

June, 2011

Errata in Macroeconomics by Jagdish Handa

CHAPTER 2:

Page 45, section 2.6, second para line 3, change 'became' to 'become'.

Page 47, Extended Analysis Box 2.1, note that the monetary aggregates for the UK deliberately omit mention of M3 because this aggregate is normally not used in UK.

Page 61, line 12, change $(n - 1)$ to n .

Page 61, line 15, replace ' $P^b_1 = \text{price of the bond in period 1}$ ' by ' $P^b_1 = \text{present discounted value of the bond in period 1}$ '.

CHAPTER 3:

Page 81, line 5 from the bottom: replace 'OT' by OR'.

General comment on IRP equations:

The correct version of the interest rates in the IRP equation is the *nominal* one, for which the book's symbol is R .

[Intuitively, an investor compares the *nominal* yields in the two countries to decide where he can achieve a higher return.

Suppose the investor is concerned with the real return in terms of the purchasing power of the funds he will get back after one period. Once he repatriates the funds to his own country, his concern would be with their purchasing power in terms of the price level in his own country, not in the foreign country. By the Fisher equation, his real return from domestic investment would be the domestic nominal rate R minus the expected domestic inflation rate. His real return from the foreign investment would be the foreign nominal rate R minus the expected domestic (not foreign) inflation rate. Since the expected domestic inflation rate is now on both sides of the IRP equation, it will cancel out, leaving the IRP equation in terms of the nominal rates.]

CHAPTER 4:

Page 117, Fact Sheet 4.4, line 2: replace 'peactime' by peacetime'.

Pages 128-29, equations (17) and (18), to maintain consistency with earlier equations, change g_0 to g .

Page 129, equation (18) and the one before it, replace 'a' by ' α '.

Page 119, line 3 from bottom, replace 'and greater one' by 'greater than one'.

Page 120, Box 4.2, last equation, eliminate duplication in right hand side.

Pages 120-21, equations (20), (21) and (22), replace 'a' by ' α '.

Page 121, Box 4-3, line 5 from bottom, replace '4' by '-4'.

Page 122, Extended Analysis box, first equation, replace I_0 by i_0 .

Page 122, Extended Analysis box, first equation, insert minus sign before the term on the right hand side.

Page 124, Summary of Critical Conclusions, last line in the list, replace the whole line 'An increase in taxes, for government held constant, shifts the IS curve to the right.' by 'An increase in taxes, for government expenditures held constant, shifts the IS curve to the left.'

Page 124, last line, replace 'nvestment' by 'investment'.

CHAPTER 5

Page 129, equation (2), delete (5).

Page 130, section 5.2.2, third line, replace 'prefect' by 'perfect'.

Page 131, footnote 3, replace ρ_r by ρ^r .

Page 137, line 5 from the bottom, replace 'assumes that the interest rate' by 'assumes that investment'.

Page 138, equation (14), replace ' $z_c P$ ' by ' z_{cp} '.

Page 140, fourth line after Box 5.1, replace '(5)' by '(15)'.

Page 145, Box 5.2, Figure 5.2, on horizontal axis, replace 'M' by ' M_0 '.

Page 157, line 4, replace 'depreciation' by 'depression'.

CHAPTER 6

Page 164, line 13, delete fifth bulleted point (or insert the words 'if, for the economy in question,' at its beginning).

CHAPTER 7

Page 212, Mathematical Box 7.3 (Continued), insert at the very top, 'As in Box 7.2, let $a_0 = \alpha_0/2\alpha_1$ and $a_1 = \alpha_0/2\alpha_1$ '.

Page 217, in the title of section 7.10, change 'closed' to 'open'.

Page 272, second bulleted point, change 'structure of country' to 'structure of a country'.

Page 225, line 12, note that the Study Guide answers use the production function ' $y = 10n - 0.01n^2$ ', rather than the book's production function ' $y = 10n - 0.1n^2$ '.

Page 226, insert after line 7, $r^T = 0.04$

CHAPTER 8

Page 228, para 3, line 4, change 'study (i) and (ii)' to 'study (i) and (iii)'.

Page 233, Figure 8.2, change the label on the dotted SRAS curve 'from $SRAS_0P^c_1 = P_1$ ' to ' $SRAS_1P^c_1 = P_1$ '.

Page 268, line 5, change from ' y_{t-1} ' to ' y_{t-1} '.

CHAPTER 9

Pages 298-99, delete QT7 and T8.

CHAPTER 10

Page 309, line 18, change from ' $n^{d, effective}_1$ ' to ' $n^{d, effective}_t$ '.

