

Syllabus (v.3)

ECON 6100Y The Internationalization of the Renminbi
Hong Kong University of Science and Technology
School of Business and Management
Department of Economics
Fall 2018

Course Credit: 1-credit
Course Grading: Letter Grade

Class sessions: 14:00 – 17:30 on 29 September, 6 October, 13 October, 20 October

Class location: LSK 1003
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Course description

This is a course for MBA students. In this course, students learn why China wants to internationalize its currency, the nature of the internationalization of the RMB, the measures taken by China to internationalize its currency, the limitations it faces in its attempt to do so, and the prospects of the internationalization of the RMB. Students would be guided to understand the internationalization of RMB from the perspective of international macroeconomics. Students would learn about the history of the international monetary system and how it arrived at its current state, which is dominated by the US dollar. The pros and cons of internationalizing the RMB to China would be investigated. Students would be introduced to a theoretical framework to be used to analyze the effects of the internationalization of RMB on China's monetary policy autonomy, exchange rate stability and capital mobility. Finally, the students will be asked, "Should the internationalization of RMB be an independent goal to be pursued, or just the consequence of the reform of the financial sector?"

Course objectives

The main objective is for the students to understand the motivations and consequences of the internationalization of the RMB.

Learning outcomes

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

- understand the motivations and consequences of the internationalization of the RMB
- understand the tradeoff among the following three things: autonomy in conducting monetary policy, stability of the exchange rate and capital mobility
- understand the prospects of the internationalization of RMB

Teaching Approach

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

Reading Material

Required:

Krugman, Paul; Maurice Obstfeld and Marc Melitz, *International Economics: Theory and Policy*, eleventh edition, Pearson Publisher (abbreviated as KOM) --- relevant pages as specified below.

Lai, Edwin L.-C. "Renminbi Internationalization: The Prospects of China's Yuan as the Next Global Currency." *Thought Leadership Brief*, June 2015, No. 9, Institute of Emerging Market Studies, HKUST.

Lai, Edwin L.-C. "RMB Internationalization: why, how and prospect." Slides, 2015.

Case study: "The Globalization of the renminbi" by Zhang, Shah and Yang , INSEAD, June 2014.

Various small case studies described below.

Recommended:

Lai, Edwin L.-C. and Xiangrong Yu. 2015. "Invoicing Currency in International Trade: An Empirical Investigation and Some Implications for the Renminbi." *World Economy*, January 2015.

Eswar S. Prasad. 2017. *Gaining Currency*, Oxford University Press.

Paula Subacchi. 2016. *The People's Money*, Columbia University Press.

Eswar S. Prasad. 2014. *The Dollar Trap*, Princeton University Press.

Ronald McKinnon. 2013. *The Unloved Dollar Standard*, Oxford University Press.

Barry Eichengreen, Arnaud Mehl and Livia Chitu. 2018. *How Global Currencies Work*, Princeton University Press.

Various case studies as described below.

Assessment

Class participation (include attendance and participation in case studies) 25%

Group project (paper and presentation) 50%

Quiz: Multiple Choice questions 25%

Participation

Student participation is taken seriously. Attendance will be taken in each class. As attendance in class will count toward your participation, we shall circulate an attendance sheet and ask you to sign it. Please do not sign up for others. If you sign up for another person, both of you will be penalized. The TA would also note down the participation of each student in class.

You should have read the reading materials and cases before the class and actively participate and contribute to discussion in class. Please note that participation is not just about the quantity of talking but also the quality of talking.

Group project and paper

Students will be formed into groups. The number of students per group would be determined later depending on the number of students enrolled in the course. The grouping would be assigned to you by the TA. There will be a total of approximately seven groups. Each group is required to make a presentation on a selected topic. The presentation will consist of 15 minutes of presentation by the group plus 5 minutes class discussion, to be led by the group. All students in the group are expected to present for approximately equal amount of time. All students in the class must come prepared by reading and thinking about the topic beforehand, and come up with their own questions. The presenting group must email their presentation material (e.g. slides and notes) to all other students, the TA and the instructor no later than 7pm before the day of presentation. The participation of each person in all discussions is taken into account in the evaluation of the person's overall performance, in addition to the group's presentation and paper. Different members of the same group might get different marks for their performance in the group presentation, as each student is evaluated based on the quality of the his/her presentation. The presenting 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.

