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DEPS

DIPARTIMENTO DI ECONOMIA
POLITICA E STATISTICA

This book *Applied Macroeconomics: Employment, Growth and Inflation* blends economic data, theory and history in a skillful and unique way. It develops labor supply chain based growth arithmetic, to construct a discrete time model of the expectations-augmented Phillips curve. This is used to explain the episodes of the 1970s OPEC supply shock, as well as food inflation in India in the last decade. It is also an input into a policy rate based financial macroeconomics framework, which the author has developed for situations where interest rates are well above zero.

Although developed economies have had near zero and even negative interest rates since the 2008 crisis, this book is very relevant for emerging economies. For developed countries, the author's recent articles on incentives for shorter average work hours to cope with lower demand are a huge eye opener, more so after the current pandemic.

This book can be used both as a text and for reference.



Lionello F. Punzo
Full Professor of Economics

Moorthy, Vivek

From: Anand Prahlad <anand.prahlad18@alumni.iimb.ac.in>
Sent: 06 October 2021 22:17
To: Moorthy, Vivek
Subject: Macroeconomics Course Review

Dear Professor,

I trust this email finds you well.

I have penned a review, where I've shared some of my experiences, while taking your course. Hopefully, it may be helpful to your students.

Hope to catch up with you the next time I'm in India/Bangalore.

- Anand.

Macroeconomics Course Review

The news in recent weeks about rising commodity prices prompted me belatedly to write this. I remember shuffling out of class with my classmate Ameya, during our tea break, 3 years ago, & both of us looking at each other & going, "Just, wow!". This was after we first encountered the Expectations Augmented Phillips Curve (EAPC) in Prof Moorthy's macroeconomics class. Macroeconomics was amongst the most enjoyable courses I took, during my time @ IIMB, for two reasons:

- First, the nature of the subject.
- Second, Prof. Moorthy's pedagogy.

It was fun to learn that contrary to what is usually reported, a country's Central Bank (CB) has shockingly little influence in the long run over any meaningful economic variable we care about – be it unemployment rate, real interest rate, GDP growth, real wage rate, real exchange rate, the list goes on. Learning about the Natural Rate Hypothesis (NRH) in this course, taught me that the real world is far too complex, & that at best the only variable a CB can reliably influence long term is only the inflation rate.

In this regard, one must admire the audacity of macroeconomists, who attempt predictions despite a hopeless situation. Such predictions are accomplished via the Expectations Augmented Phillips Curve (EAPC) – which was the crown jewel of this course. The EAPC (& its minor variations like the delayed-EAPC) can explain & beautifully deconstruct a wide variety of economic events from the 70's Oil Price Shock to India's Stagflation a few years back, using just basic arithmetic.

This startling simplicity of the EAPC hides a real genius in design, which can be appreciated by an appeal to Occam's Razor. Occam's Razor advocates predicting any phenomenon with the simplest theory, having the least number of hypotheses. Now, given our nightmare scenario, where every variable interacts with everything else, one can have a hypothesis governing each interaction. But this would result in a hopelessly complicated model that'd be worse than useless.

The genius of EAPC's design is that it manages to generate deep insight by embracing simplicity. Here, it uses just two hypotheses/assumptions: the Lokun co-efficient (which relates unemployment to aftOR) & The Phillips curve coefficients (which relate unemployment to inflation and expected inflation to actual inflation). This EAPC model is then used to develop the monetarist paradox model of interest rates, in which an easy money policy leads to high interest rates, and vice versa, which is applied to USA in the 1980s and then India post 2010. This was hands-down amongst the coolest things I've come across.

Despite many of us never having had an economics course before, (I hail from an agricultural background/profession) Prof. Moorthy helped us understand macroeconomics. A big part of my enjoyment of his course was due to reading his little gem of a textbook. In a world where most textbooks are ponderous tomes, that easily double as gym weights, it was novel to read a book that favored clarity & economy of words to convey difficult concepts. I wish more authors would invest as much thought & care. No doubt it's far more difficult to create something pleasing by subtracting from something, than just mindlessly adding to it. After all, wasn't it Saint-Exupéry who said, "Perfection is achieved, not when there is nothing more to add, but when there is nothing left to take away."? Considering the complexities of the subject, this little book was damn near perfect, in my opinion.

That's my review of the macroeconomics course. I think if you love new ideas & new ways of accurately seeing the world then there's a good chance, you'll have a blast geeking out over the ideas in this course. I hope you enjoy it as much as I, & many of my classmates did. All the best!

Anand Prahlad

(PGPEM 2018-2020, IIMB), Dean's Merit List

Date: 06 Oct 2021

Moorthy, Vivek

From: Narayan Sunil <narayan.sunil18@alumni.iimb.ac.in>
Sent: 28 September 2020 12:16
To: Moorthy, Vivek
Subject: Looking Back at my Economic Courses

Dear Professor,

I hope you are keeping well and staying safe! This is to follow up on the conversation we had around the time of my Convocation earlier this year, when I had apprised you of the fact that I had been awarded the academic gold medal. I can speak with confidence that on an academic basis, no other faculty member has aroused my intellectual curiosity the way you have. Before embarking on a career with BCG, where I join on the 19th of next month, I can say with confidence that you have inspired me towards possible academic pursuits in macroeconomics.

On this note, I feel that the core macro course at IIMB is in dire need of a revamp. Why are we spending our time and money to be taught the useless IS/LM model which does not offer any foundation for elective courses? Your Policy Rate Approach can be used to link the central bank and the banking system in another elective, as you do for the fiscal side in FINMAC course, and for the equity and FX side in GMFM course. In this context, I found the blog *mostlyeconomics*, by your former doctoral student Dr. Amol Agrawal very useful to stay abreast with developments in central and commercial banking, from an India perspective, and I strongly recommend it to those interested in these topics.

