

## **MACROECONOMICS IN DEVELOPING COUNTRIES**

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*Abstract*

This essay analyzes the differences between the economies of industrialized countries and developing countries, which have important implications for macroeconomics in terms of theory and policy. It considers the differences in macroeconomic objectives and examines why the reach of macroeconomic policies is different in the two sets of countries. It argues that the distinction between short-run macroeconomic models and long-term growth models is not quite appropriate for developing countries, where macroeconomic constraints on growth straddle time horizons and short-term policies have long-term consequences. The essential hypothesis is that the nature of relationships and the direction of causation in macroeconomics, which shape analysis, diagnosis and prescription, depend on the institutional setting and not the analytical structure of models. And even if some laws of economics are universal, the functioning of economies can be markedly different. Therefore, economic theory and policy analysis should recognize, rather than ignore, such myriad differences.

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