

## Macroeconomics

In *Macroeconomics: An Introduction*, Alex M. Thomas provides a lucid and novel introduction to macroeconomic issues. The book introduces the reader to an alternative approach of understanding macroeconomics, which is inspired by the works of Adam Smith, David Ricardo, Karl Marx, John Maynard Keynes and Piero Sraffa. It also presents the reader with a critical account of mainstream marginalist macroeconomics.

The book begins with a brief history of economic theories and then it takes the reader through three different ways of conceptualising the macroeconomy. Subsequently, the theories of money and interest rates, output and employment levels, and economic growth are discussed. This is followed by a chapter on why economic theory matters. The book ends by providing a policy template for addressing the macroeconomic concerns of unemployment and inflation.

The conceptual discussion in *Macroeconomics* is situated within the context of the Indian economy. Besides using publicly available data, the contextual description is instantiated using excerpts from works of fiction by Indian authors.

Other key features of the book:

- A critical pedagogy
- A problem-setting approach as opposed to a problem-solving one
- In-text questions that mimic the format of an interactive lecture
- Illustrations to convey key points
- Figures and tables to complement the text
- An annotated list of further readings at the end of each chapter

This book will be of interest to anyone looking for an alternative macroeconomics framework, a critique of mainstream marginalist macroeconomics and an understanding of the Indian macroeconomy.

**Alex M. Thomas** is Assistant Professor of Economics at Azim Premji University, Bengaluru, India. His primary research is in the area of history of economic thought, with a special focus on classical economics. His research has been published in both national and international journals, including the *Economic and Political Weekly*, *History of Economic Ideas*, *History of Economics Review* and *Journal of Interdisciplinary Economics*.

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## An Introduction

Alex M. Thomas



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*To Appacha,  
who always encouraged me to ask questions*

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## Preface

At the very outset I must confess that I did not want to write a textbook. This is because all economics textbooks, except for a few, are essentially the same in their core content and presentation. In particular, there is no recognition of pluralism in theoretical approaches. My engagement with economics in varying capacities—as a student, a teacher, a researcher, a blogger and a commentator—has mostly dealt with a critical appraisal of mainstream economics and the strengthening of an alternative approach inspired by Adam Smith, David Ricardo, Karl Marx, John Maynard Keynes and Piero Sraffa. Both my interest in this alternative approach and the need to present the same to a wider audience persuaded me to organise and document my approach to macroeconomics in a written form.

Besides my desire for documentation, another motivation for writing this book arises from the need to provide good texts (even in the form of a short extract) to students studying in Indian colleges and universities where libraries are not well stocked. I vividly remember, as an M.Phil student at the University of Hyderabad (which has a reasonably well-stocked library), how I had struggled to obtain the materials I required for my research on the economics before Adam Smith. Fortunately, I received help from friends who were in other Indian universities and from historians of economic thought based in foreign universities. I hope that the short extracts, book suggestions in the chapters and the suggestions for further reading at the end of each chapter will provide an impetus to the readers not only to read original texts, but also to demand well-stocked libraries.

I strongly recommend and encourage the use of various texts (books, journal articles, government reports, fiction, newspaper articles and textbooks) in the teaching of any course in economics. This stems from my rather modest experience of just over 15 years as a student and teacher of economics. While the use of varied texts is challenging for both the teacher and the student, I firmly believe that the long-term benefits far outweigh the short-term costs, and that it truly contributes to good learning as it enables the students to become better arbiters of knowledge. After all, we live in the age of information abundance, and perhaps the most valuable skills are the ability to identify credible sources of information and the ability to evaluate, with sufficient confidence, contending arguments, perspectives and standpoints.

## PREFACE

In keeping with the above spirit, in *Macroeconomics: An Introduction*, I have tried to provide the reader with an assortment of texts, most notably from books of economics and fiction. However, as H. G. Jones writes in the preface to his excellent 1975 textbook on economic growth, it is crucial to keep in mind that “no textbook, however comprehensive, can ever be a substitute for the enlightening and rewarding process of struggling with the original books and articles” (p. iii).

A brief comment on how I have chosen the texts is now in order. First, I have tried to minimise the need for the reader to look up any extra material to follow the basic argument so as to not place the burden of seeking out a book or an article on the reader or her institution. To provide the flavour of the text, I have excerpted passages (sometimes long ones) from it. Second, this textbook possesses a distinct ‘Indian’ character—in terms of the examples and selection of literature. And the reader will find hardly any reference to examples from the American economy and works of fiction by American/British writers. It is in Raja Rao’s foreword to his 1938 novel *Kanthapura* that I first came across an explicit recognition of this standpoint: “The tempo of Indian life must be infused into our English expression” (p. v). Not surprisingly, almost all the economic theories you will come across in this textbook have non-Indian origins. But the Indian context has been infused into *our* non-Indian economics concepts, as it were, to rephrase Rao. Another criterion underlying the choice of fiction, besides my own very limited exposure, is that they engage with at least one of the following themes: caste, ecology, gender or land.

Finally, this book adopts a problem-setting approach rather than a problem-solving one, as is the case with most economics textbooks. To put it more clearly, this text helps you to identify, conceptualise and discipline a macroeconomic problem. Therefore, this book does not contain exercises in problem solving, but it contains discussions and questions that make you think about the nature of assumptions, the logic of the theory, the limits of the theory, the interface between theory and policy, a little bit about the gaps between theory and data, and, occasionally, the nature of past and present economic thought.

Therefore, this book aims to provide you with an (introductory) immersive experience in macroeconomics.

