

ECON 4374 International Macroeconomics and Finance
Hong Kong University of Science and Technology
School of Business and Management
Department of Economics
Fall 2016

Pre-requisites: (ECON 2103 OR ECON 2113 OR ECON 2913 OR ECON 3113) AND (ECON 2123 OR ECON 3123)

Exclusions: ECON 4354, ECON 4384

Class location and time: LSK1001; Tu, Th 15:00-16:20
Instructor: Professor Edwin LAI, Department of Economics
Office location: LSK 6079
Office Hours: Tu 13:30-14:30; Th 13:30-14:30 or by appointment
Office Phone: 2358-7611
E-mail: elai@ust.hk

Tutorial classroom and time: LSK 1033; Mo 11:00-11:50

Teaching Assistant: Liping ZHAO
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Office hours: Mo 9:00-10:00; Tu 9:00-10:00 or by appointment
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Course description

This course will help students understand the macroeconomic and financial linkages between domestic and foreign countries. Topics include the international financial market environment, the impacts of exchange rate fluctuations, mechanism of adjustment, operation of the exchange rate systems in developing and developed countries, the international monetary system, and the relationship among money, output, exchange rates, interest rates and prices.

Course objectives

This course is about international macroeconomics and international finance. It will help students understand the macroeconomic and financial linkages between countries. Topics include national income accounting, the balance of payments, the operation of the exchange rate systems in developing and developed countries, the international capital market, the international monetary system, and the mechanisms of adjustment of exchange rate, interest rate, current account balance, output and price level in response to monetary and fiscal policies.

Learning outcomes

At the end of this course, it is expected that students would be able to

1. Understand national income accounting, balance of payments, the foreign exchange market, the different exchange rate regimes, the global capital market, the international monetary & financial system, financial globalization and issues with developing countries.

2. Analyze the short-run and long-run relationship between monetary policy, fiscal policy, trade balance, price level, exchange rate, interest rate, output and unemployment in an open economy.

3. Independently collect data and make use of the tools they learn to analyze and write about real world issues related to the above topics.

Teaching Approach

This course is primarily delivered through lectures, tutorials, class discussion, homework and group project.

Teaching and Learning Activities	Roles in the Course	Course Learning Outcome addressed
Lectures with in-class discussions	Explain key concepts and models to students	1, 2, 3
Tutorials	Review basic model and concepts, practice problem-solving, explain answers to homework and exams	1, 2, 3
Homework assignments and quizzes	Practice problem solving, apply models to analyze international economic issues	2, 3
Group project	Detailed analysis of international economic issues and critically evaluate policies	4

Reading Material

Required textbook:

Krugman, Obstfeld and Melitz, *International Finance: Theory and Policy*, tenth edition, Pearson Publisher (abbreviated as KOM)

Students are required to purchase the “value-package” which includes the textbook together with access to “MyEconLab”, the online learning system the access of which is sold together with the textbook.

Supplementary textbook (you can find it in the library):

Feenstra, Robert C. and Taylor Alan M., *International Economics*, 2nd edition, Worth Publishers (abbreviated as FT)

Supplementary reading material will be posted for students to download during the semester.

Assessment

Assessment Activities	Weighting	Relevant information	Course learning outcomes assessed
Final Examination (closed book)	45%	Date: TBA	1,2
Mid-term exam (closed book)	20%	Date: Oct 18, in class	1, 2
Group project	20%	Paper due date: Dec 6	3

Homework assignments (about six)	10%	Need to submit, and credits will be given if seriously attempted	1, 2
Participation	5%	Asking and answering questions in class and tutorial	1, 2, 3

The earlier part of the course will be tested in a mid-term examination. The mid-term is in-class, and lasts for one hour and twenty minutes. The final examination is three-hour long and will cover all the material taught in the course, with an emphasis on the later part of the course. The final examination will be held during the regular examination period.

About five or six problem sets will be given. When a problem set is due and submitted, the answers will be discussed in the tutorial. No late submission will be accepted.

Student participation is taken seriously. Attendance will be taken in each class and tutorial. Students are expected to have read the relevant material before coming to class/tutorial, and to come prepared with questions. It must be emphasized that participation is not simply being there. Those who do not participate actively may be given “cold calls”.

Group project and paper

Students are requested to freely form groups of four. Each group is required to lead a class discussion on a selected topic. The discussion will consist of 25 minutes of presentation by the group followed by 10-15 minutes class discussion, to be led by the group. All students in the class must come prepared by reading and thinking about the topic beforehand, and come up with their own questions. The leading group must email their presentation material (e.g. slides, reference books or articles) one week before the date of the discussion to the TA, who will then make them available to all students. The participation of each group in all discussions is taken into account in the evaluation of the group’s overall performance, in addition to its own presentation and paper. The leading group must have thoroughly researched the topic, have gotten the important points written down, and be prepared to answer any questions from the rest of the class.

Each group is required to evaluate the performance of other groups. After the class discussion, the leading group should write a report of 3000-3500 words on the topic of the discussion they have led. The overall contribution of each member in a group will be evaluated by all other members of the same group, and this evaluation will determine the marks obtained by the members. Therefore, one member of a group may get substantially higher marks than another member of the same group if their contributions as revealed in the group evaluation differ substantially.

Each group must choose one of the following topics for its group project. The class presentation would follow the order listed below. No two groups are allowed to choose the same topic. Choice of a topic will be on a first-come-first-served basis.

- What are the benefits and problems of financial globalization in the recent one or two decades? What measures do you suggest to remedy the problems and enhance the benefits?

- What are the prospects of the euro?

- What is the internationalization of RMB? Why do you think China wants internationalize the RMB? What are the pros and cons of it to China?