Page 327, last line, change 'This part varies with positively with' to 'This part varies positively with'.

Page 334, section 10.17, note that the sacrifice ratio defined here as the sum of the unemployment rate and the inflation rate is sometimes called 'Okun's Misery Index'. To differentiate the sacrifice ratio from this misery index, the former is defined as "the ratio between the amount of unemployment needed to reduce inflation and the reduction achieved" (*Oxford Reference Dictionary of Economics*).

Page 339, QT7, note that the EAPC function used in the Study Guide answers is ' $u_t = 0.06 - 0.5(\pi_t - \pi_t^e)$ ', not the book's EAPC function ' $u_t = 0.06 - 0.005(\pi_t - \pi_t^e)$ '.

CHAPTER 11

Page 359, change title of section 11.3.2 from 'Frequent themes in the Keynesian paradigm' to 'Frequent themes in the Keynesian paradigm'.

CHAPTER 12

Page 382, first line under section 12.2.3, change 'Rearrange the benchmark covered IRP condition ' to 'Rearrange the benchmark uncovered IRP condition '.

Page 389, Figure 12.3, right hand panel, the each of the three net nominal exports curves should dip down from their starting point so as to resemble a J.

Page 397, footnote 28, change to: 'Initially, an SDR was a weighted average of five currencies, which were the US dollar, the German Mark, the French Franc, the Japanese yen, and the British pound. The German Mark and the French Franc were replaced by the euro when Germany and France adopted the euro'.

CHAPTER 13

Page 421, change the first bulleted point to: 'A decrease in the interest rate in the USA puts downward pressure on the interest rates in other countries, since a reduction in the US interest rates leads to capital flows from the USA to them. If these are significant enough for their smaller economies and their central bank wants to discourage them, the central bank would have to lower their interest rates. The reverse occurs if the USA raises its interest rates.'

Page 423, line 9 under section 13.9, change 'an expansionary monetary policy' to 'a contractionary monetary policy'.

CHAPTER 14

Page 439, Fact Sheet 14.1, line 2, change 'county' to 'country', and '1980 and 1980' to '1980 and 1981'.

Page 449, Figure 14.2 (b), insert the label n_1k on the dotted line. Also insert the concave curve for $\sigma f(k)$. This curve would intersect the n_0k ray at k^*_0 and the ray n_1k at k^*_1 .

Page 453, Figure 14.3, change the label on the curve marked $f(k)$ to $\sigma f(k)$.

Page 457, Box 14.3, line 13, change 'growth of output per capita due to capital growth per capita' to 'growth of output per capita due to growth of L and K'.

Page 472, section 14.10.2, change first bulleted point to 'Technology improves very significantly over time and makes total output grow faster than the population, so that the standards of living rise.'

CHAPTER 15

Page 492, Box 15.2, line 6, change 'increasing MPL' to 'increasing MPk'.

Page 494, Box 15.3, line 11, change 'innovations and innovations' to 'inventions and innovations'.

Page 498, fourth line from the bottom, change 'The short-run macroeconomic models' to 'The long-run analysis of the short-run macroeconomic models (as in Chapter 7)'.

Page 505, Table 15.1 and the para after it, change 'MFP' to 'MFPy'.

Page 505, line 9 after the table, change '0.79' to '0.77'.

CHAPTER 16

Page 516, section 16.3, third line, change 'boom' to 'peak'.

Page 519, section 16.5, lines 6 and 13, change 'full-employments' to 'the full-employment'.

Page 522, line 17, change 'raising prices (cases [i] and [ii] above)' to 'raising the price level (case [i] above)'.

Page 528, third line of section 16.8, change 'money demand, supply' to 'money demand and/or supply'

Page 532, Extended Analysis Box 16.1 (Continued), line 14, change 'category (B)' to 'category (C), supplemented in some treatments of the RBC theory by (B)'.

Page 544, line 7, change equation (16.3), which is ' $u^*_t = u^n_t + \alpha(\pi_t - \pi^e_t)$, $\alpha > 0$ ' to ' $u^*_t = u^n_t - \alpha(\pi_t - \pi^e_t)$, $\alpha > 0$ '.

Page 544, line 16, change 'a rise in the inflation rate' to 'a rise in the unemployment rate'.

Page 544, (c), change 'Stabilizing the inflation rate at the existing level, when inflation was expected to accelerate, would raise the unemployment rate.' to 'Stabilizing the inflation rate at the existing level, when inflation is expected to accelerate beyond that level, would raise the unemployment rate. '