Lecturer: Prof. David Cook and Prof. Jenny Xu  
Office Hours: TBA  
Phone: 2358-7604  
Time and Venue: Fridays, 9:00-11:50 am (Feb. 2nd to March 16th, 2018)  
Fridays, 8:30-11:20 am (March 23rd to May 4th, 2018)  
Email: davcook@ust.hk jennyxu@ust.hk  
Course Website: Canvas

Course Objective:

The objective of this course is to familiarize graduate students with theories of international macroeconomics and related research questions. The course will focus on determination of the current account and exchange rate, business cycle comovement, and optimal monetary policy in open economies.

Prerequisites

This course is for both MSc (ECON) and Ph.D students only. For Ph.D students, Econ 5250 is the prerequisite. For M.Sc students, Econ 5140 is the prerequisite, they should also be aware that course material is advanced and they need to get approval from the instructor to register for this course.

Learning Outcomes – School Intended Learning Outcomes (“SILOs”):

Upon successful completion of this course, you should be able to:
1. Have an up-to-date and in-depth knowledge on international macroeconomics. Understand the important questions in the literature and the main components of international macroeconomic theories. (SILO # 1)

2. Grasp the advanced mathematical and quantitative tools to understand the important research questions discussed in the literature; (SILO # 1.2, #1.3)

3. Apply the concepts, principles, and models learnt in this course to analyze economic phenomena, understand and evaluate the international macroeconomics policies, possible effects and causes of recent financial crisis, and financial and monetary policies that may stabilize fluctuations. (SILO # 2.2)

4. Develop new research questions independently based on the literatures and current macroeconomic phenomenon; and carry out research independently to address these questions; (SILO # 4.1)

5. Think critically and creatively when making effective economic decisions and policy suggestions supported by international macroeconomic theories and analytical and quantitative techniques. (SILO # 1.3)

6. Communicate effectively in oral and written English; (SILO # 5, SILO # 6.1 )

7. Demonstrate proficiency in using mathematical, quantitative and empirical tools in conducting economics research; (SILO # 3.2, #3.3)

8. Locate, gather, and analyze data using appropriate information technology, software and systems.

For the details of SILOs, please refer to:

Teaching Approach

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

<table>
<thead>
<tr>
<th>Teaching and Learning Activities</th>
<th>Roles in the Course</th>
<th>Course Learning Outcome addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lectures with in class discussions</td>
<td>Explain key concepts and models to students</td>
<td>1, 2, 3, 4, 5, 6, 7, 8</td>
</tr>
<tr>
<td>Homework assignments</td>
<td>Practice problem solving, matlab coding , data collection and apply models to analyze economic issues</td>
<td>1,2,3, 6,7,8</td>
</tr>
<tr>
<td>Literature Review and Referee Report</td>
<td>Understand research questions, practice critical review on papers</td>
<td>1,2,3,4,6,7,8</td>
</tr>
<tr>
<td>Exams</td>
<td>Problem solving and understanding of course materials</td>
<td>1,2,3, 5,7,8</td>
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Textbook, Reference Books, and Required Readings:

1. There are no required texts. However, the following texts are very helpful.

   *Foundations of International Macroeconomics* (1996), Obstfeld, Maurice and Kenneth Rogoff, Cambridge, MIT Press (OR);


2. Papers on Approximating Solution to Dynamic General Equilibrium Models


We will also be using a number of articles to supplement the main text, deepen our understanding of selected topics, and follow the most recent debate in the literature and policy circles.

Course Evaluation:

   Written Assignments (4 assignments)-------------20%
   Two literature reviews/Referee Report ----10%
   Midterm ----------------------------------35%
   Final Exam -----------------------------35%
Course Outline:

1: International Capital Markets and the Current Account

- Intertemporal approach to current account determination (OR Chapter 1-2, SU Chapter 2)
- Adjustment of current account to shocks (OR Chapter 2)
- Government spending and the current account (OR Chapter 3)


2: International Risk Sharing and Portfolio Diversification

- Real and nominal exchange rates (OR Chapter 4.1-4.4, SGU Chapter 7)


Coeurdacier Helene Rey “Home Bias in Open Economy Financial Macroeconomics" Journal of Economic Literature Vol. 51, No. 1, March 2013 (pp. 63-115)

3: Exchange Rate and Terms of Trade
- Real and nominal exchange rates (OR Chapter 4.1-4.4, 5.5, SGU Chapter 7)


4: International Business Cycles (if time)
- Co-movement (OR Chapter 7.5)


5. Real Business Cycle Model in Small Open Economies

- Emerging-country business cycles through the lens of the RBC Model (SGU Chapter 5)
- Role of interest rate shocks (SGU Chapter 6)


6. Monetary Policy in the Open Economy

- A simple monetary model of exchange rates (OR 8.3)
- Sticky-price model of output, the exchange rate and the current account (OR 10.1-10.4, SGU Chapter 9)


7. Optimal Monetary Policy and International Coordination

-Optimal monetary policy rules in open economies: Fixed or flexible Exchange rate Regimes (notes)
- Coordinated versus non-corporative policies. (notes)


8. Financial Frictions and Shocks
- Exchange rate and Capital Control (SGU Chapter 10)
- Financial Frictions and Aggregate Instability (SGU Chapter 12)


Remark: Depending on our progress, we may or may not cover all these topics. Time constraints will force us to deviate at times.