- What make the US dollar a dominant international currency in the world? What are the problems with the current International Monetary System (IMS), and what remedies do you suggest? How can the internationalization of RMB be related to the IMS and the remedies do you suggest?

- What are the current and potential roles played by RMB offshore centers such as Hong Kong in the internationalization of the RMB? What are the lessons from the historical experience of London as an offshore center for the US dollar?
- What are the lessons for the internationalization of RMB from historical experiences of the replacement of one dominant currency by another, such as the replacement of the pound sterling by the US dollar as the dominant international currency?
- What are the prospects of the RMB as one of the three major currencies used in trade settlement, trade invoicing, international lending and borrowing and central bank reserves? Under what condition, in what time frame, and in what geographical area would the RMB succeed in playing some or all of these roles?
- To what extent should China carry out capital account liberalization and relax capital controls? What are the pros and cons of capital account liberalization for China?
- Why didn't the Japanese yen become an international currency? What are the lessons of the case of the yen for the internationalization of the RMB?
- Arvind Subramanian of the Peterson Institute of International Economics in the U.S. thinks that the RMB would become the premiere reserve currency by the end of this decade, or early next decade, if the RMB becomes convertible and China opens up its financial system to create deep and liquid markets. He said that China is already moving in that direction. Do you agree with him? Why or why not?

The group project paper is due on Dec 6, 2016 (Tu) at 5:00pm in the drop box of ECON 4374 at the Department of Economics -- no late papers will be accepted. The paper should have no less than 3000 words and no more than 3500 words, plus any graphs, tables, references, or footnotes. The paper should be in Times New Roman 12-point fonts, single-spacing, with one inch margin on all sides. Please carry out a word count and indicate the number of words in your essay at the end of the Conclusion section.

When writing the paper, bring in the theory whenever possible, and support your arguments with graphs, tables, data and/or calculation where appropriate. The paper should include a short introductory section containing a brief description of the issue and relevant background material, a main section presenting the analysis, and a brief concluding section summing up the main points of the paper. Any footnotes, references, graphs, and tables should follow the concluding section in that order. The weights to be allocated to different aspects of the paper are:

Economic knowledge 33%: Application of the economics that you have learned

Exposition and logical coherence 33%: Clarity of exposition or presentation of the argument (e.g. motivation, presentation of data/evidence/facts, consideration of both sides of the debate, citing what others have written about the subject, how you draw the conclusion).

Critical thinking and originality 33%: e.g. able to provide new angles to look at the question and argue your case.

Tips for writing a good project paper: 1. Motivate why your topic is important. 2. State relevant facts or data. 3. Try to apply the economic theory you learned in class or economics you learned elsewhere as far as possible. 4. Consider thoroughly and critically the arguments on both sides of the debate, then draw your own conclusion. Explain carefully how you arrive at your conclusion.

You are required in turn in a soft copy (in MS Word or Scientific Word format, not PDF) as well as a hard copy of the paper.

Satisfying Econ 4670/367 requirement

The project paper in this course **cannot** be used to satisfy the Econ 4670/367 writing requirement.

Plagiarism and cheating

Plagiarism and cheating are serious offences. The university takes these cases seriously. If you are found guilty, you can be failed for the class and even expelled from the university.

If there is evidence that you copy problem set answers from each other or some leaked answer key, that is considered cheating.

When writing a project paper, you have to write in your own words. This is required even if you are summarizing the work of others. If you lift large number of phrases, sentences or paragraphs from other's work, and put them in your paper, it is treated as plagiarism even if you cite where they come from. If you just make minor changes to the sentences, it is still plagiarism. Summarizing must be in your own words.

We have software to check if you have copied fully or partially the paper(s) of other people, including those of past students in this course, published papers, or papers found online.

On the cover page of the paper, please print "I/we understand that sanctions and severe penalty can be imposed, if I am/we are found to have violated the University's regulations governing academic integrity, including plagiarism." Then each person sign underneath the statement with the name stated next to the signature.

Econ4374 Fall 2016 Schedule

<u>Session</u>	<u>Month</u>	<u>Day of month</u>	<u>Day of week</u>	<u>Chapter</u>
1	Sept	1	Th	1,2
2		6	Tu	2
3		8	Th	3
4		13	Tu	3
5		15	Th	3
6		20	Tu	4
7		22	Th	4
8		27	Tu	4
9		29	Th	5
10	Oct	4	Tu	5
11		6	Th	5
12		11	Tu	6
13		13	Th	6
14		18	Tu	MT
15		20	Th	6
16		25	Tu	7
17		27	Th	7
18	Nov	1	Tu	7
19		3	Th	8
20		8	Tu	9
21		10	Th	11
22		15	Tu	Presentation
23		17	Th	Presentation
24		22	Tu	Presentation
25		24	Th	Presentation
26		29	Tu	Presentation
Self-reading				10

MT = Mid-term: ch 1-5, first half of ch 6

Final exam: heavier weight on material not tested in mid-term, but includes all chapters

Self-reading: ch 10 (will not be covered by exam)

Project paper due Dec 6, 2016 (Tu) at 5:00pm

Presentation = Presentation of group project (two presentations per class session)

Reading List

Introduction

KOM Chapter 1

I. The Balance of Payments

KOM Chapter 2

Supplementary: Feenstra and Taylor Ch. 16

II Model of the Foreign Exchange Market

KOM Chapter 3

Supplementary: Feenstra and Taylor Ch. 13

III. The theory of international macroeconomics

KOM Chapters 4-7

Supplementary: Feenstra and Taylor Ch. 14, 15

IV. International monetary system

KOM Chapters 8

Supplementary: Feenstra and Taylor Ch. 19, 21

IV. The Global Capital Market and Developing Countries Issues

KOM Chapters 9, 11

Supplementary: Feenstra and Taylor Ch. 17