

Contents

Part: One Economics

Unit 1 **Microeconomics**

Some Methodological Concepts	1
<i>Positive, Normative and Applied Economics</i>	1
<i>Micro and Macroeconomics</i>	3
Theory of Consumer Behavior	12
<i>Indifference Curve (IC) Theory of Consumer Behavior</i>	12
<i>Theory of Production</i>	21
<i>Iso-quant</i>	22
<i>Law of Variable Proportions</i>	23
<i>Laws of Returns to Scale</i>	26
<i>Equilibrium of the Firm</i>	28
General Theory of Distribution, Factor Pricing and Income Distribution	29
<i>Factor Pricing in Perfectly Competitive Market</i>	29
<i>Factor Pricing in Monopoly Market</i>	34
<i>Price and Output Determination under Various Market Systems</i>	37
<i>Perfect Competition</i>	37
Monopoly	41

Unit 2 **Macroeconomics**

National Income Accounting	47
<i>What is National Accounting?</i>	47
<i>History of Development of National Accounts in Nepal</i>	47
<i>Concepts of National Income and National Product</i>	48
<i>National Product and National Income</i>	49
<i>National Product and Expenditure</i>	49
<i>Product, Income and Expenditure</i>	50
<i>National vs. Domestic Concept</i>	52
<i>Gross vs. Net Value Added</i>	53
<i>Factor Cost vs. Market Prices</i>	53
<i>Current vs. Constant Prices</i>	54
<i>GDP and GNP</i>	54
<i>Measurement of GDP</i>	55
<i>GDP and Standard of Living</i>	57
<i>Criticisms and Limitations</i>	57
<i>Sectoral Accounting in Nepal</i>	59

Keynesian Macroeconomics and ISLM Model	61
IS-LM Model	65
<i>IS Curve</i>	65
<i>LM Curve</i>	66
<i>Equilibrium Analysis</i>	67
<i>Effectiveness of Expansionary Fiscal Policy in Fixed Exchange Rate Regime ..</i>	69
<i>General Equilibrium</i>	71
Theories of Consumption and Savings	71
<i>Life Cycle Hypothesis</i>	71
<i>Permanent Income Hypothesis</i>	72
Role of Expectations	73
<i>Adaptive and Rational Expectations</i>	73
Phillips Curve	73
Theories of Economic Growth	75
<i>Domar Growth Model</i>	75
<i>Supply side</i>	76
<i>Demand Side</i>	76
<i>Macroeconomic Equilibrium</i>	76
<i>Harrod Model</i>	78
<i>Combined Harrod-Domar growth model</i>	81
<i>Solow Growth Model</i>	83
Macro Economic Policies	88
<i>Stabilization Policy</i>	88
<i>Structural Adjustment Programs</i>	91
<i>Liberalization Policies</i>	92

Unit 3 **Development Economics**

Characteristics of Underdeveloped Economies	94
Meaning of Economic Development	97
<i>Development as Growth and Capital-Formation</i>	98
<i>Development as Wellbeing</i>	98
Determinants of Economic Growth	98
<i>Investment and Capital Formation</i>	99
<i>State of Technology</i>	100
<i>Status of Human Resource</i>	101
Capital Formation	101
<i>Types of Capital Formation</i>	102
<i>Gross and Net Capital Formation</i>	102
<i>Measurement Issues</i>	102
<i>Perpetual Inventory Method</i>	102
Policy Issues in Development	103
<i>Poverty Analysis and Measurement</i>	103

<i>Causes of Poverty</i>	104
<i>Strategy for Tackling and Reducing Poverty</i>	106
<i>Poverty Measurement</i>	108
<i>Measurement of Poverty</i>	109
<i>Dimensions of Inequality</i>	113
<i>Unemployment: Causes and Consequences</i>	116
Economic Liberalization, Globalization and Privatization	119
<i>Economic Liberalization</i>	119
<i>Globalization</i>	126
<i>Privatization</i>	132
Development Planning	135
<i>Background</i>	135
<i>Meaning</i>	135
<i>Planning in Different Economies</i>	136
<i>Importance of Planning in the Context of Free Trade Movement</i>	137
<i>Types of Planning</i>	138
<i>Planning by Direction</i>	138
<i>Planning by Inducement</i>	139
<i>Planning Tools</i>	139
Economic and Financial Analysis	142
<i>Meaning</i>	142
<i>Difference between Economic Analysis and Financial Analysis</i>	144
<i>Internal Rate of Return</i>	144
<i>Logical Framework Analysis</i>	146
<i>Strategy Analysis</i>	148
<i>Project Planning Matrix</i>	149
<i>Summary Contents of a Logical Framework</i>	150
<i>Qualitative Tools for Collecting Data</i>	151

