

Principles of Economics (Optional)

I. Subject Overview and Objective

Banking and financial professionals have to understand the economic behaviors of the customers and the economy as the banking and finance businesses and economic activities are inter-related and inter-dependent. Further, banking and finance businesses are also a part of economic activities to which economics principles will apply. However, economics is a wide subject and dedicated profession. It is a normal practice of large banks and financial institutions to employ a few Economists to carry on economic research to facilitate business decisions. Therefore, this subject is designed to provide knowledge only on selected key principles of micro and macroeconomics, international economics, growth and development and economic analysis at elementary level. The understanding of basic economic principles will be immensely helpful for banking and finance professionals to promote their career paths.

II. Recommended Subject Coverage

- (a) Basic concepts of economics: Economic resources, basic economic problems (scarcity and choice), opportunity cost, fundamental economic activities (production and utilization).
- (b) Microeconomics: Consumer behavior (Utility, Indifference, Revealed Preference, Theory of Demand, Elasticity of Demand and its applications), producer behavior (production, productivity, cost, profit maximization and Theory of Supply), market mechanism and government intervention, market structures (Perfect Competition, Monopoly, Imperfect Competition-Monopolistic Competition and Oligopoly)
- (c) Macroeconomics: Circular flow of income, concepts and estimates of product, income and spending, consumption, investment, savings, government budget
- (d) Macroeconomic Equilibrium: National income identity, income equilibrium and income multipliers, IS-LM framework and effects of monetary and fiscal policies on income and spending
- (e) International Economics: Basic theories of international trade(mercantilism, absolute advantages, comparative advantages, Heckscher-Ohlin and new views), analysis of balance of payments(current account, capital and financial account and financing), exchange rate regimes, international reserves, international capital flows, liberalization of exchange controls on current and capital account transactions
- (f) Economic Growth and Development: Theories/concepts such as Rostow and Harrod-Domar, business cycles, growth policies and strategies(export promotion, import substitution, foreign investments, business hubs, off-shore financial centers) , the role of the World Bank and Asian Development Bank
- (g) Key Macroeconomic Indicators: Inflation, economic growth rate, Per capita income, savings and investment ratios, fiscal deficit and public debt ratio, labour force and unemployment, income distribution inequality, BOP current account balance, terms of trade, interest rates(benchmark rates), exchange rate, money supply growth and their inter-relations
- (h) Analysis of Sri Lankan Economy since independence:
Key trends, policy changes and medium-term outlook and challenges