminishing Returns. Law of Increasing Returns: Why the Law of Increasing Returns Operates? Law of Constant Returns. Returns to Scale: Distinction Between Laws of Returns and Returns to Scale. Three Phases of Returns to Scale. Causes of Diminishing Returns to Scale.	
<b>19. ISOQUANTS OR EQUAL PRODUCT CURVES</b>	140-147
Meaning of Equal Product Curves. Indifference Curves and Iso-product Curves. Marginal Rate of Technical Substitution. Law of Diminishing Marginal Rate of Technical Substitution. Elasticity of Substitution between Factors. Application of Equal Product Curves. Properties of Equal Product Curves. Producer's Equilibrium: Optimum Factor Combination. Producer's Equilibrium with Equal Product Curves. Coincidence of MRTS and Price Ratio. Scale Line or Expansion Path. Application of Equal Product Curves to Returns to Scale. Shape of the Scale Line. Effect of Change in Input Price on Input Use. Substitute and Complementary Factors. Application to Under-developed Countries.	
<b>20. COST AND COST CURVES</b>	148-157
Concept of Cost of Production, Nominal and Real Cost. Economic Costs. Implicit and Explicit Costs. Alternative, Opportunity or Transfer Costs. Significance of Opportunity Costs. Application of Opportunity Cost Doctrine. Entrepreneur's Cost. Short-run and Long-run Cost Curves. Meaning of Short-run and Long-run. Short-run and Variable Costs. Relation between Marginal and Average Costs. Total-Marginal Cost Relationship. Deriving Marginal and Average Cost Curves from Total Cost Curve. Long-run Average Cost Curves. Why LAC Curves are Flatter? Long-run Marginal Cost Curve. Why LAC Curve First Falls and Then Rises. Optimum Plan. Optimum Output. Optimum Firm L-shaped Long-run Average Cost Curve. Empirical Curves. Dish-Shaped Curve. Inverse-J Cost Curves.	
<b>21. SUPPLY</b>	158-161
Meaning of Supply. Law of Supply. Elasticity of Supply. Measurement of Elasticity. Causes of Change in Supply. Supply Function. Supply as a Function of Price. Supply as a Function of Prices of other goods. Supply as a Function of Technology. Supply as a Function of Marshallian Time Periods.	

22. MARKET AND MARKET STRUCTURES 162-167  
 Market: Meaning of Market. Classification of Markets. Size of the Market. Perfect and Imperfect Markets. Conditions of a Perfect Market. Market Forms or Market Structures. Perfect Competition and Pure Competition. Pure Competition. Shape of Demand Curve in Pure Competition. Perfect Competition: Conditions. Imperfect Competition. Monopolistic Competition. Oligopoly: Oligopoly Without Product Differentiation. Oligopoly With Product Differentiation. Monopoly. Market Classifications and Cross Elasticity of Demand. Criteria for Classification of Markets.
23. REVENUE AND REVENUE CURVES 168-171  
 Marginal Revenue and Average Revenue: Meaning. Relationship Between AR and MR: Under Perfect Competition. Under Imperfect Competition. How much is MR below AR? Elasticity of Demand. Average Revenue and Marginal Revenue. Relationship between AR, MR, TR and Elasticity of Demand.
24. EQUILIBRIUM OF THE FIRM AND INDUSTRY: GENERAL 172-180  
 Equilibrium of the Firm: Conditions of Firm's Equilibrium. Equilibrium of Firm: By Curves of Total Revenue and Total Cost. Break-even Point. Equilibrium of Firm: By Curves of Marginal Revenue and Marginal Cost. Equilibrium of Industry: Meaning. Conditions of Equilibrium. Short-run and Long-run Equilibrium. Incorporating Normal Profit into Average Cost Curve. Validity of Profit-maximising Doctrine: Arguments Against, Full Cost Pricing Principle, Profit Maximisation any Single owner Entrepreneur. Goals other than Profit Maximization: Security Motive. Sales Maximization. Utility Maximization. Baumol's Sales Maximisation Principle.
25. EQUILIBRIUM OF FIRM AND INDUSTRY UNDER PERFECT COMPETITION 181-186  
 Conditions of Perfect Competition: Their Implications. Conditions of Equilibrium. Equilibrium in the Short-run. Shut-down Point. Equilibrium in the Long-run. Tendency to Optimum. Equilibrium Under Imperfect Competition. Relevance of Pure Competition.
26. SUPPLY CURVE OF PERFECTLY COMPETITIVE INDUSTRY 187-191  
 Concept of Supply Curve. Short-run Supply Curve. Long-run Supply Curve. Supply Curve of the Constant Cost Industry. Supply Curve of the Increasing Cost Industry. Supply Curve of the Decreasing Cost Industry.
27. PRICE-OUTPUT DETERMINATION—PERFECT COMPETITION 192-206  
 Two approaches: Partial Equilibrium Approach. General Equilibrium Approach. Price Determination: General Statement. Equilibrium Price. Demand and Supply Only Superficially Affect Price. Importance of Time Element: Three Time-Periods. Which is More Important: Demand or Supply? Time Affects Supply. Change in Supply Does Not Necessarily Change Demand. Determination of Market Price: Of Perishable Goods, Of Reproducible Goods. Reserve Price. Price as a Rationing Device. Determination of Short-run Price. Determination of Long-run Normal Price. Long-run Normal Price in Constant-Cost Industry. Long-run Normal Price in Decreasing-Cost Industry. Decreasing-Cost Industry is Incompatible with Perfect Competition. Normal Price and Market Price Compared. Price Determination Under Perfect Competition Summed up.
28. PRICE-OUTPUT UNDER MONOPOLY 207-224  
 Meaning of Monopoly. Bases of Monopoly: Barriers to the Entry of Rivals. Price-Output Determination under Monopoly. Equating Marginal Revenue and Marginal Cost. Monopoly Price and Elasticity of Demand. Short-run and Long-run View. Does the Monopolist Necessarily Make Profit? Long-run Adjustments Under Monopoly. Monopoly Equilibrium and Competitive Equilibrium Compared. Regulation of Monopoly: Taxation, Other Methods of Control. Discriminating Monopoly: Meaning of Price Discrimination. Type of Price Discrimination. Degrees of Price Discrimination. Conditions of Price Discrimination. When Price Discrimination is Possible. When Price Discrimination is Profitable. Discrimination Not Profitable When the Demand Curves Are Iso-elastic. Price Discrimination Profitable When Elasticities Differ. Price-output Equilibrium in Discriminating Monopoly. Price Discrimination and Output. Price Discrimination by Dumping. Effects of Price Discrimination. Is Price