Unit 4 **Monetary Economics**

Quantity Theory of Money	157
<i>Fisher's Equation of Exchange</i>	157
<i>Income Flow Equation of Exchange (Circuit Velocity of Money)</i>	159
<i>The Cash Balance Equation of Exchange</i>	160
Keynesian Theory of Money	161
Money Supply	162
<i>High-powered Money multiplier approach</i>	163
<i>Money Multiplier</i>	165
<i>Determinants of Money Supply under High-powered Money Approach</i>	167
<i>Money Supply in Nepal</i>	167
<i>The Accounting Approach</i>	168
Demand for Money	170

<i>Classical Theory of Money Demand</i>	170
<i>Keynes' Theory of Money Demand</i>	171
<i>Liquidity Trap</i>	172
<i>Baumol's Inventory approach to Transaction Demand for Money</i>	173
<i>Friedman Wealth Theory of Demand for Money</i>	175
<i>Tobin's Portfolio Selection Model (Risk Aversion Theory of Liquidity)</i>	176
<i>Demand for Money in Underdeveloped Countries</i>	178
Theories of Interest Rate	178
<i>Classical Theory of Interest</i>	179
<i>Neo-Classical Theory of Interest</i>	180
<i>Liquidity Preference Theory of Interest Rate</i>	182
<i>Modern Theory of Interest Rate</i>	184
<i>The Theory of Natural and Market Interest Rates</i>	185
<i>The Expectations Theory</i>	186
<i>The Segmented Market Theory</i>	187
<i>The Substitutability Theory</i>	187
<i>The Psychological Theory</i>	187
Monetary Policy	187
<i>Objectives of Monetary Policy</i>	188
<i>Instruments of Monetary Policy</i>	191
<i>Effectiveness of Monetary Policy</i>	194
<i>IS-LM Approach to the Effectiveness of Monetary Policy</i>	195
<i>Monetary Policy and its Transmission Mechanisms: An Overview</i>	197
Inflation	198
<i>Causes of Inflation</i>	199
<i>Factors Influencing Demand Side Inflation</i>	200
<i>Cost-push Inflation</i>	201
<i>Consequences of Inflation</i>	203
<i>Measurement of Inflation</i>	205
Fiscal Policy	205
<i>Importance of Fiscal Policy</i>	206
<i>Objective of Fiscal Policy</i>	206
<i>Fiscal Policy and Economic Development</i>	207
<i>Nondiscretionary Fiscal Policy</i>	208
<i>Working of Fiscal Policy</i>	208
<i>Effectiveness of Fiscal Policy</i>	209

Unit 5 **International Trade**

Determination of Foreign Exchange Rate	211
<i>Demand for Foreign Exchange</i>	211
<i>Supply of Foreign Exchange</i>	212
<i>Equilibrium Rate of Exchange</i>	212

<i>Theories of Rate of Exchange</i>	213
<i>Foreign Exchange System in Nepal</i>	218
<i>Dilemma of Foreign Exchange System in Nepal</i>	220
<i>Justification for Fixed Exchange Rate with Indian Currency</i>	220
<i>Exchange Rate Systems</i>	221
Balance of Payments	221
<i>Structure of Balance of Payments</i>	222
<i>Theories of Balance of Payments</i>	223
<i>The BOP Function</i>	224
<i>Disequilibrium in the Balance of Payments</i>	225
<i>Conclusion</i>	228
International Trade	228
<i>Theories of International Trade</i>	229
<i>Classical Theory</i>	229
<i>Criticisms of Classical Theory</i>	232
<i>Modern Theory</i>	233
<i>Criticisms of Modern Theory of International Trade</i>	234
Terms of Trade	235
<i>Factors Influencing Terms of Trade</i>	236
Free Trade Vs Protectionism	237
<i>Free Trade</i>	237
<i>Protectionism</i>	239
Regional Economic Cooperation and its Importance	241
<i>Introduction</i>	241
<i>European Union (EU)</i>	242
<i>South Asian Association for Regional Cooperation (SAARC)</i>	244
<i>ASEAN</i>	246
<i>BIMSTEC</i>	248
<i>World Trade Organization</i>	249
Nepal's Foreign Trade Policy	253

