

Business Standard

Macroeconomics in action

V Kumaraswamy September 03, 2021

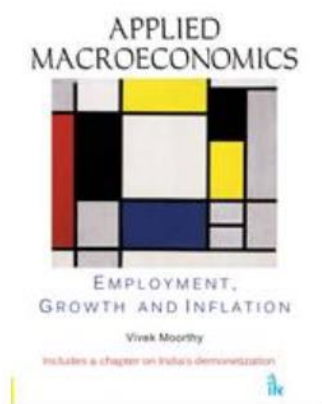
https://www.business-standard.com/article/beyond-business/macroeconomics-in-action-121090201490_1.html

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.