As a student who obtained a minor in Economics prior to joining IIMB, I have studied IS/LM several times, with no progression or depth. It cannot be used to explain empirical data episodes, the way your models do. Moreover, while Gregory Mankiw's original textbooks, that I studied from in the past, had some coherence, the diluted Mankiw and Taylor 4th edition that we are prescribed at IIMB, seems like a copy paste job and has serious errors. The crucial Chapter 13 titled Keynesian Economics and IS/LM analysis, references a Chapter 27, that does not exist. The Mankiw and Taylor book ends in Chapter 19! And the concluding Chapter 19 refers to Chapter 26 and Chapter 31!!

I fail to comprehend why we waste valuable resources on a book that is sub-par and with such grave mistakes, and which incidentally, is not made in India. I feel this issue requires wider scrutiny from the Board of Governors and from the higher education authorities in New Delhi.

In any case, I feel extremely grateful to have signed up for your courses, and to have been taught by you. I hope many more future management students follow in my wake, and I hope to remain in touch with you. Thank you Sir!

Regards,
Narayan Sunil

Business Standard

Macroeconomics in action

V Kumaraswamy September 03, 2021

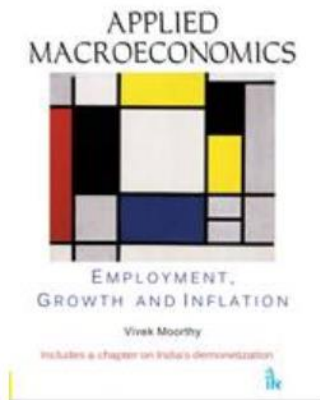
https://www.business-standard.com/article/beyond-business/macroeconomics-in-action-121090201490_1.html

The book does not take more than a paragraph to warn us about our misplaced hopes in demographic dividends

Book: Applied Macroeconomics: Employment, Growth and Inflation **Author:** Vivek Moorthy

Publisher: IK International/DreamTech-Wiley **Pages:** 235 **Price:** Rs 565

Note that the currently available 2019 version is a Reprint of the original 2017 book, not a new edition.



The reviewer chanced upon this book while looking for a convincing work that would explain adequately India's sluggish economic growth of recent years. Although it is not the prime remit of this book, the macroeconomic framework it has set out helps the reader understand the basic building blocks and dominant issues of the day, including why the Indian economy performs poorly compared to its potential.

A noteworthy and consistent feature of the book is its pithiness. Chapter-1 – all of 40 pages – has a wide sweep; yet it covers what would perhaps take one half to a third of a conventional book on macroeconomics. Starting with the Harrod-Domar growth model of 1950s development economics, the build-up of concepts is almost racy but the reader is unlikely to feel any gaps in understanding. Different approaches to growth and offshoot concepts such as recession, recovery, slowdowns and so on have been explained with academic precision and lucidity.

To offer some examples of articulate brevity: The book does not take more than a paragraph to warn us about our misplaced hopes in demographic dividends. It would require a higher labour force participation (LFP). But India's population is growing in poorer and backward states where LFP is poor and participation of woman in rural areas even lower. Macroeconomic analysis nowadays increasingly focuses on softer aspect and survey data underlying growth, such as indices for business confidence, consumer confidence and ease of doing business. This is captured in what the author calls Sotonomics, named after the Peruvian economist Hernando de Soto, who theorised that the main determinants for growth and investments are effective property laws and ease/cost of doing business. The contrast and complementarity of this approach with Solownomics (named after the Nobel laureate Robert Solow), which lays emphasis on capital stock, labour, total factor productivity and so on are well brought out.

Broadly, the book has two parts – the first five chapters deal with concepts of modern macroeconomics, derived from underlying events, and chapters six to eight cover their application to topics of recent or contemporary relevance. The first part lays the foundation and the latter part examines some burning issues of wider public interest. The framework of modern macroeconomics comprising the Phillips curve and its variations and modifications based on inflation, output gap, unemployment rates and Okun's Law are clearly built up in the first part.

...Continued

The author uses mathematics in a facilitative way to foster easier understanding of concept. But rather than making math and calculus ends in themselves, Professor Moorthy has fused the technical and the narrative explanation well. The reader will not need more than high school arithmetic to grasp the concepts as they unfold.

The second part deals in chronological sequence the growing irrelevance of the much-touted BRICs (Brazil, Russia, India, China, South Africa) grouping, India's stagflation episode and, finally, the effect of demonetisation. The chapter on BRICs, spanning the decadal period from the first Goldman Sachs BRICs report in 2003 to the taper tantrums of 2013 is an eye-opener. This reviewer has followed the events in real time in his work. Nevertheless, to read about them in a summary form as in this book presents a completely new picture. Chapter 7 explains India's tryst with growth recession and the effect on National Rural Employment Guarantee Act, minimum support prices, inflation control and so on. The chapter on demonetisation is packed with more comprehensive dimensions of analysis than entire books on this subject by other noted authors.

The book is a valuable addition to those looking for sound grounding in the inner recesses of modern macroeconomics as a subject, and how economies function, in order to meaningfully grasp and comment on national economic issues. It is partly targeted at the practitioners. Some questions and answers are given at the end of each chapter to clarify concepts.

Some obvious shortcomings. The book could do with better copy editing and the placement of graphs and related subjects needs more attention. As stated in the preface, the book is not comprehensive enough for a full macroeconomics course. It appears to be part of a more comprehensive work in making as one can deduce from the schematic attached. The book might serve better in executive education programmes for corporate executives. Reading this book would amount to productive time spent because it lays the foundation for analysing events and outcomes as they occur in real time.

The reviewer is a CFO, author and columnist.