

Hong Kong University of Science and Technology
Macroeconomic Theory II, ECON 3143, Fall 2016
(course website is accessible through <http://canvas.ust.hk>)

Instructor: Yang Lu (yanglu@ust.hk)

Office Hours: by appointment, Room 6059 LSK Bldg

Lecture Time and Location: Tue/Thu 13:30-14:50, Room LTH

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Office Hours: TBA

Tutorial Time and Location: Wed 17:00-17:50, Room LSK 1014

Pre-requisites: Econ 3123

Course Description:

In Macroeconomics I (Econ 3123), we studied the economy in the short and medium run. Specifically, we used the IS-LM model and the AS-AD model to study how the output, the price level, and the employment are determined in the short and medium run. In the short run, business cycles (fluctuations around the trend of growth) are important. However, in the long run, output is mainly determined by the growth rate of the economy. So an important determinant of long-term economic growth – capital accumulation – was also investigated.

Having studied the economy in the short, medium and long run, we have developed a basic framework for economics and policy analysis. However, to understand the real economy, we need to take uncertainty and expectations into consideration. Expectations play a major role in most economic decisions, and by implication, play a major role in the determination of output.

In this course, we will first warm up by investigating the impact of technological progress on unemployment. It serves as an informal way to help you appreciate the importance of expectation. We will then formally introduce how expectation about future economic variables affects the current consumption and investment decisions of household and firms, thus in turn leads to changes in the current output and interest rate. The role of financial market in this process will also be analyzed. We will find that, after introducing the role of expectation and uncertainty, many conclusions regarding the monetary and fiscal policies we learn from Macroeconomics I need to be reconsidered.

Another important and necessary extension, especially applicable to Hong Kong and the Asia-Pacific region, is to go from a closed economy model to an open economy model. How the openness in goods and financial market affect the output, price and exchange rate determination? Why do some economies adopt the fixed exchange rate regime, e.g., Hong Kong, while others adopt the flexible exchange rate regime? We will focus on issues such as the exchange rate regime, the exchange rate determination, and the impact of monetary, fiscal and exchange rate policy in open economy.

Once we have a clear picture of how the economy works in the short and medium run, taking into account the role played by expectations and openness, we could use this framework to analyze some real world problems such as the recent 2008 financial crisis and the RMB exchange rate issue.

Main Textbook:

Blanchard & Johnson, Macroeconomics, 6th edition (2013), Pearson Education Inc.

Suggested Reading: I encourage you to read and watch:

- Economist: <http://www.economist.com>
- TED talks: <http://www.ted.com/talks>

Course Intended Learning Outcomes (Course ILOs)

1. Have a general knowledge of macroeconomics. Describe the main questions in macroeconomics and the main components of standard Macroeconomic theories. Explain the impact of each key component in a model; and critique the applicability of models;
2. Apply the macroeconomic concepts, principles, and models to analyze economic phenomena, conduct economic analysis of the economy and society, and carry out independently applied research in macroeconomic problems.
3. Analyze qualitatively and quantitatively basic macroeconomic problems, apply your knowledge to practical situations and make sound economic decisions, and adapt to changes in business and social environments and professional requirements.
4. Communicate effectively in oral and written English.
5. Locate, gather, organize and use appropriate information for macroeconomic studies.
6. Demonstrate an understanding of the role played by expectations in modern macroeconomics models and its application to policy analysis and evaluation;
7. Apply macroeconomics model to analyze macroeconomic issues and effects of monetary and fiscal policies such as exchange rate regime choice, possible effects and causes of recent financial crisis, and stabilization policy effectiveness in an open economy context.

Teaching Approach:

This course is primarily delivered through lectures and tutorials.

Teaching & learning activities	Roles in the course	Course ILOs addressed
Lectures	Learn key concepts, models, and their applications	1,2,3,4,5,6,7,8
Tutorials	Discuss answers to homework questions and additional economic issues, Q&A for lecture materials	3,4,5,7
Homework and in-class exercises	Practice problem-solving	3,4,5,6,7,8

Grading Policy:

Assessment Activities	Weighting
Class exercises	10%
Homework	10%
Midterm exam (Oct 18, in class)	30%
Final exam (cumulative)	50%

Class exercises:

I value class participation since active class participation is essential for an engaging atmosphere of learning. Throughout the semester, I will promote interactive classroom activities and you are expected to participate in them actively. To reward class participation:

- There will be 5 random in-class exercises throughout the semester.
- You will earn 2% of your course score by **completing** one in-class exercise.
- A random fraction of your exercises will be graded but the results will not affect your scores. It is merely for the purpose of information collection.

