

Hong Kong University of Science and Technology  
 Department of Economics  
 ECON3143 Macroeconomic Theory II  
 Spring 2023

Course Outline

Tue/Thu 15:00-16:30 (CYT-G002)

Course Website: <https://canvas.ust.hk/courses/48497>

	Instructor	Teaching assistant
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## 1 Course Description

Macroeconomics is the study of the behavior of the aggregate economy over time — in terms of the improvement in living standards (known as “economic growth”) in the long run and the ups-and-downs in economic activities (known as “business cycles”) in the short and medium runs, as well as the role of government (especially “fiscal” and “monetary”) policies in stimulating growth and stabilizing cyclical fluctuations. To address issues of growth, cycles, and macro policies, we need a theoretical framework that would allow us to tie together all the markets (e.g., markets for labor, goods, and financial assets) in the macroeconomy and their corresponding quantities (e.g., employment, output, and money) and prices (e.g., wage rates, the general price level, and interest rates).

In Macroeconomic Theory I (ECON3123), you have learned the *AD-AS* model, where *AD* (aggregate demand) is derived from a sub-model for the goods and money markets known as *IS-LM* and *AS* (aggregate supply) is related to the Phillips Curve *PC* via wage-setting; that is why it is also called the *IS-LM-PC* model. The model is applied to study business cycles and macro policies.

In Macroeconomic Theory II (ECON3143), we shall provide the microeconomic foundations behind the *AD-AS* or *IS-LM-PC* framework, in order to transform it into a formal dynamic stochastic general equilibrium (DSGE) model that can be used to answer more thoroughly questions regarding long-run growth, short/medium-run fluctuations, fiscal and monetary policies, as well as open-economy issues such as current-account and exchange-rate dynamics.

## 1.1 Course Objectives

1. To examine key macroeconomic questions by introducing the dynamic general equilibrium model based on solid microeconomic foundations.
2. To help students develop the necessary analytical concepts and tools to analyze current macroeconomic events and their impact on the business environment and the economy.
3. To enable students to understand and evaluate the effects of various government policies on the business environment and the economy.
4. To encourage students to think critically and creatively when making effective economic decisions and policy recommendations supported by rigorous macroeconomic theories and analytical and quantitative techniques.
5. To provide a bridge between UG-level macroeconomics and Master/PhD-level macroeconomics, laying solid foundation for students interested in graduate studies in economics.

## 1.2 Pre-requisites

This course is for BSc degrees in Economics (including ECOF and MAEC students). It is also available to other students as permitted by the regulations.

- ECON3123 (Macroeconomic Theory I) or an equivalent intermediate macroeconomics course.
- ECON3113 (Microeconomic Theory I), which is also a prerequisite for taking ECON3123 (Microeconomic Theory II), according to a curriculum change effective since Fall 2021.<sup>1</sup> Please refer to the following website for the suggested study pathway:

[http://www.bm.ust.hk/econ/programs-n-courses/ugprograms/ecof/curriculum/bsc2019-2020\\_fall2021](http://www.bm.ust.hk/econ/programs-n-courses/ugprograms/ecof/curriculum/bsc2019-2020_fall2021)

## 1.3 Lecture notes & references

[Yuen] *Lecture notes on macroeconomic theory*

– downloadable from <https://canvas.ust.hk/courses/48497>

[GLS] Garin, Julio, Robert Lester, and Eric Sims (2021). *Intermediate Macroeconomics*, unpublished manuscript, 2021

– available at [https://www3.nd.edu/~esims1/gls\\_textbook.html](https://www3.nd.edu/~esims1/gls_textbook.html)

[SUW] Schmitt-Grohe, Stephanie, Martin Uribe and Michael Woodford, *International Macroeconomics*, Princeton University Press, 2022.

– chapter slides available at [www.columbia.edu/~mu2166/UIM/](http://www.columbia.edu/~mu2166/UIM/)

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<sup>1</sup>This requirement will be waived for two years of the transition period until Spring 2023.

## 1.4 Topics & corresponding chapters in the reference books

- Robinson Crusoe economy [Yuen-1]
- Microfoundation of macroeconomics [GLS, chapters 9, 11, 12]
- Economic growth [GLS, chapters 4-7]
- Business cycles [GLS, chapters 18-20]
- New Keynesian *IS-LM* / *AD-AS* model [GLS, chapters 24-25]
- Financial activities and monetary policy [GLS, chapters 34, 36, 37]
- Current-account dynamics [SUW slides, chapters 2-4; if time permits]

## 1.5 Grade composition

- **Homework:** 20%
  - problem sets to be done on a *group* basis (with at most 3 members each)
  - late submission will NOT be accepted
- **Midterm test:** 30%
  - to be held on March 30 (Thu) evening
  - no make-up under “all” circumstances
- **Final exam:** 50%
  - cumulative

## 1.6 Course Delivery

This course is delivered through lectures and tutorials. Students attend two 80-minute lectures per week. Please try to attend all lectures and participate actively in class discussions. Tutorials will be given on a weekly basis. University calendar:

[http://registry.ust.hk/calendar\\_\\_dates/dates22-23confirmed.pdf](http://registry.ust.hk/calendar__dates/dates22-23confirmed.pdf)

Q&A sessions will be scheduled outside of regular class hours before the mid-term and the final, but attendance is optional.

