

# HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY



## Department of Economics

### ECON 6101E

#### Monetary Economics and International Finance in Practice (MBA) (Fall II, 2023-24)

#### INSTRUCTOR

Name: Dr. KITNEY, Paul M.  
Office: LSK 6056  
E-mail: pkitney@ust.hk  
Office hours: By Appointment

#### TEACHING ASSISTANT

Name: Ms. Teresa Lau  
Office: LSK 6066  
E-mail: ectylau@ust.hk  
Office hours: By Appointment

#### CLASS SCHEDULE

Lecture times are Tuesdays from 7pm – 10:20pm in Room (TBA) at the Central Campus. Teaching mode is “face to face”.

#### COURSE DESCRIPTION

This course provides an introduction to international finance and the interdependence with monetary policy. It examines the markets for key assets, demonstrating the impact of economic shocks and policy events and the relationship between financial markets and the real economy. It develops rich modelling frameworks, building on those in ECON 5200 and introducing some models for pricing assets, with a particular emphasis on bond and foreign exchange markets. Some recent topics include: COVID-19, Brexit, the Global Financial Crisis, and contemporary issues such as the resurgence of inflation. While students will read global case studies (Asia, Europe, South America), the emphasis will be on analyzing current events in real time, such as communications from central banks and global policy bodies such as the Bank for International Settlements, the World Bank or the IMF.

#### INTENDED LEARNING OUTCOMES

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

- (1) The tools used by central banks in the conduct of monetary policy in a closed and open economy.
- (2) The role of central banks' monetary policy (conventional and QE) during global contagion episodes such as COVID-19, the Global Financial Crisis, the Asian Financial Crisis and Brexit.

- (3) Basic understanding of bond and foreign exchange market in the face of economic shocks and economic policy decisions
- (4) Multiple modelling frameworks such as ISLM, Aggregate Demand & Supply, Mundell-Fleming and others designed to analyze international finance events and monetary policy linkages.

**ASSUMED KNOWLEDGE**

There is no formal pre-requisite for this course but the level assumes knowledge of ECON 5200 or its equivalent. This course does NOT require university mathematics. Analytical concepts are mainly taught using graphical methods. While some simple equations may be used, calculus is NOT required. Theory is supported by real World applications for greater understanding.

**RECOMMENDED LEARNING RESOURCES**

There is no required textbook for this course. However the following are reference books. Frederic S. Mishkin, **The Economics of Money, Banking, and Financial Markets**, 12th edition, Global edition, 2019, or later editions, N. Gregory Mankiw, **Principles of Economics**, 8th edition, 2018, Cengage and Mankiw (or later editions), N.G., **Macroeconomics**, 6th Edition or Later Editions, Worth, 2007 + Readings: Announced on Canvas or during class, when required.

**ASSIGNMENTS**

There will be 2 short assignments, each worth 10%, together forming 20% of the total grade. These will help prepare students for the exam.

**GROUP PROJECT**

This project is an opportunity to: 1. study a country in depth, applying the macroeconomic analytical tools you have acquired in this course; 2. understand the monetary policy framework and the current setting of monetary policy, formulating an opinion of the appropriateness of this setting; and 3. to provide an opinion on financial stability issues, including the direction of key international financial markets – foreign exchange and sovereign bond market of the country under study. You will write a well written, policy report, in essay form. The group project accounts for 30% of your total grade. A portion (to be discussed in class) of this grade will include a peer evaluation so as to encourage ALL group members to contribute, limiting “free rider” behavior. Group Project is due December 17.

**ASSESSMENT SCHEME**

| <b>Task nature</b>     | <b>Description</b>                            | <b>Weight</b> |
|------------------------|---|---------------|
| Group Project          | Applied macro finance project                 | 30%           |
| Individual Assignments | Two short individual assignments              | 20%           |
| Class Participation    | Constructive contribution to class discussion | 10%           |
| Final Exam             | Examination on course material                | 40%           |

**CHAT GPT POLICY**

Restricted use of ChatGPT is permitted. It is NOT permitted in exams or quizzes, which are closed book. In assignments or projects, students must reference the use and state clearly how they have used (prompts) ChatGpT in a statement in their written work, clearly stating which app they have used. Simply copy and pasting a ChatGpt result will be considered plagiarism, which is not permitted, but thoughtfully using ChatGpt content, appropriately referenced, is allowed.

## COURSE SYLLABUS

Please note 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.