Homework: you will be given **two** problem sets during the semester.

- Download the problem set from the course website, print it single-sided on A4, and write your answer in the provided space.
- Group study is encouraged, but you have to turn in your own written answers. **Each page** of your answer sheets **MUST** have your name (surname goes first) and student ID clearly written at the **upper right** corner. Please do **NOT** write your name and student ID in pencil.
- You should put your completed problem set in a box that will be available in the general office of the Economics Department before 5pm on each due date. Late problem sets will **NOT** be accepted. Faxed or emailed problem sets will **NOT** be accepted.
- In case you are sick and cannot hand in the problem set in time, please email your TA **on** the due date **before** 5pm with photos of your completed problem set attached. In addition, the hard copy of your completed problem set, together with a valid medical or legal document, should be delivered to your TA no later than the tutorial following the due date. If you fail to do so, **you will receive 0 for this problem set.**
- For each problem set, your TA will randomly select a fraction of the questions to grade but he will also check whether you have done the rest. The questions selected will be the same for all students.

Midterm exam: There will be **NO** make-up exam for midterm.

- If you are going to miss the midterm for medical reasons (you will need to provide a valid medical or legal document), please email me and your TA **before** the exam. Your final exam will then count for 80% of your grade. If you fail to do so, you will receive 0 for the midterm exam.

Final exam: A make-up exam will only be given in the case of illness for the final exam.

- You must notify me by email (and cc your TA) **before** the exam for approval.
- You must provide a valid medical or legal document.
- The make-up exam will take the form of an essay or a report on an assigned topic.

Grading Disputes: With the exception of arithmetic errors, the instructor will handle them. In order to avoid problems associated with self-selection, disputes on individual questions will result in re-grading of the entire problem set or exam by the instructor. The re-graded score will be final and it may be higher or lower than the original one. Requests

for re-grading must be submitted in writing to the instructor within one week since the score is first published.

Letter Grades of This Course:

- Your final score of this course will be the weighted average of your scores in all problem sets and two exams. The weighting scheme is the one specified above.
- The final scores of all students will be pooled together and your letter grade will be given according to a grading curve. Typically, the top 20% of the class will get grades of ‘A’ category. The next 40% of the class will get grades of ‘B’ category. But the exact percentages will be adjusted according to the actual performance of the class.

Ground Rules:

Mobile phones and any other disturbing electronic devices must be switched to the silent mode. Students are expected to attend all the classes **on time**. The two exams are based on **the materials covered in class**. If you have to miss some classes due to medical reasons, you are responsible to make it up by self-studying the posted lecture notes and consulting your classmates. Note that there will be NO review sessions.

Academic honesty and integrity can never be emphasized enough, and any violation will be seriously punished. Please get familiar with the rules by checking the following website: <http://www.ust.hk/vpaa/integrity/>.

Final Notes:

Student feedback is essential for course improvement. Throughout the semester, I will ask you to fill in the scorecard of a particular lecture from time to time. At any time during the semester you may also orally or anonymously (e.g., via campus mail, or slip a note under my office door) give me feedbacks of the lectures.

Tentative Topics: (depending on our progress, we may or may not cover all these topics)

Part 1: Technological Progress and Unemployment

1. Technological progress: the short and the median run (Chapter 13)

Part 2: Expectation

1. Expectations: The Basic Tools (Chapter 14)
2. Financial Markets and Expectations (Chapter 15)
3. Consumption and Investment (Chapter 16)
4. Expectation, Output and Policy (Chapter 17)

Part 3: The Open Economy

5. Openness in Goods and Financial Markets (Chapter 18)
6. IS-LM Model in an Open Economy (Chapters 19, 20)
7. Exchange Rate Regimes (Chapter 21)

Part 4: Real World Applications

1. Financial Crisis (Chapter 9)
2. China’s RMB exchange rate and current account imbalance (notes)