Bengaluru  
July 2020

## Acknowledgements

The origins of this book can be traced to my macroeconomics lectures to the first-year undergraduates at Azim Premji University from 2016 to 2018. Other courses I taught since then have also immensely helped in the writing of the book; in particular, I should mention ‘History of Economic Thought’ and ‘Quantitative Reasoning for Humanities’, for reaffirming my belief in the intellectual benefits of pluralism in theory and the power of descriptive statistics.

I had no plans of writing a textbook when I started teaching introductory macroeconomics; for the inception of the idea in July 2017, I am indebted to Anwesha Rana. Her editorial support throughout the writing of the book has been outstanding. I am grateful to the four anonymous reviewers who, on behalf of Cambridge University Press, read some of the chapters of the first draft and provided extremely useful suggestions. I am much obliged to Aniruddha De for his care in overseeing the production of the book and accommodating my unconventional requests regarding style. I am thankful to Amit Prasad for preparing the index.

The book has taken close to three years from inception to completion—a rather long time for a work like this. Each year, I managed to complete the first drafts of roughly three chapters. This was because I found it difficult to find time to write at a stretch, given the immediate demands of teaching and other pressing research and speaking commitments. Despite the delay, I am quite certain that my teaching and research engagements have contributed positively to the making of this book. Additionally, the talks I have given at various Indian universities and colleges on aspects of the Indian economy and history of economic thought provided me with several opportunities to think about particular issues in a focused manner; several of those issues figure in this book. I remain grateful to all those who invited me to give these talks.

My understanding and articulation of economic matters have improved from the questions posed by my students and our subsequent discussions both inside and outside the classroom. In particular, I wish to record my gratitude to the following students: Mridhula Mohan and Niveditha G. D. for having readily agreed to type out my handwritten first draft, which suffered from poor penmanship; Anushka Kale and Indu Periodi for their encouraging comments on some chapters of the first draft; Ashwath R. for his astute comments on the entire final draft; and Sahana

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For providing me with intellectual and emotional succour during the three years of writing this book, I am indebted to Abhigna, Atif, Chaitra, Divya, Lima, Neeraja, Nilesh, Rahul, Sharmadip, Sunandan, Tarangini, Varada, Varun and Varuni. I am grateful to my parents and my grandmothers for their unwavering support and my sister Elizabeth for her presence during the final stages of writing the book, and also for proofreading the final draft. The subsequent meticulous editing of the manuscript by Abhigna Arigala improved its quality significantly—and for this too, I remain indebted. I owe a special debt of gratitude to Anjana Thampi for carefully going through the typeset manuscript and providing helpful suggestions.

As with any intellectual endeavour, I have benefited immensely from the discussions I have had with several of my peers, teachers, students and especially those with my two research mentors. Many of the elements of my approach to economics are those I have imbibed from my mentors during the course of my studies at the universities of Hyderabad and Sydney. Consequently, my greatest intellectual debts are to Goddanti Omkarnath and Tony Aspromourgos.

## Note to the Reader

*Macroeconomics: An Introduction* assumes some familiarity with economics—at least, a year of undergraduate economics education. It is not a big book and has been written with a view that it will be read in its entirety. However, if you are interested only in conceptual or theoretical aspects of macroeconomics, you can focus on Chapters 3, 4 and 5 after having read Sections 1.4, 2.4 and 2.5. To obtain a broad policy perspective aimed at improving employment levels and stabilising inflation (with special reference to India), reading Chapters 7 and 8 is adequate. Finally, if you are particularly interested in the history and philosophy of macroeconomics, you can read Chapters 1, 2, 6 and 9.

The table of contents provides only an outline of the book's contents. A more rewarding approach to understanding the perspective and intentions of the book/author is by *reading* the index. It is not only helpful in locating the occurrence of a word, but also provides you with a map to understand the various interconnections between macroeconomics concepts, contexts, accounting, policies and sources that are discussed in this book. That is, the index provides you both the obvious and not-so-obvious links present between theories, within a theory, between concepts and context, between accounting and theory, and so on. For instance, if you wish to know what the book has to offer on 'consumption', look for its entry in the index; you will find obvious entries such as 'autonomous', 'induced' and 'and theory of output', but you will also find not-so-obvious entries such as 'and index numbers' and 'versus investment'. If you are reading the e-book format, note that electronic keyword searches may not tell you about the nature and instances of such not-so-obvious interconnections between the ideas in the book.

While I have used quantitative data to capture relevant features of the Indian economy, they need not be the latest available ones. This is so because the figures and charts that display quantitative economic characteristics are being used as vehicles for communicating relevant aspects of the Indian economy and for providing readers with the broad orders of magnitude relating to the Indian economy, and not to supply you with the most up-to-date statistics.

If you are a teacher who wishes to use this book, each chapter can be transacted in the classroom in at least four hours. I have weaved in questions alongside the explanation of concepts and not placed it at the end of the chapter, as is the convention. This has been done partly to recreate the experience of an interactive

## NOTE TO THE READER

lecture and to underscore the fact that normally questions arise at specific points during the course of an argument or discussion.

To obtain an immersive experience of macroeconomics, this book has to be used in the company of other texts and experiences. In order to facilitate such conversation, I have posed questions intended for both individual contemplation and discussion in groups. At several points in this book, you might perhaps wish that I provided an answer to a question or carried out an elaborate discussion. However, such a pedagogy is deliberate, and, in fact, this book would have attained its purpose if it motivates discussions both inside and outside the classroom on conceptual and contextual issues in macroeconomics. In other words, it is intended to serve as a critical companion.

Although this book's primary audience is undergraduate economics students, I think that it will be of interest to other social science students, and also to general readers interested in gaining an understanding of macroeconomic issues.