**Classes will be held on the following Tuesdays: 7-10:20pm at Central Campus, Room (TBA)**

| Week | Date   | Topics <sup>1</sup>  | Reference <sup>2</sup>           |
|------|--------|--|----------------------------------|
| 1    | Oct 24 | <b>Introduction to ECON 6101E</b> – Course Outline and Admin. Key Economic Challenges in 2023-24. Introduction to Central Banking. Review of ADAS and monetary policy transmission,  | Ch. 14, 26, Ch.33*, Course Notes |
| 2    | Oct 31 | <b>Monetary Policy Strategy &amp; Tactics</b> - Monetary policy and central bank mandates, Taylor rules vs discretion, the Taylor Principle and inflation stabilization. Analyzing the current stagflation scare, the failed monetary policy experiment in Turkey and the case of Brazilian Stagflation. | Ch. 16-17, Course Notes          |
| 3    | Nov 7  | <b>Applied Keynesian Macro (ISLM)</b> – Using ISLM we analyze COVID-19, Current Fed Policy, the Inflation/Stagflation dilemma and the Efficacy of Fiscal Policy determined by the Monetary Policy Setting – Discuss in context of Brazil, Venezuela, Brexit, Trumponomics and the Biden Agenda           | Ch. 10-11** , Course Notes       |
| 4    | Nov 14 | <b>Monetary Policy Analysis</b> – Monetary Policy Curve, the Phillips Curve, Okun’s law - application to Fed policy today.   | Ch.22-23, Course Notes           |
| 5    | Nov 21 | <b>Guest Speaker – Ms. Olivia Xia (Goldman Sachs Asset Management)</b> – Global and China macro links to asset allocation. <b>Bond Market Analysis</b> – Corporate and Sovereign bonds - Credit Spreads, liquidity, risk, Evergrande Shock, Inflation, Role of Expectations and Monetary Policy.         | Ch. 4-6, Course Notes            |
| 6    | Nov 28 | <b>Foreign Exchange Market Analysis</b> - Review of Long-run Models (PPP, QTM), Inflation-Depreciation Spirals and present a short-run model to study Venezuelan Crisis, GFC, BREXIT, the Hong Kong Peg, The “Impossible Trinity” and Turkey’s Monetary Policy Blunder in 2022-23.                       | Ch. 18-19, Ch.31*, Course Notes  |
| 7    | Dec 5  | <b>Applied Macro- International Finance – Mundell Fleming Model</b> – an open economy ISLM model – to analyse risk premium, macro policy, economic shocks. Applications from the Asia Financial Crisis, COVID shock and Ukrainian War.   | Ch. 13**, Course Notes           |
| 8    | Dec 12 | <b>Final Exam</b>  |                                  |

No asterisk references are Mishkin, \*Mankiw “Principles”, \*\*Mankiw “(Intermediate)Macroeconomics”. See Recommended learning resources for details.

## CASE READINGS

The teaching cases will be posted on Canvas. Students are expected to read the cases before the class, and share their views in the class discussion. Cases may be formal business school cases or documents published by entities such as the Federal Reserve, OECD, IMF etc. Details on course cases will be provided prior to the first class.

<sup>1</sup> Case study and supplementary reading information will be provided during class.

<sup>2</sup> Chapter references are to Mishkin, “*The Economics of Money, Banking, and Financial Markets*” (12<sup>th</sup> Edition), 2019, unless with asterisk\* for Mankiw, N.G., *Macroeconomics*, 10th Edition, 2019 or earlier editions, or two asterisk \*\* for N. Gregory Mankiw, *Principles of Economics*, 8th edition, 2018, Cengage.

**Brexit - *Brexit*, Laura Alfaro; Jesse Schreger; Haviland Sheldahl-Thomason (2016)**  
**Brazilian Stagflation - *Brazilian Stagflation*, Daniel Murphy (HBS, 2017)**  
**IMF Financial Stability Report (October 2023)**

**ASSESSMENT TIMETABLE, CASE STUDIES, GROUP DISCUSSIONS**

**Please note this is a tentative schedule and will be modified when necessary.**

| Week | Date   | Cases <sup>3</sup>             | Assessment   |
|------|--------|--------------------------------|--|
| 1    | Oct 24 |                                |  |
| 2    | Oct 31 | Brazilian Stagflation          | <b>Assignment 1 Posted</b>                                       |
| 3    | Nov 7  |                                |  |
| 4    | Nov 14 |                                | <b>Assignment 1 Due</b>  |
| 5    | Nov 21 | IMF Financial Stability Report | Assignment 1 Posted  |
| 6    | Nov 28 | Brexit                         | <b>Group Project Meeting and Feedback (Zoom) – Nov 29-Dec 4.</b> |
| 7    | Dec 5  |                                | <b>Assignment 2 Due</b>  |
| 8    | Dec 12 |                                | <b>Final Exam</b>  |
|      | Dec 17 |                                | <b>Project Report Due</b>  |
|      |        |                                |  |

**SUPPLEMENTARY READINGS**

[Guest Contribution: “Is China’s growth rate negative?” | Econbrowser, John G. Fernald, Jack Mueller and Mark M. Spiegel \(Federal Reserve Bank of San Francisco\), 2022](#)

[Banks post-Brexit: regulatory divergence or parallel tracks? | Bruegel](#)

[mainly macro: The economic cost of the Brexit decision that Leaver voters do not get to see](#)

[Emerging Economies Must Prepare for Fed Policy Tightening – IMF Blog](#)

[The IMF should suspend interest rate surcharges on debt-burdened countries | PIIE](#)

[A Global Database of Inflation \(worldbank.org\)](#)

[Stagflation: A Primer — Money, Banking and Financial Markets \(moneyandbanking.com\)](#)

[World’s Most Bubbly Housing Markets Flash 2008 Style Warnings \(bloombergquint.com\)](#)

**ACADEMIC INTEGRITY POLICY**

Honesty and Integrity is central value in HKUST. Please be aware of the importance to maintain a high standard of honesty in assignments, group projects and examinations in this course. Please familiarize yourself to the university rules and the HKUST academic honor code by visiting following website: <http://www.ust.hk/vpaa/integrity/>

<sup>3</sup> These are the formal case studies used in this course. However, we will use other material as discussed in class to analyze several other contemporary and historical economic cases.