



Department of Economics
Hong Kong University of Science and Technology

Economics 6100H
China's Financial Market and Macroeconomics

Fall 2020

Lecture: Jenny Xu
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Please go to Canvas to find course related material.

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Appointment only
through Zoom or in my office

Teaching Assistant: Lingfei Lu, *Email: lluag@connect.ust.hk*
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Pre requisites

This course is for M.Sc in Economics and also available to other students as permitted by the regulations. Students are expected to have completed Econ 5140 or an equivalent advanced macroeconomic course. Students are also expected to have completed a mathematics course which covers constrained optimization methods and are familiar with some basic econometric tools .

Course Description:

This course aims at providing economic analysis of the Chinese economy, especially financial market in recent decades and comprehensive insight into major macroeconomic and financial issues in China. This course will introduce students to economic theories and empirical methods

used to analyze economic phenomena related to Chinese macroeconomy and financial market, such as economic growth, capital misallocation, business cycle, current account imbalance, real exchange rate, shadow banking and monetary policy. Important academic papers related these issues will be reviewed and discussed. After taking the course, the students will be able to understand the source of economic growth in China, as well as the main feature of Chinese macroeconomy and financial market. They will also be able to analyze China's macroeconomic development and financial market from the perspective of an economist.

Course Objective:

This course aims

- (i) To equip students with a general knowledge of Chinese macroeconomic questions such as source of fast growth, resource misallocation, as well financial market problem, such as high saving rate, current account imbalance and high leverage ratio of firms.
- (ii) to enable students to use theories and knowledge from this course to understand and explain and analyze government economic and monetary policies, and their effect on economic fluctuations and economic growth.
- (iii) Grasp and understand mathematical methods such as dynamic optimization as well as statistical and econometric tools to help students to develop the necessary analytical concepts and tools to analyze the current macroeconomic problems and policies in China and its impact 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

Upon successful completion of this course, you should be able to:

1. Have a general knowledge of Chinese macroeconomic and financial market questions such as the economic growth, resource misallocation, current account surplus, and shadow banking macroeconomics. Understand the theoretical and empirical approach economists use to analyze these questions.
2. Apply the macroeconomic concepts, models, and data to analyze macroeconomic phenomena in Chinese economy, conduct economic analysis of the economy and policy, and carry out independently applied research in macroeconomic problems.

3. Have a understanding of the mathematical methods and econometric tools to analyze the current macroeconomic problems and policies in China and its impact on the business environment and the economy; apply these knowledge to practical situations and make sound economic decisions, and adapt to changes in business and social environments and professional requirements.
4. Apply macroeconomics model to analyze macroeconomic issues and effects of macroeconomic policies such as monetary and fiscal policies and state owned enterprise reform policy.
5. Communicate effectively in oral and written English.
6. Locate, gather, organize and use appropriate information for macroeconomic studies in Chinese economy.

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 questions to students	1, 2, 3, 4, 5
In-class Group presentation	Be more familiar with a particular question and related literature	1,2, 3, 4, 5
Homework assignments	Simple model derivation, answer questions related to papers	1,2, 3, 4, 5, 6

Course Outline:

Part 1: Growth and Misallocation

1. Xiaodong Zhu, "Understanding China's Growth: Past, Present and Future", Journal of Economic Perspectives 26 (4 (Fall)) (2012), 103–124.*
2. Hsieh, Chang-Tai and Klenow, Peter J. "Misallocation and Manufacturing TFP in China and India", Quarterly Journal of Economics, 2009, 124(4), pp. 1403-1448.*
3. Song, Zheng, Kjetil Storesletten, and Fabrizio Zilibotti. "Growing Like China." American Economic Review, 2011, 101(1): 196–233.*

4. Wu, Guiying, "Capital Misallocation in China: Financial Frictions or Policy Distortions?" *Journal of Development Economics*, 2018, 130, 203-223.

