

HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY



Department of Economics
ECON 6110T

INTERNATIONAL FINANCE & OPEN ECONOMY MACRO
(Spring II, 2023-24)

Instructor

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Class Schedule

Lecture time is Wednesday 9:00 am–12:30 pm, unless stated otherwise, and is held in LSK 1007. The teaching mode is “face to face”.

Course Description

This course presents a modern introduction to international finance and open economy macroeconomics based on a micro-founded, dynamic general equilibrium approach. We will cover basic international finance topics including global imbalances, current account sustainability, theories to explain the current account, determinants of real interest rates, and international capital integration. These foundation concepts, together with the knowledge you have gained in ECON 5140 are used to develop an understanding of modern graduate-level open economy macroeconomics.

We will study international business cycles in data and models including the open economy real business cycle model, which will be solved in pen and paper as well as using numerical solution techniques in Matlab, Octave, and DYNARE, to compute the quantitative impact of economic shocks and policy events. Bonus workshops/tutorials will be provided. Applications to policy and real-world phenomena are emphasized throughout. Assumed knowledge is ECON 5140.

Learning Outcomes

After completing this course, students should be able to understand, explain and identify:

1. Fundamental concepts in international finance related to the current account, exchange rate determination, twin deficits and open economy business cycle models. **(PILO 1)**
2. Solution, calibration, and simulation methods in open economy frameworks, including the open economy real business cycle model. **(PILO 2, 5)**
3. Policy related issues associated with models studied in this course. **(PILO 1,2, 5, 13)**

Prerequisite

No formal prerequisite but ECON 5140 is assumed knowledge for this course.

Recommended Learning Resources

There is no required textbook. A detailed list of references will be provided at the end of each lecture. We will begin the course at the level of Schmitt-Grohé, S., Uribe, M., and Woodford, M. (2022). *International Macroeconomics: A modern approach*. Princeton University Press with the foundational concepts and then for the more advanced material later in the course, Uribe, M. and Schmitt-Grohé, S. (2017). *Open economy macroeconomics*. Princeton University Press. Students may also find Obstfeld, M. and Rogoff, K. (1996). *Foundations of international macroeconomics*. MIT press helpful for international finance topics and McCandless, G. (2008). *The ABCs of RBCs: An introduction to dynamic macroeconomic models*. Harvard University Press for solution techniques.

Homework

Students will be required to submit 3 short individual assignments for grading. Each assignment is worth 10% for a total of 30% of the total assessment. These will help prepare you for the exam. Students will be required to make a statement about the use of ChatGPT in assignments. See the policy on ChatGPT in this course outline. No ChatGPT is permitted in individual assignments. "Turnitin" is a requirement for submission of assignments. **No late homework will be accepted!**

Assessment Scheme

	Description	Weight
Final Exam	Examines all topics covered during the term	60%
3 Individual Assignments	Three short assignments to be submitted for assessment	30%
Class Participation	Constructive contribution to class discussion	10%

Final Examination

The final exam (closed book) will be held during class on June 5, starting around 9:00am. There will NOT be make-up exams. Only serious medical or personal emergencies may be accepted as legitimate excuses for a missed exam. If you fail to attend an exam for medical reasons, you must present a doctor's note. If you miss an exam without a valid reason, then you will receive a zero. You will be permitted to have a 1-page A4 cheat sheet but otherwise, this exam is closed book. The final exam will be worth 60% of the total assessment in this course.

Attendance Policy & Class Participation

Class attendance will be recorded each week. Attendance may be used as an input for the class participation grade and in some circumstances may be a contributing factor in borderline grading decisions. Class participation is NOT a 1-1 mapping with attendance. While attendance may be a contributing factor, the constructive contribution to class discussion will be very influential in your class participation grade. Conversely, disruptive behavior will lead to a lower participation grade. Class participation is worth 10% of your total grade.

ChatGPT Policy

ChatGPT is not permitted in this course. In your assignments students are required to make a statement as to whether they used ChatGPT and if they did to declare how they did so. Violation of this policy will be considered an academic integrity breach with potentially serious consequences.

Academic Integrity Policy

Honesty and integrity are central values HKUST. Please be aware of the importance of maintaining a high standard of honesty in assignments and examinations in this course. Please familiarize yourself with the university rules and the HKUST academic honor code by visiting the following website: <http://www.ust.hk/vpaaao/integrity/>

Course Syllabus

This is a tentative schedule. Topic order may be changed and some topics may be removed or modified, based on time constraints, student progression, and continuous improvement.

Week	Date	Topics*
1	Apr 3	Lecture 1 - Global imbalances, Current Account Sustainability and an Intertemporal Theory of the Current Account - Global data on trade, current account, capital account, and financial account imbalance, including bilateral US-China imbalances. We explore the sustainability of a CA or trade deficit in a 2-period model. Analyze the current account in a small open, endowment economy.
2	Apr 10	Lecture 2 - Current Account in a Production Economy - We extend the small open endowment economy to include firms to analyze optimal behavior for households and firms in an open economy. We study the impact of productivity shocks on the current account and the link between savings, investment, and the CA in the Metzler diagram. Finally, we study the impact of shocks on terms of trade and how this impacts the real economy and imbalances.
3	Apr 17	Lecture 3 - Real Exchange Rate, Purchasing Power Parity and the Balassa-Samuelson Model of Exchange rate determination In data and in theory we explore the theory of PPP and Relative-PPP. We study several reasons why PPP may deviate from the data in the short-run, including the role of non-tradable goods, trade barriers and home bias. We study the microfoundations of the price level and finally the Balassa-Samuelson model, which focuses on productivity differentials in explaining the real exchange rate over the long-run.
4	Apr 24	Lecture 4 - International Capital Market Integration We explore the theory of uncovered and covered interest rate parity - in theory and in data with analysis of the RMB covered interest rate parity, the role of onshore and offshore rate differentials and the role of arbitrage. In a small open economy with asset pricing, we study the role of interest rate parity, carry trades, and the forward premium puzzle.
5	May 8	Lecture 5 - Introduction to International Business Cycles We study the techniques of analyzing the business cycle and then highlight 10 stylized facts in international business cycle data, distinguishing the behavior of emerging and developed economies.
6	May 22	Lecture 6 - The Open Economy Real Business Cycle (RBC) Model We will study the open economy RBC model and solution techniques to solve the model using pen and paper and computing techniques using Matlab, Dynare and Octave.
7	May 29	Lecture 7 - Monetary Model of Inflationary Finance: Fiscal Crises, Hyperinflation and BOP Crises We study a monetary model with a government sector, employing familiar theories in PPP and QTM to analyze such topics as the fiscal implications of devaluation, the fiscal consequences of money creation and balance of payments crises.
8	Jun 5	Final Exam

*Additional references may be provided for certain topics on Canvas or in class.