Discrimination Beneficial to Society? Monopoly Power: Measurement of Monopoly Power. Elasticity of Demand and Monopoly. Power. Is Monopoly Price a High Price? Criticism of Monopoly. Restraints on Monopolies. Price Under Monopsony. Bilateral Monopoly. Regulating monopoly through Taxation. Make-up Principle.

## 29. PRICE-OUTPUT UNDER MONOPOLISTIC COMPETITION

225-234

Meaning of Imperfect Competition. Monopolistic Competition: Meaning and Nature, Product Differentiation, Many Firms. Price-output Determination Under Monopolistic Competition. Price-output Equilibrium. Short-run Equilibrium. Long-run Equilibrium of Firm and Group Equilibrium. Product Variation Equilibrium. Group Equilibrium. Product Group Selling Costs: Meaning of Selling Costs. How Far Are Selling Costs Efficacious? Effect of Selling Costs on the Demand Curve. Selling Costs and Equilibrium Output. Optimum Selling Costs. Increased Selling Costs vs. Price-Cutting. Excess Capacity Under Imperfect Competition. Critique of Monopolistic Competition. Effects of Monopolistic Competition. Wastes of Monopolistic Competition. Monopolistic Competition. An Appraisal

## 30. OLIGOPOLY AND DUOPOLY

235-241

Duopoly. Duopoly without Product Differentiation. Duopoly With Product Differentiation. Oligopoly: Oligopoly Without Product Differentiation. Oligopoly With Product Differentiation. Stability of Price Under Oligopoly. Kinky Demand Curve. Price Leadership Under Oligopoly. Types of Price Leadership. Price-Output Determination under Price Leadership. Difficulties of Price Leadership. Collusive Oligopoly. Game Theory and Oligopoly Behaviour. Effects of Oligopoly. Evils of Oligopoly. Duopoly Models-Cournot Model. Edgeworth Model. Chamberlin Model.

### PART V: FACTOR PRICING

## 31. THE GENERAL THEORY OF FACTOR PRICING

242-254

Significance of Factor Pricing. Meaning of Distribution. Functional vs. Personal Distribution. Role of Factor Prices. Marginal Productivity Theory. Criticism of Marginal Productivity Theory. Firm's Equilibrium in Factor Employment. Equilibrium Under Perfect Competition in the Factor Market. Equilibrium Under Imperfect Competition in the Factor Market. Conditions of Monopsony. Modern Theory of Distribution: Demand Side. Supply Side. Equilibrium of Demand and Supply. Transfer Earnings. Equity in Income Distribution. Relation between Production, Value and Distribution Theories. Relation between Value and Distribution Theories. Relation Between Production and Distribution Theories. Product Exhaustion Problem or Adding-Up Problem. Impact of Technological Progress on Relative Factor Shares.