5. "Do Financial Frictions Explain Chinese Firms' Saving and Misallocation?" by Yan Bai, Dan Lu, and Xu Tian, Working Paper

Part 2: Saving, Investment and Current Account

6. Wei, Shang-jin and Xiaobo Zhang, "The Competitive Saving Motive: Evidence from Rising Sex Ratios and Savings Rates in China", *Journal of Political Economy*, Vol. 119, No. 3 (June 2011), pp. 511-564.*

7. Chang-Tai Hsieh, Chong-En Bai, and Yingyi Qian, "The Return to Capital in China", *Brookings Papers and Economic Activity*, 2006*

8. Liu, Zheng, Mark M. Spiegel, and Jingyi Zhang, 2020. "Optimal Capital Account Liberalization in China." *Journal of Monetary Economics* (forthcoming)*

9. Ju, Jiandong, Kang Shi, and Shang-jin Wei, "Trade Reform and Global Current Account Imbalance", NBER Working Paper No. 18653

10. George Alessandria, Horag Choi and Dan Lu, "Trade Integration and the Trade Balance in China", *IMF Economic Review* (August 2017) 65(3) 633-674

Part 3: Banking and Monetary Policy

11. Chen, Kaiji, Jue Ren and Tao Zha. "The Nexus of Monetary Policy and Shadow Banking in China", *American Economic Review*, 2018, 108 (12), 3891-3936.*

12. "Capital Controls and Optimal Chinese Monetary Policy," by Chun Chang, Mark Spiegel and Zheng Liu, *Journal of Monetary Economics*, 74, 1-15, (2015).*

13. Liu, Zheng, Pengfei Wang, and Zhiwei Xu, 2020. "Interest-Rate Liberalization and Capital Misallocations." *American Economic Journal: Macroeconomics* (forthcoming)

Part 4: Exchange Rate and Asset Market

14. Chen, Kaiji and Yi Wen, "The Great Housing Boom of China", *American Economic Journal: Macroeconomics*, 2017, 9 (2), 73-114.*

15. Jiandong Ju, Justin Lin, Qing Liu, and Kang Shi, "Structure Changes and Real Exchange Rate", *Journal of International Money and Finance*, Volume 107, October 2020, 102192.

16. Xiaodong Zhu, Juanyi Xu and Yong Wang, “Structural Change and the Dynamics of China-US Real Exchange Rate”, Working paper. *

Extra Papers for reading:

Loren Brandt and Xiaodong Zhu, "Redistribution in a Decentralized Economy: Growth and Inflation in Reform China", *Journal of Political Economy* 108 (2000), 422–439.

Tombe Trevor and Xiaodong Zhu, "[Trade, Migration, and Productivity: A Quantitative Analysis of China](#)", *American Economic Review* 109 (5) (2019), 1843–1872.

“Reserve Requirements and Optimal Chinese Stabilization Policy,” by Chun Chang, Zheng Liu, Mark Spiegel and Jingyi Zhang , *Journal of Monetary Economics*, 103, 33-51, (2019).

“Property Taxes and Home Prices: A Tale of Two Cities”, by Chong-En Bai, Qi Li and Min Ouyang, *The Journal of Econometrics* 180 (2014), pp. 1-15

“The Treatment Effects Estimation: A Case Study of the 2008 Economic Stimulus Plan of China” Min Ouyang and Yulei Peng, *The Journal of Econometrics* 188(2), October 2015, Pages 545-557.

“Changes in Earnings Inequality: the Role of China’s Preferential Lending Policy”, by Chong-En Bai, Qing Liu and Wen Yao, *Journal of Development Economics*, Volume 145, June 2020

Remark: Depending on our progress, we may or may not cover all these topics.

Grading Policy:

Problem Sets	-----	30%
Midterm	-----	25%
In-Class Group Presentation	-----	10%
Final Exam	-----	35%

1. There will be **three** Problem Sets, each worth 10% of your final grade. Problem sets should be handed in through Canvas online (when we have class online) or in hard copy to the

assignment collection box on the due date. In order to insure the timely posting of the answer keys, **no late problem sets will be accepted.**

2. The midterm will be an online midterm. Details of the exam will be announced later. Measures will be conducted to ensure the fairness of the exam.
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.

General Policies:

Lecture Notes: I will post power slides and zoom recording for each class. Each student is responsible for lectures missed due to absences.

Academic Policy: Dishonesty or plagiarism will not be tolerated. Any student violating **HKUST Academic Integrity and Honor Code** (<http://www.ust.hk/vpao/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.

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.