Hong Kong University of Science and Technology
Department of Economics

Macroeconomic Policies of China
ECON 6130C (M.Sc. Economics)

No. of Credits: 2
Background: First-year Macroeconomics from any university

Time: Mon 09:00am – 12:20pm

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Office Hours: Mon 12:20pm-1:20pm, lecture room after the class

COURSE DESCRIPTION

This course is designed as an up-to-date course that will equip our students with the appropriate analytical framework and updated knowledge on macroeconomic policies of China. The course will cover the most recent major macroeconomic issues and policies in China over the recent 25 years.

- The Twin Deficit in the US and the Twin Surplus in China;
- The US pressure for major RMB revaluation before the reform in July 2005;
- China's exchange rate system reform since July 2005;
- The Doctrine of Impossible Trinity: its applications to the choice of exchange rate systems in the US, Singapore, Hong Kong and China;
- China's banking reform in 2005-06, and its lessons for other emerging economies;
- Implications of the reforms on the Strong China Route with high GDP growth, low unemployment rate, huge trade surplus, rising foreign reserves, ongoing accumulation of overseas assets and low risk of currency crisis;
- China's trade, outward foreign investments, balance of payment and foreign reserve management policies since 2006;
- The Stock Market in China: The stock market bubble and its bursting in 2006-08, another stock market bubble and its bursting in 2014-15, lessons for policy makers and stock investors;
- The characteristics of the seeding stage, the development stage and the final stage of an asset bubble, its implications for policy makers and asset investors;

- The Property Market in China: The Market Structure of the Housing Market in Hong Kong and China (i.e., informal cartel and why the simple supply and demand analysis is the wrong model), barrier of scale, cumulative dynamic efficiency, developers are price setters instead of price takers, the role of inequality and the Indicator Effect from the prices of new properties to the prices of resale property effects,
- The causes and consequences of high real property prices in China: microeconomic pains, macroeconomic risk in terms of property bubble and its bursting, and the recommended solution;
- China's fiscal and monetary policies I: The global financial crisis in 2008-09, and China's ultra-expansionary fiscal and monetary policies to offset the impacts of the global financial crisis on the Chinese economy; and
- The renminbi crisis in 2015-16 and another two renminbi crises during the two episodes of Sino-US Trade War in 2018 and 2019;
- The Thucydides' Trap and the Sino-US Conflicts, the Tariff War in 2025; and
- The One Belt One Road Initiative and its economic and political impacts, why the Chinese Government forbids the CK Hutchison Holdings to sell its 43 ports to the BlackRock-led Group.
- China's fiscal and monetary policies II: China's property-firm crisis and the subsequent recession in 2021-26, the limitation of fiscal policies and the importance of monetary policies, the Doctrine of Impossible Trinity and the pre-condition for the use of monetary policy to stop the crisis from spreading, and lessons for the future;

If time allows, we will also discuss some of the following topics:

- The Internationalization of RMB: The Triffin Dilemma and its implications, Lessons from the US mistakes: chronic trade deficit and the hollowing out of manufacturing industries, Lesson from Singapore's choice on the debate on the Internationalization of the Singapore dollar in the 1970s, Difference between RMB as a trade settlement currency and as a reserve currency.

Learning Outcomes

As explained in the course description, the course is designed as an up-to-date course that will equip our students with the appropriate analytical framework and updated knowledge on macroeconomic issues and policies in China. This is the only economic course in Hong Kong and China that will cover China's most recent major macroeconomic issues and policies over the recent 25 years. With this unique training and knowledge from this course, students will have a niche in their applications for jobs related to China.

Course Intended Learning Outcomes (Course ILOs)

Students will be able to:

1. Demonstrate general knowledge about the Chinese economy. Identify China's main macroeconomic economic issues and challenges, and learn how to analyze them. (SILO #1 & #3)
2. Know models and theories on the Chinese macroeconomy, and how they can be

used to solve the problems and challenges in the real world. (SILO #1 & #3)

3. Ability to apply concepts, principles, and models learned in this course to analyze China's macroeconomic issues and policies in the future. (SILO #1 & #3)
4. Communicate effectively in oral and written English when analyzing economic issues. (SILO #1 & #3)
5. Analyze the consequences of macroeconomic shocks or policy changes in China, and hence provide business and investment suggestions for firms as well as policy suggestions to China's central and local governments. (SILO #1 & #3)

Teaching Approach

This course is primarily delivered through lectures and case applications during lectures.

Teaching and learning activities	Roles in the course	Course ILOS addressed
Lectures	Learn key concepts and models, and their applications	1, 2, 3, 4, 5
Case Applications	Applied the concepts, models and applications to real world cases	1, 2, 3, 4, 5

Assessments

Assessments activities	Weighting	Course ILOS addressed
1 Class Participation	10%	1, 2, 3, 4, 5
3 Homework Assignments	15%×3	1, 2, 3, 4, 5
1 Final Examination	45%	1, 2, 3, 4, 5

Final Grade Descriptors

Grades	Short Description	Elaboration on subject grading description
A	Excellent Performance	Demonstrates a comprehensive grasp of subject matter, expertise in problem-solving, and significant creativity in thinking. Exhibits a high capacity for scholarship and collaboration, going beyond core requirements to achieve learning goals.
B	Good Performance	Shows good knowledge and understanding of the main subject matter, competence in problem-solving, and the ability to analyze and evaluate issues. Displays high motivation to learn and the ability to work effectively with others.

