Department of Economics
Hong Kong University of Science and Technology

Economics 3143
Macroeconomic Theory II
Fall 2019

Lecture: Jenny Xu	**Office Hours:**
Office Number: LSK 6071	**Mondays, 3:00-4:00 pm**
Phone: 2358-7604	**or by appointment**
Time and Venue: Monday/Wednesday 10:30AM - 11:50AM Email: jennyxu@ust.hk	
Please go to Canvas to find course related material.	

Teaching Assistant: Astor Fok*, Email: ecastor@ust.hk*
Office Hour: TBA.
Office Number: 6066

Required Textbook: Blanchard, Olivier *Macroeconomics*, 7th Edition, Prentice Hall, 2016

Pre requisites

This course is for BSc degrees in Economics and also available to other students as permitted by the regulations. Students are expected to have completed Econ 3123 or an equivalent introductory course. Students are also expected to have completed an introductory mathematics course.

Course Description:

In Macroeconomics I (Econ 3123), we have studied the economies in the short and medium run. Specifically, we use the IS-LM model and the IS-LM-PC model to study how the output, the price level, and the employment are determined in the short-run and medium-run. We also examine the impact of various policies on the economy in the short run and in the medium run. In the short run, business cycles (fluctuations around the trend of growth) are important. However, in the long run, what dominates is not fluctuations, but growth. So the determinants of

long-term economic growth, such as the role of capital formation and technological progress in long run growth are also investigated.

Having studied the economy in short run, medium run 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.

So in this course, we will first introduce how expectation about future economic variables will affect the current consumption and investment decisions of household and firms, thus in turn leads to changes in the current output and prices. The role of financial market in this process will also be analyzed. We will find that after we introducing the role of expectation and uncertainty, many conclusions regarding the monetary and fiscal policy we learn from Macroeconomics I need to be adjusted accordingly.

Another important and necessary extension, especially applicable to Hong Kong and the Asia-Pacific region, is to extend the study from closed economy to open economy models. How the openness in goods and financial market affect the output, price and exchange rate determination? Why some countries will adopt fixed exchange rate regimes, like Hong Kong, while others adopt flexible exchange rate regime. We will focus on issues like the exchange rate regime, the exchange rate determination, and the impact of monetary, fiscal and exchange rate policy in open economy.

Finally, if we still have time, we will go back to the policy analysis and tries to summarize what we learned about fiscal and monetary policy. We will also analyze some unconventional monetary policy that has been used by policy makers in the recent 2008 financial crisis.

Course Objective:

This course aims

(i)   to give an integrated view of macroeconomics by introducing role of expectation and open economy macroeconomics;
(ii)   to help students to develop the necessary analytical concepts and tools to analyze the current macroeconomic events and its impact on the business environment and the economy;
(iii)   to enable students to understand and evaluate the effects of various government policies on the business environment and the economy;
(iv)   to encourage students to think critically and creatively when making effective economic decisions and policy suggestions supported by macroeconomic theories and analytical and quantitative techniques..

Learning Outcomes
<u>*Upon successful completion of this course, you should be able to:*</u>

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 and the consequence of including them; 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 determinants of long run growth and the role of expectation 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, tutorials, and class discussion.

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, 4, 5, 6,7,8
Tutorials	Review basic model and concepts; Presenting answers to homework and exams; Review and introduction of empirical and quantitative tools; Presentation of Group Project;	3,4,5,7
Homework assignments and Group Projects	Practice problem solving, apply models to analyze current economic issues	3,4,5,6,7,8

Course Outline:

I Beyond the IS-LM: Uncertainty and Expectation

1. Financial Markets and Expectations (Chapter 14) -Week 1-2
2. Expectations, Consumption and Investment (Chapter 15) – Week 2-3
3. Expectation, Output and Policy (Chapter 16) - Week 3-4

II Exchange Rate and Open Economy

1. Openness in Goods and Financial Markets (Chapter 17) Week 4-6
2. Goods Market in an Open Economy (Chapter 18) Week 6-7

We will have midterm on Oct. 18th, the end of Week 7

3. Output, the Interest Rate, and the Exchange Rate in the short-run (Chapter 19) Week 7-9
4. Exchange Rate Regimes (Chapter 20) Week 9-10

III Back to Policy
1. Fiscal Policy: A Summing Up (Chapter 22) Week 10-11
2. Monetary Policy: A Summing Up (Chapter 23) Week 11-12

Remark: Depending on our progress, we may or may not cover all these topics. The associated chapters in Blanchard are in parentheses, and I highly encourage you to read them entirely.