## 32. WAGES

255-269

Meaning of Wages. Is Labour a Commodity? Nominal Wages versus Real Wages. Why a Separate Theory of Wages? Old Theories of Wages: Subsistence Theory, Wages Fund Theory, Residual Claimant Theory. Marginal Productivity Theory of Wages. Taussig's Theory of Wages. Modern Theory of Wages: Demand for Labour. Supply of Labour. Interaction of Demand and Supply. Wages Under Imperfect Competition. Exploitation of Labour Trade Unions and Wage Determination: Can Trade Union Raise Wages? Adverse Effect of Trade Union Action. Wage Differentials: Relative Wages. Low Wages of Women. Wages Under Full Employment. Share of Wages in the National Income: Factors Affecting Share of Wages.

## 33. RENT

270-281

Meaning of Rent: Economic Rent and Contract Rent. Rent as Surplus. Rent and Transfer Earnings. Ricardian Theory of Rent: How Does Rent Arise? Differential Rent. Marginal or No-Rent Land. Does No-Rent Land Really Exist? Scarcity Rent. Criticism of the Ricardian Theory. Further Appraisal of the Ricardian Theory. Modern View of Rent of Land. Land for a Particular Use. Modern Theory of Rent: How Economic Rent Arises. Quasi-Rent. Quasi-Rent and Interest. Rent Element in Other Factors. Relation Between Rent and Price: When Rent Enters Price. Rent and Economic Progress. Rent in a Socialist State. Rent as a Basis for a Single Land Tax.

## 34. INTEREST

282-298

What is Interest? Gross and Net Interest. Differences in Interest Rates. Differences in Pure Interest. Differences in Gross Interest. Theories of Interest: How Interest Arises: Productivity Theory. Abstinence or Waiting Theory, Austrian or Agio Theory. Fisher's Time Preference

Theory. Liquidity Preference Theory. How Rate of Interest is Determined: Classical or Real Theory of Interest: Demand for Savings. Supply of Savings. Equilibrium between Demand and Supply. Criticism. Loanable Funds Theory of Interest: Supply of Loanable Funds: Savings. Dishoarding. Bank Credit Disinvestment. Demand for Loanable Funds. Equilibrium between Demand for and Supply of Loanable Funds. Criticism. Liquidity Preference Theory: Meaning. Factors Governing Liquidity Preference. Determination of the Rate of Interest. Criticism of Liquidity Preference Theory. Keynesian and Other Theories of Interest Compared: Keynesian vs. Classical Theory. Keynesian vs. Loanable Funds Theory. Modern Theory of Interest: Hicks-Hansen Synthesis. Effect of Changes in the Variables. Critical Appraisal of Hicks-Hansen Synthesis. Can the Rate of Interest Fall to Zero? Social Importance of Interest.

## 35. PROFIT

299-307

Nature of Profits. Analysis of Gross Profits. Pure or Net Profit. Theories of Profits: Profit as Rent of Ability. Wages Theory of Profits. Marginal Productivity and Profits. Dynamic Theory of Profits. Innovations Theory of Profits. Risk-bearing Theory of Profits. Uncertainty-bearing Theory of Profits. Conclusion Regarding Theories of Profit. Normal Profits. Monopoly and Profits. Critical Evaluation of Monopoly Theory of Profits. Do Profits Tend to Equality? Social Function of Profit. Macro-Distribution Theories. Marxian Theory. Kalecki's Degree of Monopoly Theory. Neo-Classical Theory. Kaldor's Theory of Income Distribution.

## 36. ROLE OF PRICE MECHANISM

308-311

Problems to be Tackled by Price System. Functions of the Price System. Critical Appraisal of the Price System. Shortcomings. Price System in a Developing Economy.

## BOOK TWO: THEORY OF INCOME AND EMPLOYMENT OR MACRO-ECONOMICS

### PART I: SOCIAL ACCOUNTING

## 37. SOCIAL ACCOUNTING

315-322

Importance. What is Social Accounting? Social Accounting and Private Accounting compared. Uses of Social Accounting. Preparation of Social Accounts: Social Accounts in a closed Economy. Social Accounts in an Open Economy. Items Included in the various sectors of the Economy. Items included in the Production Sector. Items included in Consumption. Items included in Accumulation Capital Transaction Account. Problems of Classification and Definition.

## 38. NATIONAL INCOME : MEANING AND CONCEPT

323-329

Meaning and Concepts. Introduction. Definition of National Income. Concepts of National Income. Gross National Product (G.N.P.). Net National Product (N.N.P.). National Income or National Income at Factor Cost (N.I.). Personal Income (P.I.). Disposable Income (D.I.). Measurement of National Income: Production or Output Method. Income Method. Expenditure Method. Identity of Methods. Difficulties of Measurement. Special Difficulties of Measurement in Under-developed Countries. Significance of National Income Statistics. Is the Growth of GNP an Unfailing Index of a Country's Economic Progress?

