

**Course Title: Applied Economics (3 Cr.)**

**Course Code: CAEC353**

**Year/ Semester: III/VI**

**Class Load: 3 Hrs./Week (Theory: 3 Hrs.; Tutorial: 1Hr.)**

### **Course Description**

This course of Applied Economics consists of the introduction to economic theories and application. It consists of theory of demand and supply, theory of consumer's behavior, theory of production, cost and revenue curves, theory of product pricing and factor pricing as well as contemporary macroeconomics like national income accounting, money banking and international trade with reference to Nepal.

### **Course Objective**

This course of Applied Economics aims to enhance understanding of the economic theories and application to develop skills of students in personal and professional decision making related to business, IT and management.

#### **Unit 1: Introduction**

**6 Hrs.**

- Concept and types of microeconomics and macroeconomics
- Distinction between microeconomics and macroeconomics
- Goals and instruments of macroeconomics

#### **Unit 2: Elasticity of Demand and Supply**

**6 Hrs.**

- Concept and types of price, income and cross elasticity of demand
- Measurement of price, income and cross elasticity of demand: Total outlay method and Point method
- Uses of price, income and cross elasticity
- Concept of elasticity of supply and its measurement  
(Numerical exercise using excel)

#### **Unit 3: Theory of Consumer Behavior**

**6 Hrs.**

- Concept of cardinal and ordinal utility analysis
- Cardinal utility analysis: assumptions, consumer's equilibrium, criticisms and derivation of demand curve
- Ordinal utility Analysis: Concept, properties of Indifference curve, marginal rate of substitution, Price Line and consumer's equilibrium, Price effect: Derivation of PCC, Income effect: Derivation of ICC, Substitution effect, Decomposition of price effect into income and substitution effect, Derivation of demand curve (Hicksian approach)  
(Numerical exercise)

#### **Unit 4: Cost and Revenue Curves**

**6 Hrs.**

- Concept of cost: actual cost and opportunity cost, implicit cost and explicit cost, accounting and economic cost.
- Derivation of short run and long run cost curves (total, average, marginal) and shape of short run and long run average cost curves.
- Relationship between short run and long run AC and MC curves



- d. Concept of revenue: total revenue, average revenue, and marginal revenue, revenue curves under perfect and imperfect competition, relation between average and marginal revenue

(Numerical exercise using excel)

#### Unit 5: Market Structure

9 Hrs.

- a. **Perfect competition**- meaning and characteristics of perfect competition, short run and long run equilibrium of the firm and industry (TR-TC approach and MC-MR approach), derivation of short run and long run supply curve of a firm and industry.
- b. **Monopoly**: Meaning and characteristic of monopoly; pricing under monopoly: equilibrium of firm in short run and long run (TR-TC approach and MC-MR approach); Price discrimination and degree of price discrimination.
- c. **Monopolistic Competition**: Meaning and characteristics of monopolistic competition; Pricing under monopolistic competition: equilibrium of firm in short run and long run; equilibrium of firm under product variation and selling expenses
- d. **Oligopoly**: Meaning and characteristic of oligopoly; Pricing under cartel (aiming at joint profit maximization)

(Numerical exercise using excel)

#### Unit 6: National Income Accounting

6 Hrs.

- a. Circular flow of income and expenditure in two sector, three sector and four sector economy
- b. Meaning and different concept of national income: GDP, NDP, GNP, NNP, national income at factor cost (NI), personal income (PI), disposable personal income (DI), per capita income (PCI)
- c. Real and nominal GDP, GDP deflator
- d. Computation of National income: Product, Income and Expenditure method

(Numerical exercise using excel)

#### Unit 7: Money, Banking and International Trade

6 Hrs.

- a. Concept and functions of money- value of money-money supply –components of money supply ( $M_1$ ,  $M_2$ , etc.)
- b. Inflation : Types, causes and effects of inflation
- c. Banking: role and functions of commercial banks , role and functions of central bank with reference to Nepal Rastra Bank
- d. International Trade: Distinction between internal and international trade, balance of trade and balance of payment.



### Reference Books

Ackley, Gardener. (1978). Macroeconomics: Theory and Policy. New York: Mac Milan Publishing Co.

Caves, Frankel, Jones, World Trades and Payments: (9th Ed.) Pearson Education

Dominick Salvatore, International Economics: (8th Ed.) . Wiley India.

Dwivedi, D.N. (2001). Macroeconomic Theory and Policy. Tata McGraw-Hill Publishing Company Limited, New Delhi

G, Mankiw. (2007). Economics: Principles and Applications. South Western of Cengage Learning.

Gupta, S.B. Monetary Economics, S.Chand & Co;New Delhi.

Koutsoyianis, A. (1991). Modern Microeconomics. Hongkong: ELBS

Lipsey and Chrystal. Economics. Oxford University Press. (eleventh edition or latest one).

Mankiw, N. Gregory. (2009). Principles of Microeconomics. Cengage Learning India Private Limited, New Delhi (4<sup>th</sup> edition)

P. Samuelson and W. Nordhaus. Economics, Mc GrawHill International Editions. (14th edition or latest one)

Paul R. Krugman, Maurice Obstfeld, International Economics: (8th Ed.) Pearson Education

Pindyck, Robert S. and Daniel, Rubinfeld. (2001). Microeconomics. New Delhi: Prentice Hall of India

Salvatore, Dominic. (2009). Principles of Microeconomics. Publish in India Oxford University Press, New Delhi

Shapiro, Edward. (2004). Macroeconomic Analysis. New Delhi: Galgotia Publication (P) Ltd.

### Practical Works

Excel or other relevant statistical software should be used to compute numerical exercise.

### Teaching Methods:

The general teaching pedagogy includes class lectures, presentations, group works, case studies, guest lectures research works, project works, assignments ( Theoretical and practical). The teaching faculty will determine the choice of teaching pedagogy and statistical tools as per the requirements of topics.



## Evaluation

Examination Scheme				Total
Internal Assessment (40)		External Assessment (60)		100
Theory	Practical	Theory	Practical	
30	10	40	20	