The roles of the following teaching & learning activities in the course & the corresponding SILOs are listed below.

- **Lectures:** Explain key concepts and their applications; use cases and examples to build student’s critical and analytical ability [SILOs: 1,2,3,4,5,6]
- **Tutorials:** Review and further illustration on important topics; practice problem-solving; encourage discussion and participation [SILOs: 1,2,3,4,5,6]
- **Homework assignments:** Enhance understanding of course materials and their applications through practice [SILOs: 1,2,3,4,5,6]

## 1.7 Learning Outcomes: School Intended Learning Outcomes (“SILOs”)

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

1. Have general knowledge in macroeconomics. Describe the main questions in macroeconomics and the main components of standard macroeconomic theories. Understand the determinants of economic growth and drivers of business cycles, as well as the role of economic policies in promoting long-run growth and stabilizing short-run fluctuations. (SILO #1.1, #1.2, #4.1, ILO1)
2. Apply macroeconomic concepts, principles, and models to analyze economic phenomena, conduct economic analysis of the economy and society, and carry out independently applied research in macroeconomic problems. (SILO #3.1, #3.2, #4.2)
3. Analyze qualitatively and quantitatively basic macroeconomic problems, apply knowledge to practical situations and make sound economic decisions, and adapt to changes in business and social environments and professional requirements.
4. Communicate effectively in oral and written English. (SILO #2.1, #2.2, ILO2)
5. Locate, gather, organize, and use appropriate information for macroeconomic studies. (SILO #7.1, #7.2, ILO3)
6. Demonstrate an understanding of the determinants of long-run growth and economic fluctuations and their application to policy analysis and evaluation. (SILO #1.1, #4.1, ILO4)
7. Apply macroeconomic theories to analyze macroeconomic issues and effects of conventional and unconventional monetary policies, fiscal stimulus, and current-account imbalance. (SILO #6.1, #6.2)

For details of SILOs, please refer to

<http://undergrad.bm.ust.hk/academics/academic-programs/learning-outcomes>

## 2 Other important matters

### 2.1 Academic Honesty and Integrity

Academic integrity and honesty are key values of HKUST. Please read the information on academic integrity carefully. It is your responsibility to familiarize yourself with the HKUST Academic Integrity and Honor Code (<http://www.ust.hk/vpao/integrity>) and the content on the Academic Integrity website (<http://ugadmin.ust.hk/integrity/regulations-1.html>). The Code will be STRICTLY enforced. Any violation will be reported to the University WITHOUT EXCEPTIONS.

## 2.2 Class Etiquette

You are expected to be punctual for both lectures and tutorials. I will start and end the lecture meetings on time. You are welcome to bring your laptop or other devices to lectures for learning purposes. Respect others and avoid any disturbance due to side conversations, Internet surfing, emails-checking, or instant-messaging during lecture time. No eating in class at any time.

- Please read the following file for good learning environment:

[https://drive.google.com/file/d/1Dx8\\_zdqBkeBGyRjo1AUoJtUtMnOSmFPV/view?usp=sharing](https://drive.google.com/file/d/1Dx8_zdqBkeBGyRjo1AUoJtUtMnOSmFPV/view?usp=sharing)

- Please read the following link for regulations of student conduct:

[https://acadreg.ust.hk/A\\_Regulations\\_for\\_Student\\_Conduct\\_20190219.pdf](https://acadreg.ust.hk/A_Regulations_for_Student_Conduct_20190219.pdf)

## 2.3 “Netiquette” Statement on Internet Communication

- Remember your audience. If you would not say it in a face-to-face classroom, do not include it in the online discussions either. Consider what you write, as it is a permanent record and can be retrieved easily. Use courtesy and common sense in all your electronic communications.
- DON'T TYPE IN ALL CAPS. This is hard to read and is considered “shouting.”
- Respect the opinions of others and be sensitive to the diverse nature of people in the class. Keep in mind that although you cannot "see" your classmates, you can show respect for individual differences. Diversity issues may include the following and others: race, ethnicity, religion, disabilities, gender, sexual orientation, age, social class, marital status, urban vs. rural dwellers, etc.
- No profanity will be allowed. This includes writing in punctuation. For example, ##%\$#! is considered profanity and is not permitted. Also, language expressed in inappropriate acronyms is not acceptable.

## 2.4 Final Notes

Student feedback is essential for course improvement. I encourage continuous teaching evaluation. At any time during the semester you may orally or anonymously (e.g., via campus mail, or slip a note under my office door) give me an evaluation of my performance. This evaluation may include (but not be restricted to) the following:

- things that you like;
- things that you dislike; and
- suggestions for improvement.