### PART II: THEORY OF INCOME DETERMINATION

## 39. THEORY OF EMPLOYMENT

330-341

Classical Theory of Employment. Say's Law. Pigou's Modification. Basic Assumptions of Say's Law. Implications of Say's Law. Criticism of Classical Theory and Say's Law. Keynesian Theory of Employment: Principle of Effective Demand. Determination of Effective Demand. Aggregate Supply Price. Aggregate Demand Price. Determination of Equilibrium Level of Employment. Further Discussion on Effective Demand. Importance of Effective Demand. Equilibrium not necessarily at full employment. Why Under-employment Equilibrium. Factors Determining Aggregate Supply and Aggregate Demand. Summary of Keynesian Theory of Employment and Income.

## 40. DETERMINATION OF NATIONAL INCOME

342-349

How the Level of National Income is Determined. Equilibrium Not Necessarily at Full

<i>Chapter</i>	<i>Pages</i>
Employment. Equilibrium level of Income: Equality of Saving and Investment. Keynes' Theory in Outline. Inflationary and Deflationary Gaps. Saving-Investment Controversy. Some Macro-economic Terms.	
<b>1. CRITIQUE AND RELEVANCE OF KEYNESIAN SYSTEM</b>	<b>350-355</b>
Keynes vs. Classical Economists. Criticism of the Keynesian Theory. Retreat from Keynesianism: Supply-side Economics Significance of the Keynesian Theory. Theoretical Importance Practical Importance. Relevance of Keynesian Economics to Under-developed Economics Further Criticism of the Keynesian Model.	
<b>42. DETERMINANTS OF INCOME AND EMPLOYMENT: PROPENSITY TO CONSUME</b>	<b>356-364</b>
Consumption Function: Meaning, Factors Influencing Consumption. Average and Marginal Propensities to Consume. Propensity to Save. Keynes' Law of Consumption: Propositions of the Law. Assumptions. Implications. Factors Influencing Consumption Function: Objective Factors. Subjective Factors. Importance of Consumption Function. Post-Keynesian Developments regarding Consumption Function. Pigou Effect. Three Theories of Consumption Function. Permanent Income Hypothesis. Life Cycle Hypothesis.	
<b>43. DETERMINANTS OF INCOME AND EMPLOYMENT: INDUCEMENT TO INVEST</b>	<b>365-372</b>
Meaning of Investment. Types of Investment. Importance of Investment. Factors Affecting Investment. Marginal Efficiency of Capital: Meaning. Investment Demand Curve. The Position and Shape of the <u>MEC Curve</u> . <u>Shifts in MEC</u> . Role of Business Expectations in Determining MEC. Factors Influencing Expectations. Theory of Secular Stagnation. Investment and the Level of Income.	
<b>44. MULTIPLIER AND ACCELERATOR</b>	<b>373-382</b>
Concept of Multiplier. Kahn's Employment Multiplier. Keynes' Income or Investment Multiplier. Diagrammatic Representation of Multiplier. Limitations of Multiplier. Uses of Multiplier. Leakages in Income Stream and Their Effect on the Multiplier. Reverse Operation of the Multiplier. Importance of the Multiplier. Multiplier and Under-development Countries. Acceleration: Concept of Accelerator. Working of the Accelerator. Criticism of the Acceleration Principle. Limitations of the Accelerator. Utility of the Accelerator. Comparison Between the Accelerator and the Multiplier. Three Concepts of the Multiplier. The Balanced Budget Multiplier.	
<b>45. WAGES AND EMPLOYMENT</b>	<b>383-387</b>
Classical View: Assumption. Criticism. Money Illusion. Effect of Wage-Cut on Determinants of Employment: Effect on Marginal Efficiency of Capital. Effect on Consumption Function. Effect on Rate of Interest. Modern Theory of Wages and Employment. Application to Wage Policy. Pigou Effect or Real Balance Effect.	
<b>46. UNEMPLOYMENT AND FULL EMPLOYMENT</b>	<b>388-393</b>
Types of Unemployment: Structural Unemployment. Seasonal Unemployment. Frictional Unemployment. Keynesian Unemployment or Cyclical Unemployment. Measures to Remove Cyclical or Keynesian Unemployment. Nature of Unemployment in Under-developed Countries. Full Employment: Meaning of Full Employment. Measurement of Full Employment Level. Policy for Full Employment: Fiscal Policy for Full Employment. Monetary Policy for Full Employment. Income Policy for Full Employment. Price Policy for Full Employment. International Measures for Full Employment.	
<b>PART III: ECONOMIC FLUCTUATIONS</b>	
<b>47. TRADE CYCLES</b>	<b>394-406</b>
Meaning of a Trade Cycle. Economic Crisis. Phases of a Trade Cycle. Characteristics of a Trade Cycle. Theories of Trade Cycle: Climatic Theory. Psychological Theory. Under-consumption Theory. Monetary Theory. Over-investment Theory. Keynes' Theory. Modern Theory: Interaction of Multiplier and Accelerator. Kaldor's Contribution to Modern Trade Cycle Theory. Policy for the Trade Cycle: Remedial Measures: Monetary Policy. Fiscal Policy. International Measures. Mathews' Model.	

