

INTERMEDIATE COURSE

STUDY MATERIAL

PAPER : 8B

Economics for Finance



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Edition	:	July, 2019
Website	:	www.icaai.org
E-mail	:	bosnoida@icaai.org
Committee/Department	:	Board of Studies
ISBN No.	:	
Price (All Modules):		₹
Published by	:	The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.
Printed by	:	

BEFORE WE BEGIN....

Evolving Role of a CA - Shift Towards Strategic Decision Making

The traditional role of a chartered accountant restricted to accounting and auditing, has now changed substantially and there has been a marked shift towards strategic decision making and entrepreneurial roles that add value beyond traditional financial reporting. The primary factors responsible for the change are the increasing business complexities on account of a plethora of laws, borderless economies consequent to giant leap in e-commerce, emergence of new financial instruments, emphasis on corporate social responsibility, significant developments in information technology, to name a few. These factors necessitate an increase in the competence of chartered accountants to take up the role of not merely an accountant or auditor, but a global solution provider. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being continuously reviewed to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Skill Requirements at Intermediate Level

At the Intermediate Level, you are expected to not only acquire professional knowledge but also the ability to apply such knowledge in problem solving. Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter/unit. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence. The process of learning should also help you inculcate the requisite professional skills, i.e., the intellectual skills and communication skills, necessary for achieving the desired professional competence.

Economics for Finance : Dynamic & Interesting

The dynamic nature of the economic variables that influence decision making at various levels necessitates a comprehensive understanding of the behavioural patterns of economic entities. Therefore, of late, the tools of Economics have gained wide application in nearly all areas of business and finance. It has thus become increasingly important that our accounting and finance professionals be

equipped with practical knowledge of the institutional framework and analytical tools of Economics to enable them to make sense of the multitude of arguments and information that emerge almost daily.

Framework of Chapters – Uniform Structure Comprising of Specific Component

The content of the course of study '*Economics for Finance*' is devised by incorporating the currently relevant subject matter of Macro Economics, Public Finance, Monetary Theory and International Economics. Since this course is framed to meet the functional requirements of accounting professionals, the concepts and principles in this material are explained in a lucid and non-technical manner with appropriate illustrations from the latest available sources relating to the current economic and financial environment. The blend of theory and its contextualization with stress on clarity of exposition intend to facilitate learners to move beyond a mere understanding of the subject toward a level of analyzing and evaluating current and future developments in the economy. From a managerial perspective, this would provide coherent foresight and logical judgment and contribute towards strategic policy formulation.

The study material is organized in four chapters. Chapter 1 explains in two units the concept of National Income and its measurement and the conventional Keynesian theory of determination of national income. Chapter 2 examines the fiscal role of governments, the nature of market failures, the rationale of government interventions to correct market failures and the application of fiscal policy to ensure economic stability. Chapter 3 deals with the role of money in the financial system, its demand and supply and governments' use of monetary policy to achieve and maintain economic stability. With the objective of enlightening the students on the international economic phenomena emanating from global integration and interdependence, chapter 4 is entirely devoted to International Economics. The chapter begins with a discussion on popular theories of international trade and then explores the use and welfare effects of various instruments of trade policy. Separate units discuss trade negotiations and aspects related to multilateral trade agreements and the exchange rate policies chosen by national governments and their economic effects. An entire unit is devoted to expound patterns of international capital movements and the outcomes of foreign investments.

The learning outcomes put across at the beginning of each unit help orient the learners to focus on key concepts. The end of the chapter summaries are intended to integrate the discussions in the units. The sample questions appended with

each chapter, though not exhaustive in coverage, are expected to provide crucial guidelines for preparation for examinations. The glossary at the end of the book intends to provide a quick review of the major concepts to the learners.

The learners are requested to keep themselves updated on the wide-ranging changes that occur in the economic arena in view of the lack of feasibility of instantly incorporating them in the study material. Your valuable suggestions to improve the contents and /or use of pedagogical devices would be appreciated.

Happy Reading and Best Wishes!

SYLLABUS

PAPER – 8 : FINANCIAL MANAGEMENT AND ECONOMICS FOR FINANCE

(One paper – Three hours – 100 Marks)

SECTION B : ECONOMICS FOR FINANCE (MARKS: 40)

Objective:

To develop an understanding of the concepts and theories of Economics in the context of Finance and acquire the ability to address application oriented issues.

1. Determination of National Income

- (i) Macro Economic Aggregates and Measurement of National Income
- (ii) The Keynesian Theory of Determination of National Income

2. Public Finance

- (i) Fiscal functions: An Overview.
- (ii) Market Failure
- (iii) Government Interventions to Correct Market Failure
- (iv) Fiscal Policy

3. The Money Market

- (i) The Concept of Money Demand: Important Theories of Demand for Money
- (ii) The Concept of Money Supply
- (iii) Monetary Policy

4. International Trade

- (i) Theories of International Trade
- (ii) Trade Policy – The Instruments of Trade Policy
- (iii) Trade Negotiations
- (iv) Exchange Rates and its economic effects
- (v) International Capital Movements: Foreign Direct Investment

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