

ECON 6130F International Finance

MSc in Economics, HKUST - Fall 2026

Saturdays, August 29–October 17, 9:00 a.m.–12:20 p.m. LSK1007

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This syllabus is subject to reasonable revision. Changes will be announced in class and on the course learning-management system.

Course Description

This is a graduate course in open-economy macroeconomics. The course introduces the principal models used to study current accounts, real and nominal exchange rates, international asset markets, monetary policy, trade policy, and global currencies. We will develop the core theory, connect it to international evidence, and discuss the message coming from recent research papers. The course consists of eight three-hour meetings.

Prerequisites

The course is designed for students in the HKUST MSc in Economics program. Students will benefit more if they have had some exposure to undergraduate courses in macroeconomics, international finance, or international trade.

Learning Objectives

By the end of the course, students should be able to:

- understand balance-of-payments and international-investment-position accounts;
- solve and interpret standard inter-temporal open-economy models;
- evaluate evidence on real and nominal exchange rates, UIP, and CIP;
- analyze monetary and trade policy in sticky-price open-economy models; and
- explain the macroeconomic role of dominant and reserve currencies.

Assessment

Question sheets. There will be two assessed question sheets, worth 12% each. They will emphasize the models and evidence developed in lectures and readings, and may require algebra, diagrams, economic interpretation, and short computational exercises. Students may discuss general approaches with classmates, but each student must prepare and submit an independent set of answers.

Midterm examination. The in-class midterm will take place on Saturday, September 19. It will cover material taught in the first three meetings.

Final examination. The cumulative final examination will be held at a date, time, and venue set by the University.

Component	Weight
Question Sheet 1	12%
Question Sheet 2	12%
Midterm Examination	36%
Final Examination	40%
Total	100%

Assessment Dates

Assessment	Date	Timing
Question Sheet 1	Saturday, September 12	Due on the third Saturday
Midterm Examination	Saturday, September 19	In class on the fourth Saturday
Question Sheet 2	Saturday, October 3	Due on the sixth Saturday
Final Examination	University schedule	Date and venue to be announced

Examination Policy

Examinations are closed book. No electronic devices or other materials may be used. All examinations are governed by the current [HKUST examination regulations](#).

A student who cannot attend the midterm because of documented extenuating circumstances must contact the instructor promptly. If the absence is approved, the midterm weight will be transferred to the final examination.

Academic Integrity and Use of AI

Students must comply with the HKUST Academic Honor Code and the University's [Regulations for Student Academic Integrity](#). Submitted work must be the student's own, and all sources and permitted assistance must be acknowledged. Unauthorized collaboration, fabricated data or references, plagiarism, and the use of unauthorized materials in an examination are academic misconduct.

Generative AI tools may be used for private study, brainstorming, or feedback unless the instructor gives different written instructions. They may not be used to generate answers submitted for credit on the question sheets, and they are prohibited in the midterm and final examinations. Any specifically authorized use must be disclosed and attributed. Students remain responsible for the accuracy, originality, and confidentiality of their work and should follow the [HKUST generative AI usage guidelines](#).

Text Books and Readings:

I will upload notes for each week of the class in advance. These notes form the backbone of the course, and the key prerequisite for success on the question sheets and the midterm, and final is that you understand the notes. This should be your main focus in reading for the course. From the notes, you can branch out to focus on the required readings for the course (as documented below). It is important to realize however that the notes are not totally complete in explanations - they will be accompanied by more detailed explanations in the class time, so you should plan on combining the notes with the class lectures. The notes have been proofread and corrected, but it is inevitable that there will be some typos. I will ask students to inform me and other students about typos using the public messaging facility on Canvas, so that I can make the corrections as quickly as possible.

There is no required textbook for the class, but *International Macroeconomics*, Schmitt Grohe, Uribe, and Woodford, 2022 Princeton University Press is a very good and relevant reference text. This book is available on Amazon. An older, public version in pdf form is also available at [International Macroeconomics](#). This has most of the substantive content of the published version, but some of the examples are outdated, and some additional material is not included. This is the book most connected with the structure of this course, and you should plan on reading the assigned chapters. The lecture notes will not be directly taken from this textbook, but a lot of the content of the notes will follow the format of the text. One more issue however is that there are two pdf versions of this manuscript. The newest one, with the link above, is missing two chapters that were in an earlier version, and which you should be able to read. Here is a link to the older version [SUWb](#). Except for Chapters 14 and 15, you should use the newer version.

A second book in manuscript form is [International Macroeconomics: A Concise Introduction](#), by Gregor W. Smith (GS). This book covers much of the material that we will be discussing in a very accessible form and we will use it for some of the reading assignments.