**BOOK THREE: MONEY AND BANKING****PART I: MONETARY STANDARDS AND THEORY OF MONEY AND PRICES**

48. **NATURE AND FUNCTIONS OF MONEY** 409-415  
 Meaning of Money. Concepts of Money, money stock measures in India. Difficulties of Barter. Importance of Money in Modern Economy. Dangers of Money. Money in a Socialist State. Gresham's Law. Functions of Money: Money as Medium of Exchange. Money as a Standard Measure of Value. Money as a Standard of Deferred Payments. Money as a Store of Value. Money as a Means of Transferring Value. Primary, Secondary and Contingency Functions. Static and Dynamic Functions. When Does Money Cease to Perform its Functions? Essentials of Good Money. Demand for and Supply of Money: Demand for Money Supply of Money.
49. **MONETARY STANDARDS** 416-424  
 Gold Standard: Gold Currency Standard. Gold Bullion Standard. Gold Exchange Standard. Gold Parity Standard. Advantages of Gold Standard. Disadvantages of Gold Standard. Conditions for Successful Functioning of Gold Standard. Causes of the Breakdown of the Gold Standard. Future of Gold Standard. Paper Currency Standard. Advantages of Paper Money. Disadvantages of Paper Money. Principles of Note-Issue. Systems of Note-Issue. Essentials of a Sound Currency System. Paper Gold Standard or the SDR Standard.
50. **THEORY OF MONEY AND PRICES** 425-434  
 Index Numbers: Meaning. Preparation of Index Numbers. Weighted Index Numbers. Uses of Index Numbers. Limitations. Theories of Money and Prices: Value of Money: Its Meaning. Quantity Theories of Money: The Quantity-Velocity or Cash Transactions Approach. Equation of Exchange. Critical Evaluation of the Quantity Theory. Merits of the Theory. Cash Balances Approach: Cambridge Equation. Differences between Fisher Equation and Cambridge Equation. Friedman's Restatement of the Quantity Theory of Money. Modern Theory of Money: The Income Approach. Determination of the General Price Level: Keynesian View. Role of Money in Economic Activity. Conditions for Neutrality.
51. **INFLATION** 435-448  
 Definition of Inflation. Inflationary Gap. Inflationary Process. Wage-price Spiral. Demand-pull Inflation. Cost-push Inflation. Theories of Inflation. Market-power Theory of Inflation. Policy Implications. Conventional Demand-pull Inflation. Structural Theories of Inflation. Bottle-Neck Inflation. Demand-Composition Inflation. Causes of Inflation. Full Employment and Inflation. The Phillips' Curve. Trade-off Between Degree of Unemployment and Wage-Price Rise. Nature of Inflation in a Developing Economy. Effects of Changing Prices: Control of Inflation: Monetary Measures. Limitations of Monetary Policy. Fiscal Measures. Physical or Non-Monetary Measures. Price Control. Failure of Price Control. Further Measures to Control Inflation. Price Income Policy. Monetarists Recipe. Indexation.
- PART II: BANKING**
52. **BANKING** 449-455  
 Functions of Commercial Banks. Creation of Credit: How Banks Create Credit. Process of Credit Creation. Limitations. Significance of Credit Creation. Investment Policy: Liquidity vs. Profitability. Importance of Liquidity. Bank Balance Sheet. Utility of Banks. Role of Banks in Economic Development. A Note on Non-Banking Financial Intermediaries. NBFIs and Commercial Banks. Functions of NBFIs.
53. **CENTRAL BANKING** 456-464  
 Importance of Central Bank. Central Banking Principles. Functions of Central Banks. Note-Issuing Agency. Banker of the State. Bankers' Bank. Lender of Last Resort. Clearing and Settlement. Control of Credit: Objectives of Credit Control. Difficulties of Credit Control. Methods of Credit Control or Instruments of Monetary Management. General Credit Controls. Selective Credit Controls. Bank Rate Policy. Bank Rate Policy Under Gold Standard. Limiting Conditions of Bank Rate Policy. Keynes' View of the Bank Rate Policy. Open Market Operations: Limitations of the Theory. Credit Rationing. Direct Action and Moral Suasion. Varying Reserve Requirements. Selective Credit Controls: Varying Margin Requirements. Limitations of Selective Credit Controls.