C	Satisfactory Performance	Possesses adequate knowledge of core subject matter, competence in dealing with familiar problems, and some capacity for analysis and critical thinking. Shows persistence and effort to achieve broadly defined learning goals.
F	Fail	Demonstrates insufficient understanding of the subject matter and lacks the necessary problem-solving skills. Shows limited ability to think critically or analytically and exhibits minimal effort towards achieving learning goals. Does not meet the threshold requirements for professional practice or development in the discipline.

Use of generative AI

Students are encouraged to use generative AI to help their assignment works.

Lecture Schedule

Lecture	Topics	Readings
1	**China before the Exchange Rate System Reform in 2005** • the major RMB devaluation in the 1991 reform: the beginning of China's trade surplus • the rapid growth of trade surplus thereafter • the Asian Financial Crisis: the beginning of the peg of RMB to the US$ • the Twin Deficit in the US and the Twin Surplus in China • the US pressure for major revaluation of RMB • China's macroeconomic conditions before the reform **Debates before the reform**: China's economic characteristics and the risk of various reform proposals	Yip (2011), Ch 1
2	**The Exchange Rate System Reform in 2005-06** Transitional and Medium-term Designs of the Reform • The proposed transitional reform: - Gradual appreciation, no major or medium jump in exchange rate, and no widening of band; - A basket of currencies with special care to the renminbi-US dollar rate at the early stage; and - A narrow exchange rate band at the early stage • The Doctrine of Impossible Trinity and the medium-term recommendation • Implications of the reforms on the Strong China Route with high GDP growth, low unemployment rate, huge trade surplus, rising foreign reserves, and low risk of currency crisis • The transitional reform in 2005 and the market response	Yip (2011), Ch 2-4
3a	**The Banking Reform in 2006-07 and its lessons for other emerging economies** • Importance of the reform • The reform: the 3-steps injection • The difference in experience between China and Vietnam: lessons for other emerging economies	
3b	**China's Foreign Reserves, Trade Surplus, Outward Foreign Investments and Overseas Assets** Foreign reserves and holdings of foreign assets: some misconceptions and its policy implications	

4	**China's Stock Market: The Stock Market Bubbles in 2006-08 and 2014-15, lessons for policy makers and stock investors** • The stock market bubble & its bursting in 2006-08 • Another stock market bubble and bursting in 2014-15 • Lessons for policy makers and stock investors; • Some objective indicators for stock investment, and their applications; • The characteristics of the seeding stage, the development stage and the final stage of an asset bubble, its implications for policy makers and asset investors.	Yip (2011), Ch 8, and Yip (2019)
5	**China's Property Market: The causes and consequences of high real property prices in China** • The high real property price in China • The market structure of China's Housing market: barrier of scale, cumulative dynamic efficiency, the formation of informal cartel through developers' common adoption of the industrial practice of high gross profit margins • Microeconomic pains: why it could be disastrous to let free market force to guide China's property market under the imperfect setting, the role of informal cartel, indicator effect and wealth inequality • Macroeconomic costs and systemic risk: role of developers' hoarding and pricing power on the formation and bursting of property bubbles, • The Recommended Solution	Yip (2011), Ch 9-10
6a	**China's fiscal and monetary policies I**: The global financial crisis in 2008-09, and China's ultra-expansionary fiscal and monetary policies to offset the impacts of the global financial crisis on the Chinese economy	Yip (2011), Ch 11, and Yip (2019)
6b	**The renminbi crisis** in 2015-16 and another two renminbi crises during the two episodes of Sino-US Trade War in 2018 and 2019	Additional reading materials
7a	The Thucydides' Trap and the Sino-US Conflicts, the Tariff War in 2025	Lecture Notes
7b	The One Belt One Road Initiative and its economic and political impacts, why the Chinese Government forbids the CK Hutchison Holdings to sell its 43 ports to the BlackRock-led Group in 2025.	Additional reading materials

8	China's fiscal and monetary policies II: China's property-firm crisis and the subsequent recession in 2021-25, the limitation of fiscal policies and the importance of monetary policies, the Doctrine of Impossible Trinity and the pre-condition for the use of monetary policy to stop the crisis from spreading, and lessons for the future; The Internationalization of RMB: The Triffin Dilemma and its implications	Additional reading materials

Textbook, reference book and supplementary reading materials

Yip P.S.L. (2011), China's Exchange Rate System Reform and Macroeconomic Policies: Lessons for Macroeconomic Policy Management, Scientific World: Singapore.

Yip Paul S.L. (2016), China's Exchange Rate System Reform: Two Potential Mistakes and the Recommended Long-Term System, *Singapore Economic Review*, Vol. 61, No. 2, 1640025, pp.1-40.

Yip P.S.L. (2019), From the Global Financial Tsunami to the Property Bubbles in Asia: The Need for a New Discipline in Macroeconomic Management, Scientific World: Singapore.

+ updated supplementary reading materials and list of policy recommendations published in the Hong Kong Economic Journal.

Academic Integrity

Please read the information on academic integrity carefully and follow the instruction: Link. You should be familiar with Academic Honor Code and the content on Academic Integrity website.