Part: Two

Management

Unit 6 **General Management**

Organization	255
<i>Concept of Organization and Organizational Goals</i>	255
<i>Key Performance Indicators Reflect the Organizational Goals</i>	257
<i>Managerial Functions</i>	257
<i>Managerial Skills</i>	259
<i>Managerial Roles</i>	260

<i>Organization Design</i>	262
<i>Types of Organizational Designs and Structures</i>	262
<i>Various Organizational Designs</i>	263
<i>Authority and its Delegation</i>	263
<i>Authority</i>	263
<i>Forms of Authority</i>	264
<i>Authority Delegation Process</i>	264
<i>Centralization versus Decentralization</i>	265
<i>Emerging Concepts in Organizing</i>	265
<i>Process Re-engineering and Organizational Downsizing</i>	266
Strategic Management	269
<i>Environmental Scanning</i>	270
<i>SWOT Analysis</i>	271
<i>Strategic Management Process</i>	272
<i>Strategy Formulation</i>	272
<i>Strategy Implementation</i>	272
<i>Strategy Evaluation and Control</i>	272
Decision Making and Problem Solving	273
<i>Nature of Decision Making</i>	274
<i>Rational Decision Making Process</i>	274
<i>Quantitative Tools of Decision-Making and Problem solving</i>	276
Leadership	278
<i>Introduction</i>	278
<i>Concept</i>	279
<i>Characteristics of Leadership</i>	279
<i>Importance of Leadership</i>	280
<i>Leadership Style</i>	280
<i>Autocratic, Democratic, Laissez-faire Styles</i>	280
<i>Managerial Grid Styles</i>	281
<i>Situational Leadership Style</i>	282
<i>Four System of Management Style</i>	282
<i>Important Aspect of Leadership</i>	283
<i>Leadership in Nepal</i>	285
Communication	286
<i>Concept</i>	286
<i>Meaning of Communication</i>	286
<i>Process of Communication</i>	287
<i>Direction of Communication</i>	288
<i>Barriers to Effective Communication</i>	290
<i>Minimizing Communication Barriers</i>	291
<i>Current Issues in Communication</i>	292
<i>Communication in Nepal</i>	293
Team Work	293

<i>Concept</i>	293
<i>Types of Team Work</i>	294
<i>Contemporary Issues in Managing Teams</i>	296
Conflict Management	297
<i>Concept and Definition of Conflict</i>	297
<i>Transitions of Conflict Thought</i>	298
<i>Level of Conflict</i>	299
<i>The Conflict Process</i>	299
<i>Incompatibility (Potential Opposition)</i>	300
<i>Nature of Intergroup Conflict</i>	302
<i>Types of Inter-group Conflict</i>	302
<i>Types of Organizational Conflict</i>	303
<i>Sources of Conflict</i>	303
<i>Approaches to Conflict Management</i>	304
<i>Conflict Management in Nepal</i>	306
Supervision, Monitoring and Control	306
<i>Supervision</i>	306
<i>Some Approaches to Supervisor's Organizational Role</i>	307
<i>Role of the Supervisor</i>	307
<i>The Work of the Supervisor</i>	308
<i>Knowledge and Skill of the Supervisor</i>	309
<i>Monitoring</i>	309
<i>Area to be Monitored</i>	310
<i>Process of Monitoring</i>	310
<i>Steps of Monitoring</i>	310
<i>Control</i>	311
<i>Characteristics of Control</i>	311
<i>Process of Control</i>	312
<i>Types of Control</i>	313
<i>Dimension of Control</i>	314
<i>Financial Control</i>	315
<i>Management Control</i>	317
<i>Quality Control</i>	319
<i>Quality Management</i>	320
<i>Total Quality Management (TQM)</i>	321
<i>Factors affecting Quality</i>	322
<i>Managerial Role in TQM</i>	323
<i>TQM Tools and Techniques</i>	324
<i>Managing Change and Development in Organizations</i>	325