## 54. MONETARY POLICY

465-471

**Objectives. Dear Money vs. Cheap Money: Neutral Money Policy. Monetary Policy for a Developing Economy. Role of Central Bank in Economic Development. Limitations of Monetary Policy. Role of Monetary Policy in Indian Economic Development. Conflicting Objectives of Monetary Policy. Coordination of Monetary Objectives. Optimising Approach Fixed Target Approach. Harmonious Adjustment and Judicious Mix. Monetary Policy Vs Fiscal Policy. Monetary-Fiscal Policy Mix.**

**BOOK FOUR: INTERNATIONAL ECONOMICS****PART I: INTERNATIONAL TRADE THEORY**

## 55. THEORY OF INTERNATIONAL TRADE

475-488

Inter-regional vs. International Trade. Why a Separate Theory of International Trade. The Basis of International Trade: Classical Theory of International Trade. The Theory of Absolute Advantage. The Theory of Comparative Cost. Criticism of the Comparative Cost Theory. Modern Theory: General Equilibrium Theory. Criticism of Ohlin's Theory. Comparison between Classical Theory and Ohlin's Theory. The Theory of Opportunity Cost. Comparative Cost Theory and the Opportunity Cost Theory Compared. Assumptions. Terms of Trade. Factors on which Terms of Trade Depend. Terms of Trade and Economic Growth. Gains from Foreign Trade. Static and Dynamic. Consequences of International Trade.

## 56. FREE TRADE VS. PROTECTION

489-495

Theory of Free Trade. Case for Free Trade. Protectionism: Arguments for Protection. Arguments Against Protection. Role of Protection in Under-developed Countries. Barriers to Foreign Trade. A Note on the Theory of Tariffs. Stolper-Samuelson Theorem. The Terms of Trade Effect. Effect on National Income. Optimum Tariff.

**PART II: BALANCE OF PAYMENTS AND INTERNATIONAL MONETARY SYSTEM**

## 57. BALANCE OF PAYMENTS

496-505

Definition of Balance of Payments. Balance of Payments: Current and Capital Accounts. Items Included in the Balance of Payments. India's Balance of Payments (Current Account). India's Balance of Payments: Capital Account. Balance of Payments and Balance of Trade. How does the Balance of Payments Balance? Equilibrium. Disequilibrium and Adjustment. Balance of Payments Equilibrium. Types and Causes of Disequilibrium. Theories Concerning Disequilibrium in Balance of Payments. Methods of Correcting Disequilibrium in Balance of Payments. Economic Development and Balance of Payments. Sixth Plan Projections.

## 58. EXCHANGE RATE DETERMINATION

506-515

Rate of Exchange under Gold Standard. Exchange between Gold and Silver Standards. Purchasing Power Parity Theory. Exchange between Inconvertible Paper Currencies. Critical Evaluation of the Purchasing Power Parity Theory. Modern Theory of Exchange Rate Determination: Demand and Supply Theory or Balance of Payments Theory. Evaluation of the Balance of Payments Theory. Equilibrium Rate of Exchange. Fluctuating vs. Fixed Exchange: Case for Flexible Exchange. Case for Fixed Exchange. Exchange Control. Objectives of Exchange Control. Methods of Exchange Control. Forms of Exchange Control. Other Exchange Control Devices.

## 59. INTERNATIONAL MONETARY FUND

516-525

Purposes and Objectives. Organisation and Functions. Organisation of the Fund. Function of the Fund. I.M.F. an Improvement on Gold Standard. Working and Evaluation of the Fund. I.M.F. and Less Developed Countries. Problem of International Liquidity: Components of International Liquidity. Causes of Inadequacy. Special Drawing Rights. Reforms of the International Monetary System. Breakdown of the Brettonwoods System. Reforms. Other Recent Development—Supplementary Financing Facility (SFF). Compensatory Financing Facility. Trust Fund. Subsidy Account Substitution Account. Buffer stock Financing Facility. Common Fund. Fund Conditionality.

**BOOK FIVE: PUBLIC FINANCE**

## 60. NATURE AND SCOPE OF PUBLIC FINANCE

529-537

Distinction Between Public Finance and Private Finance. Importance of Public Finance.