Grading Policy:

Problem Sets --**18%**

Midterm Exam --**30%**

Group Project ---**10.5%**
    Final Report --*8%*
    Presentation--------------------------------------- *2%*
    Peer evaluation by group-mates --------------------*0.5%*

Final Exam --**40%**

Class participation--------------------------------------**1.5%**

1. There will be **three** Problem Sets, each worth 6% of your final grade. Problem sets should be handed in to your teaching assistant in tutorial on the due date. In order to insure the timely posting of the answer keys**, no late problem sets will be accepted.**

2. Midterm is scheduled on the evening of Friday, **October 18th, 2019 (7:00-9:00 pm, Friday)**. Venue to be announced later. There will be no lecture on **Oct. 16th, 2019**. There will be no make-up midterm exams. If for any reason, you cannot write the exam, please let me know in advance and the weight for the midterm will be shifted to the final.

3. Exams are closed book and closed notes. You can request a review of the grade within two weeks after the exam is returned to you. After that period grades can NOT be revised.

4. You will be asked to work together with your group members on a group project; use the theoretical and empirical method to locate, collect and analyze data to answer a macroeconomic question. Topics and details of the group project will be announced later in Canvas. Each group will consist of 5-6 students.

5. Marks for class participation (1.5%) will be decided based on attendance, discussion performance, and classroom conduct. Misconduct in class, such as late arrival, early leaving, chatting, surfing, and using mobile phones will result in losing part or all of class participation marks.

General Policies:

Lecture Notes: I will post power point slides for each chapter. However, during the lecture I will give more detailed explanation. Each student is responsible for lectures missed due to absences. Thus, it is suggested that each student secure notes from a student who attended the class.

Academic Policy: Dishonesty or plagiarism will not be tolerated. Any student violating **HKUST Academic Integrity and Honor Code** (http://www.ust.hk/vpaao/integrity) will be subjected to disciplinary procedure. Any student observed cheating on exams, or plagiarizing material, will receive an "**X**" for the course, to show that the grade resulted from cheating. This X grade stays with your record until graduation. If you cheat again and "earn" another X grade, you will be dismissed from the University.

Classroom Courtesy: Class discussions will be conducted in an orderly fashion. Late arrival and early leave will not be tolerated. You should ask for my permission first if you have any emergent situation to attend. If a student must enter the classroom after class has begun, please do so as quickly and quietly as possible. You are welcome to bring your laptop to class in order to take notes. However, since we use a lot of graphs for illustration, it is recommended that you write notes down. **Note that you may not engage in distracting behavior such as using your laptop to surf the Web, to check e-mail, or to do instant-**

messaging. Chatting or using mobile phones in class is not allowed either. Violators will lose part or all class participation marks. I will also reserve the rights to ask violators to leave the class room or not allowing violators to write the exams.

Please read the following files for good learning environment. https://drive.google.com/file/d/1Dx8_zdqBkeBGyRjo1AUoJtUtMnOSmFPV/view?usp=sharing

Please read the following link for regulations of student conduct. https://acadreg.ust.hk/A_Regulations_for_Student_Conduct_20190219.pdf

No Make-up of Course Requirements: No make-up examinations will be administered except under very unusual circumstances. If something prevents you from attending an exam or from turning in an assignment on time, you should notify me, and we can make alternative arrangements **BEFORE** the exam or class period during which the assignment is due. Note that outside activities or more than one exam in a day are not acceptable excuses for missing an exam or turning in an assignment late. (Please plan accordingly!) If I am not contacted in advance, where possible, I will reserve the right to assign a failing grade for the exam missed.

Student Counseling: Students who are experiencing difficulty with the course should visit the instructor during office hours or by appointment.

Final Notes:

Student feedback is essential for course improvement. I encourage continuous teaching evaluation. At any time during the semester you may orally or anonymously (e.g., via campus mail, or slip a note under my office door) give me an evaluation of my performance. This evaluation could include the following headings: 1) Things that I like; 2) Things that I dislike; and 3) Suggestions for improvements.