After the presentation, the group should write a report of 1500-2000 words on the topic of their presentation. The overall contribution of each member in a group will be evaluated by all other members of the same group, and this evaluation can affect the marks obtained by each member.

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. The assignment of a topic will be on a first-come-first-served basis.

- What makes 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 to the remedies you suggest above?
- What are the current and potential roles played by RMB offshore centers such as Hong Kong, Singapore, Taipei and London in the internationalization of the RMB? What are the similarities and differences between HK as an offshore center for RMB today and London as an offshore center for the US dollar back in 1960s and 1970s?
- 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 you expect the RMB to 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 fully 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?

- What are the pros and cons to China of internationalizing the RMB? What are the pros and cons to the rest of the world of the internationalization of the RMB?

- Should the Chinese government actively pursue internationalization of RMB as an independent goal using a host of policy measures, or should the Chinese government just let internationalization of RMB be the natural consequence of the reform of the financial sector of China without too much intervention from the government?

The group project paper is due on 27 October (Saturday) at 8:00pm in the drop box of ECON 6100Y outside the General Office of the Department of Economics on 6/F of LSK -- no late papers will be accepted. The paper should have no less than 1500 words and no more than 2000 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 to turn in a soft copy (in MS Word or Scientific Word format, not PDF) as well as a hard copy of the paper.

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.

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.

Academic Policy: Students will need to follow HKUST Academic Integrity and Honor Code (<http://www.ust.hk/vpaa/integrity>).

Course Outline

Session 1: Some basics of international macroeconomics

- Lecture:

National income accounting and balance of payments (Ch 13 KOM) pp.354-373

Exchange rates and the foreign exchange markets: an asset approach (Ch 14 KOM) pp.388-403

Fixed Exchange Rates and Foreign Exchange Intervention (Ch 18 KOM) pp.536-541

Reserve currencies in the world monetary system: KOM pp. 558-567

The open economy trilemma (Ch 19 KOM) pp. 588-589

Total 54 pages out of the textbook.

- Homework for next session: prepare for the quiz and read my slides and the relevant cases

Session 2:

- Quiz for material covered last week (multiple choice) – 25% of course marks

- Short case studies:

The Bretton Woods system and its collapse (pp.598-600, box on pp.606-608 of KOM)

Reserve currencies in the world monetary system (pp.558-567 including the box of KOM)

The original sin (KOM pp.735-736; Case: Asian financial crisis 1997 on KOM pp.747-748)

The dollar trap (KOM pp.742-743 “Why Developing Countries ... High Level of International Reserves?”)

- Lecture: Professor Edwin Lai’s slides on RMB internationalization

- Homework for next session: Read and analyze the case “The Globalization of the renminbi” by Zhang et al.

Session 3:

- Guest speaker: Carmen Ling, Managing Director, and Global Head in RMB Internationalisation / Belt and Road, Standard Chartered Bank (Hong Kong) Limited. (Topic: “RMB as an investment currency -- how China gradually opens up its capital markets for access by global investors”)

- Case study: “The Globalization of the renminbi” by Zhang et al of INSEAD

(The participation in this case study accounts for 7% of the course marks.)

- Homework for next session: prepare for the group presentation

Session 4:

- Group project presentations

Short Biography of Instructor

Edwin Lai is Professor of Economics, HKUST. He has served as Senior Research Economist and Adviser at the Federal Reserve Bank of Dallas in the U.S. and taught at Vanderbilt University (U.S.), City University of Hong Kong and Singapore Management University. He has been a consultant to the World Bank, visiting scholar/fellow with Boston University, Princeton University, Kobe University, CESifo (University of Munich), Hitotsubashi University and Hong Kong Institute for Monetary Research. He obtained his B.Sc. in engineering from University of Hong Kong and A.M. and Ph.D. in economics from Stanford University.