Unit 7 **Human Resource Management**

Introduction	327
<i>The Rising Interest in HRM</i>	328
<i>Strategic Role of HRM</i>	329
<i>Responsibilities of HR Manager</i>	330
Human Resource Planning	330
<i>Factors or Tasks Involved in HRP</i>	332
<i>Importance of HRP</i>	333
<i>Requirements of Effective HRP</i>	333
<i>Role of Information System in HRP</i>	334
<i>Relationship of HRP with Strategic Planning</i>	334
<i>Methods and techniques of determining HR requirements</i>	335
<i>Forecasting the Supply of HR</i>	339
Job Analysis	340
<i>Types of Job Analysis</i>	342
<i>Methods of Collecting Job Analysis Information</i>	342
<i>JA Steps in brief</i>	344
<i>Job Description</i>	345
<i>Job Specification</i>	346
Staffing	347
<i>Recruitment</i>	348
<i>Selection</i>	352
<i>Orientation, Placement and Probation</i>	355
Motivation	358
<i>Theories of Motivation</i>	359
<i>Pay and Motivation</i>	365
<i>Motivation through Job Redesign</i>	366
<i>Rewards</i>	367
Performance Evaluation	368
<i>Importance/ Objectives/ Pros of Performance Evaluation</i>	369
<i>Development of Performance Evaluation Programme</i>	371
<i>Selection of Criteria</i>	374
<i>The PE Process</i>	374
<i>Performance Appraisal Methods</i>	375
<i>Feedback of Evaluation</i>	382
<i>Errors in P.A.</i>	382
Human Resource Development	383
<i>Introduction</i>	383
Contemporary Challenges/ Problems/ Issues of Human Resources Management	390
<i>New Areas of Human Resource Management</i>	392
<i>Implementing the Effective Reward System</i>	393

Unit 8 **Financial Management**

Financial System	394
<i>Financial Markets and Instruments</i>	394
<i>Overview of Financial Markets and Instruments of Nepal</i>	407
<i>Securities Market</i>	408
<i>Market Indexes</i>	408
<i>Weighting</i>	409
<i>Stock Market Indices around the World</i>	409
<i>NEPSE Index</i>	409
<i>Bond Valuation</i>	409
Financial Planning and Capital Structure Management	410
<i>Financial Planning</i>	410
<i>Capital Structure Management</i>	412
Financial Investment Analysis	415
<i>Capital Budgeting</i>	415
<i>Cost of Capital</i>	421
<i>Portfolio Analysis and Selection</i>	422
<i>Capital Assets Pricing Model - CAPM Model</i>	424
<i>Systematic Risk and Unsystematic Risk</i>	425
<i>Risk free Security and Risky Security</i>	426
<i>Measurement of Portfolio Return and Risk</i>	426
<i>Correlation</i>	427
<i>Covariance</i>	427
<i>Beta</i>	427
Financial Statements and Financial Analysis	427
<i>Analysis of Financial Statement</i>	427
<i>Importance of the Cash Flow Statement</i>	431
<i>Financial Forecasting</i>	432
<i>Ratio Analysis for Measuring Performance</i>	435
<i>Methods of Ratio Analysis</i>	435
<i>Limitations of Ratio</i>	440
Financial Institutions and their Management	440
<i>Financial Sector Reform Program in Nepal</i>	443
<i>Financial Sector Technical Assistance Project (FSTAP)</i>	444
<i>Financial Sector Restructuring Project (FSRP)</i>	445
<i>Re-engineering of Nepal Rastra Bank</i>	446
<i>Restructuring of NBL and RBB</i>	446
<i>Capacity Building in the Financial Sector</i>	448

Part: Three
Research

Unit 9 **Research Methodology**

Research: Introduction	451
Social Science Research	453
Scientific Research Process	453
Role of Research in Economics and Management	457
Methods of Research in Economics and Management	458
Conceptual Framework /Theoretical Framework	461
Review of Literature	462
Problem Definition	465
Hypothesis Formulation	466
Research Design	468
<i>Types of Research Design</i>	469
Measurement	473
Reliability and validity of measurement	475
Scaling	476
Construction of Attitude Scale	477
Sampling	481
<i>Sampling Design</i>	481
<i>Sampling Process</i>	482
<i>Types of Sampling</i>	483
<i>Determining Sampling Size</i>	485
<i>Sampling vs. Non Sampling Error</i>	487
Types/Sources of Data	488
Methods of Collecting Primary Data	489
Presentation of Data	493
Statistical Analysis of Data	495
<i>Statistic Testing</i>	496
<i>Analysis of Qualitative Data</i>	496
Research Proposal	497
<i>Evaluating the Research Proposal</i>	501
Presentation of Research Report	502
<i>The Report Process</i>	503
<i>Types of Reports</i>	503
<i>Procedure for Writing a Research Report</i>	504
<i>Standard Format of a Research Report</i>	505
<i>Styles of Writing</i>	507
<i>Footnotes</i>	508
<i>Quotations</i>	509
<i>References</i>	511
<i>Reference List</i>	514
Annex	517