Robert Feenstra and Alan Taylor's International Macroeconomics 2021, or latest edition, MacMillan publishers (FT) This is good undergraduate text which has extensive discussion of concepts and some chapters (see below) are very useful as supplementary material for the lectures. An older edition here [2011 edition](#).

Other references:

Foundations of International Macroeconomics, OR, [Obstfeld and Rogoff](#), MIT Press, 1996.

This book is dated, but still a classic. The technical level is above that of our course. But it is a well written text by two of the leaders in the field, full of insights and historical coverage of the development of open economy macroeconomics.

Open Economy Macroeconomics, SU, Schmitt Grohe and Uribe, Princeton University Press, 2017.

This is a book by the same authors as the textbook (except one), and not to be confused with the required textbook. It is an advanced coverage, but it is comprehensive and very well written, with many excellent practice questions. We will be referring to some of the more accessible chapters in this book.

Lectures in International Finance, [Zhengyang Jiang](#), 2025.

This is also an advanced series of lecture notes on international finance by a current professor at Northwestern. It is mostly beyond the level we will be covering in class, but some parts are worth looking at.

Some links may be restricted behind a paywall. Students should use the HKUST Library's electronic resources where required. Required and optional readings will be identified in class.

Eight-Meeting Course Outline and Readings

1. Introduction: Balance of Payments, International Investment Positions, and Global Imbalances

SUW, Chapter 1.

Pierre-Olivier Gourinchas, Hélène Rey, and Maxime Sauzet, “[The International Monetary and Financial System](#),” 2019.

International Monetary Fund, [Understanding Global Imbalances](#), Policy Paper No. 2026/006, 2026.

2. The Intertemporal Current Account: Saving, Investment, and Fiscal Policy

OR, Chapters 1 and 3; SU, Chapters 2–3; SUW, Chapters 2–7 (selected sections).

[Global Imbalances, Industrial Policy and Tariffs](#) Gourinchas, Kindberg-Hanlon, Patnam, Rotunno, Ruta, IMF. 2026

3. Real Exchange Rates: PPP, Productivity, and External Adjustment

OR, Chapter 4; SU, Chapters 7–8.

SUW, Chapter 8

Oleg Itskhoki, “[The Story of the Real Exchange Rate](#),” *Annual Review of Economics*, 2021.

Martin Berka, Michael B. Devereux, and Charles Engel, “Real Exchange Rates and Sectoral Productivity in the Eurozone,” *American Economic Review*, 2018.

4. International Asset Markets: UIP, CIP, Currency Premia, and Financial Intermediation

SUW, Chapter 8.

Wenxin Du, Alexander Tepper, and Adrien Verdelhan, “Deviations from Covered Interest Rate Parity,” *Journal of Finance*, 2018.

Wenxin Du and Jesse Schreger, “[CIP Deviations, the Dollar, and Frictions in International Capital Markets](#),” 2021.

5. Nominal Exchange Rates: Fundamentals, Expectations, and Exchange-Rate Disconnect

SU, Chapter 11; SUW, Chapter 12.

Jiang, Chapter 1

Feenstra and Taylor, Chapter 2

Oleg Itskhoki and Dmitry Mukhin, “Exchange Rate Disconnect in General Equilibrium,” *Journal of Political Economy*, 2021.

Oleg Itskhoki and Dmitry Mukhin, “What Drives the Exchange Rate?” *IMF Economic Review*, 2023.

Charles Engel and Steve Pak Yeung Wu, “Exchange Rate Models Are Better Than You Think,” 2024.

6. Sticky-Price Open-Economy Models and Monetary Policy

SU, Chapters 9.

Jordi Galí and Tommaso Monacelli, “Monetary Policy and Exchange Rate Volatility in a Small Open Economy,” *Review of Economic Studies*, 2005.

Xavier Gabaix and Matteo Maggiori, “International Liquidity and Exchange Rate Dynamics,” *Quarterly Journal of Economics*, 2015.

7. Fixed versus Flexible exchange rates, The Optimal Currency Area, and Capital Controls

SU, Chapters 9.

Smith, Chapter 10.

Feenstra and Taylor, Chapter 8

Fukui, Nakamura and Steinsson, “The Macroeconomic Consequences of Exchange Rate Depreciation”, Quarterly Journal of Economics, 2025

8. Global Currencies: Dominant Currency Pricing, Dollar Privilege, and the International Monetary System

Gita Gopinath and Oleg Itskhoki, [“Dominant Currency Paradigm: A Review,”](#) 2022.

Jiang, Krishnamurthy, Lusting, and Richmond, [Dollar Erosion: Understanding the Loss of Reserve Currency Status](#) 2025

[Financial Interdependence and Currency Internationalization](#), Zhengyang Jiang, 2026