<i>Chapter</i>	<i>Pages</i>
Classical Views on Public Finance. Keynesian Views on Public Finance. The Principle of Maximum Social Advantage. Diagrammatic Representation. Criticism of the Principle of Maximum Social Advantage. Concept of Functional Finance. Role of Public Finance in a Developing Economy. Role of Public Finance Under different Economic Systems.	
<b>61. PUBLIC EXPENDITURE</b>	540-547
Causes of Increase in Public Expenditure. Revenue and Capital Expenditure. Development and Non-Development Expenditure. Principles of Public Expenditure. Effects of Public Expenditure: Effects on Production. Effects on Distribution. Effects on Level of Income and Employment. Effects on Income and Employment in a Developing Economy. Role of Public Expenditure in a Developing Economy. Pure Theory of Public Expenditure.	
<b>62. PUBLIC REVENUE</b>	548-557
Sources of Revenue: Taxes. Classification of Taxes. Direct and Indirect Taxes. Specific and Ad Valorem Taxes. Canons of Taxation: Adam Smith's Canons. Other Canons. Social and Economic Objectives of Taxation. Objectives in a Developing Economy. Characteristics of a Good Tax System. Role of Taxation in Developing Economies. Tax Policy for Developing Economies. The Theory of Tax Structure Development. Changes in Tax Structure Under the Impact of Economic Development.	
<b>63. PROBLEM OF EQUITY</b>	558-563
Cost of Service Principle. Benefit or 'Quid Pro Quo' Theory. 'Ability to Pay' Theory. Proportional vs. Progressive Taxation. Case for Proportional Taxation. Case Against. Case for Progressive Taxation. Case Against. Taxable Capacity: Meaning. Limit of Taxable Capacity. Factors Governing Taxable Capacity. A Further Note on the Case for Progressive Taxation.	
<b>64. INCIDENCE OF TAXATION</b>	564-575
Meaning of Incidence. Impact and Incidence. Incidence and Effects. Money Burden and Real Burden. Importance of Incidence. Factors Determining Incidence. Direct and Indirect Taxes. Relative Merits and Demerits of Direct and Indirect Taxes. Role of Indirect Taxation in a Developing Economy. Incidence of Some Taxes. Incidence of Taxes on Personal Income. Incidence of Corporation Tax. Incidence of Tax on Profit. Effects of Wealth Tax. Incidence of Property Tax. Incidence of Tax on Buildings. Incidence of Death Duty. Incidence of Tax on Monopoly. Incidence of a Commodity Tax. Incidence of Sales Tax. Incidence of Import and Export Duties. Effects of Taxation on Production. Consumption and Distribution. Modern Theory of Shifting and Incidence.	
<b>65. PUBLIC DEBT</b>	576-580
Classification of Public Debt. Growth of Public Debt. Purposes of Public Debt. Methods of Debt Redemption. Some Revolutionary Proposals. Burden of Public Debt: Burden of Internal Debt. Burden of External Debt. Role of Public Borrowing in a Developing Economy. Voluntary or Forced Loans. Difficulties of Public Borrowing in Under-developed Countries. Suggestions for the Success of Public Borrowing. Effects of Public Debt on Production, Distribution, Consumption and Level of Income and Employment.	
<b>66. DEFICIT FINANCING</b>	581-585
Definition. Uses of Deficit Financing. Deficit Financing during Depression. Role of Deficit Financing in a Developing Economy. Precautions. Deficit Financing in India's Five Year Plans. Consequence of Deficit Financing. Deficit Financing and Inflation. Not Necessarily Inflationary. Minimising Inflationary Potential of Deficit Financing. Concept and Principles of Federal Finance.	
<b>BOOK SIX: ECONOMIC SYSTEMS</b>	
<b>67. CAPITALISM</b>	589-595
Capitalism: Definition. Outstanding Features of Capitalism. Sovereignty of the Consumer. Merits of Capitalism. Demerits or Criticism of Capitalism. Changing Face of Capitalism: Towards Welfare State.	
<b>68. SOCIALISM</b>	596-609
Definition. Marxian Socialism. Materialistic Interpretation of History. Criticism of Marxian	

Theory. Some Other Forms of Socialism. Collectivism or State Socialism. Guild Socialism. Syndicalism. Communism. Anarchism. Fabian Socialists. General Features of Socialism. Case for Socialism. Demerits of Socialism. Criticism Answered. Some Problems of Socialism.

69. MIXED ECONOMY

610-614

Meaning. Main Features of Mixed Economy. Critical Evaluation of Mixed Economy. Mixed Economy in the Context of Indian Economy.

**BOOK SEVEN: ECONOMICS OF DEVELOPMENT AND PLANNING**

**PART I: ECONOMICS OF DEVELOPMENT**

70. ECONOMIC UNDER-DEVELOPMENT

617-622

Emergence of Theory of Growth. Definition of an Under-developed Economy. Characteristics of Under-developed Economies. Dualism and Economic Under-development.

71. OBSTACLES TO ECONOMIC GROWTH

623-627

Economic Factors Impeding Growth. Social and Political Obstacles to Growth. Conclusion.

72. VICIOUS CIRCLE OF POVERTY

628-633

Vicious Circle on the Demand Side of Capital Formation. Vicious Circle of Poverty on the Supply Side of Capital Formation. Measures to Break the Vicious Circle: Measures to Promote Capital Formation. Foreign Aid and its Role in Economic Development.

73. DISGUISED UNEMPLOYMENT AND ECONOMIC GROWTH

634-639

Meaning of Disguised Unemployment. Extent of Disguised Unemployment. Disguised Unemployment as a Potential Source of Capital Formation. Critical Evaluation of Disguised Unemployment as a Source of Capital Formation. Conclusion. Solution of the Problem of Disguised Unemployment. Lewis Model of Economic Development with Unlimited Labour Supply.

74. ECONOMIC DEVELOPMENT

640-651

Meaning. Stages of Economic Development. Determinants of Economic Growth. Capital Formation. Can capital accumulation take place without technological progress? Capital-output Ratio. Technological Progress. Dynamic Entrepreneurship. Population Growth. Non-economic or Institutional Factors. Harrod-Domar Growth Models. Relation Between Population Growth and Economic Growth. Critical Minimum Effort Thesis. Relevance of Harrod-Domar Model for Developing Countries.

75. STRATEGY OF ECONOMIC DEVELOPMENT: BALANCED

652-659

AND UNBALANCED GROWTH

Types of Strategies. Big Push Strategy. Balanced, Unbalanced, Big Push. Balanced vs. Unbalanced Growth. Size of Market and Inducement to Invest. Nurksian Doctrine of Balanced Growth. Singer's Critique of Balanced Growth Doctrine. Hirschman's Doctrine of Planned Unbalanced Growth. Conclusion. Mahalanobis Strategy of Economic Growth. Conclusion.

76. INVESTMENT CRITERIA AND CHOICE OF TECHNIQUES

660-666

Cost-Benefit Analysis. What Costs and Benefits? Capital-output Ratio Criterion. Marginal Social Productivity Criterion. Some General Guidelines. Balance of Payments Criterion. Quick-yielding Investments. Labour-Intensive vs. Capital-Intensive Techniques. Local Community Assets. The Rate of Turnover Criterion. The Surplus Rate Criterion. Employment Absorption Criterion. The Time Series Criterion. Conclusion. Socially Desirable Income Distribution Criterion.

77. FINANCING OF ECONOMIC DEVELOPMENT

667-671

Savings. Taxation. Government Borrowing. Foreign Capital. Profits of Public Undertakings. Deficit Financing. Disguised Unemployment. Inflation and Forced Saving.

## Chapter

Pages

672-675

**78. ROLE OF GOVERNMENT IN ECONOMIC DEVELOPMENT**

Importance of Government's Role in Economic Development. Government Measures to Promote Economic Development. Provision of Economic and Social Overheads. Provision of Financial Facilities. Institutional Changes. Direct Participation. Indirect Measures. Rationale of Public Sector in Economic Development.

**PART II: DEVELOPMENT PLANNING****79. ECONOMIC PLANNING: MEANING AND TYPES**

676-688

Popularity of Planning. Meaning of Planning. Forms of Planning. Authoritarian and Democratic Planning. General and Partial Planning. Functional and Structural Planning. Planning by Inducement and Planning by Direction. Centralised Planning vs. Decentralised Planning. Case for Planning. Special Case of Under-developed Countries. Pre-requisites of Successful Planning. Objective of Planning. Formulation and Implementation of a Plan. Physical vs. Financial Planning. Features of a Planned Economy. Concept of Rolling Plan.

**BOOK EIGHT: ECONOMICS OF WELFARE****80. WELFARE ECONOMICS**

691-709

Definition of Welfare Economics. Economic and Non-Economic or General Welfare. Positive Economics and Welfare Economics. Individual Welfare and Social Welfare. Divergence between Individual and Social Welfare. Old Welfare Economics: Pigou's Analysis. New Welfare Economics: Compensation Principle. Social Welfare Function. Welfare Criteria. Welfare Propositions: Conditions of the Paretian Optimum. Assumptions and Limitations of Welfare Concept. Applications of Welfare Economics. Rationing. Taxation. National Income. Socialist Ideology. Obstacles to Welfare Maximization. A Further Note on Compensation Principles. Kaldor's Compensation Principle. Hick's Compensation Principle. Scitovsky's Compensation Principle. Criticism of Compensation Principles. Market Structure and Social Welfare. Fiscal Policy and Social Welfare: Impact of Income Distribution on Social Welfare. Impact of Tax Structure on Social Welfare. Arrow's Impossibility Theorem.

**CLASSIFIED BIBLIOGRAPHY**

711-714

**TYPICAL QUESTIONS**

715-729

**INDEX**

731-740

**BOOK ONE :**  
**PRICE THEORY OR**  
**MICRO-ECONOMICS**