

HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY



Department of Economics

ECON 4999Z

(4 Units)

GLOBAL MACROECONOMICS & INTERNATIONAL INVESTMENT STRATEGY (Fall, 2025-26)

INSTRUCTOR

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CLASS SCHEDULE

Lecture times are Monday and Wednesday 12-1:20pm in Room 2302 (Lift 17-18). Tutorials are Wednesday 9:30-10:20am in Multi-function Room LG4, LIB. Teaching mode is “face to face”.

COURSE DESCRIPTION

This course has two purposes, blending theory and practice. The first is to deepen understanding of open economy macroeconomic theory from simple reduced form models to micro-founded macroeconomic models with greater sophistication. The second purpose is to explain the crucial role that macroeconomics plays in the behaviour of asset markets. Using a general equilibrium approach we examine topics such as: current account sustainability and China-US bilateral trade imbalances, models of exchange rate determination, capital market integration, balance of payment crises, hyperinflation, in models of small and large open economies, with treatment of both flexible and fixed exchange rate regimes. The second part of this course emphasizes the link between macroeconomics and asset markets. After an introduction to asset valuation, we apply a multi-asset approach to global markets, with a particular focus on Asia-Pacific equity markets. The use of data, via such as factor analysis and the interpretation of economic and market related indicators, is presented. Real world examples, together with finance industry samples of macro investment strategy research, taken from your instructor’s investment banking experience, are utilized in this course.

PREREQUISITES AND ASSUMED KNOWLEDGE

Pre-requisites for this course are ECON 3014 or ECON 3113 (Microeconomics) and ECON 2123 or ECON 3123 (Macroeconomics). Knowledge of multivariable calculus is assumed.

COURSE INTENDED LEARNING OUTCOMES (CLIO's)

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

- (1) The determination and theory of the current account and explanations for trade imbalances, including the contemporary bilateral US-China imbalances. **(PILO 1, 3)**
- (2) Theory of exchange rate determination using various modelling frameworks. **(PILO 1)**
- (3) The theory of small open economy and large economy models in a general equilibrium framework for understanding the impact of productivity shocks, trade policy and terms of trade shocks on key macroeconomic variables and ultimately on asset markets. **(PILO 1)**
- (4) The cause of hyperinflation and Balance of Payments crises in a monetary model. **(PILO 3)**
- (5) Macro-financial analysis of equity and bond markets and understanding the impact of economic policy and economic shocks on the expected performance of different asset classes. **(PILO 1, 2, 3)**
- (6) The methodology of a practical investment process focused on Asian equity markets. **(PILO 2, 3)**
- (7) Factors leading to a concrete investment opinion on equities, bonds and foreign exchange markets based on macroeconomic inputs in a group project. **(PILO 2)**

RECOMMENDED LEARNING RESOURCES

There is no required textbook. A useful reference book at advanced undergraduate level is: Schmitt-Grohe, S., Uribe, M. and Woodford, M. (2022), *International Macroeconomics: A Modern Approach*. Princeton University Press. For a revision of junior and intermediate level macroeconomics and an introduction to finance concepts, I recommend Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, 12th edition, Global edition, 2019 or recent editions. Additional references will be provided during the course. Additional resources including industry macro and investment strategy reports will be used in class, along with journal articles.

PROBLEM SETS , TUTORIALS & GROUP PROJECT

There are no assessable individual assignments in this course. However, there are problem sets to help digest lecture content and to help prepare for the exams as “practice questions”. Tutorials will be used to clarify class material, conduct class presentations and to go over practice questions. Tutorials will not be held each week but will be announced in CANVAS announcements. There is a group project where students will choose an economy and be asked to analyze the macro environment and make a prediction about the performance of equity, bond and foreign exchange markets. The project will be worth 20% of final grade plus a 5% peer evaluation score to encourage full participation.

CHAT GPT POLICY

CHAT GPT and other AI tools are permissible in group assignments but not in other assessment including exams. If AI tools are used then they must be cited, including the app and prompts used. Simply copying and pasting AI generated content is a violation of academic integrity policy.

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 5% of your total grade.

RUBRICS FOR FINAL GRADE

- Excellent Performance (A range): Demonstrates a deep understanding of the economic and finance tools covered in the course. Exhibits excellent analytical ability in understanding reduced form and micro-founded models. Excels in applying theory to contemporary economic challenges and investment decision making. Performs very well in class participation and in the group project, midterm and final exam.
- Good Performance (B range): Shows a solid grasp of the economic and finance tools and macro models covered in the course. Demonstrates a solid ability to apply theory to real World events and investment decision making. Performs well in class participation and in the group project, midterm and final exam.
- Marginal Performance (C, D range): Has basic knowledge of the macro-finance skills in the course, together with practical application. Shows limited skills in utilizing them. Acceptable performance in the group project with limited class participation and has a solid performance in the exams.
- Fail: Demonstrates insufficient understanding of the macro-finance techniques covered in the course. Lacks skills in utilizing them in real world examples. Unsuccessful in the group project with little or no class participation

ASSESSMENT SCHEME

Task Nature	Description	Weight
Final Exam	Examines all topics covered in the course	45%
Midterm Exam	Examines all topics up to Lecture 7	25%
Group Project	Group Presentation (PowerPoint) on applied macro and investment strategy on a chosen economy and asset market, and an investment banking style brief report	20%
Peer Evaluation	Individual contribution to Group Work	5%
Class Participation	Constructive Participation in Class	5%

EXAMINATIONS

The midterm exam will be held during the week of October 20. The location and exact timing will be confirmed early in the semester. The exam duration is 2 hours. The final will be held during the centralized examination period with the exact details announced later in the semester in class. Examinations will consist of short-answer questions and multiple choice questions. There will NOT be make-up exams. If you miss the midterm exam for a valid, pre-approved reason, alternative assessment may be arranged. **Do not miss the final.** Any legitimate exam time conflicts must be documented in writing (can be sent by email) and submitted to me or the TA at least **4 weeks before the exam** for approval. 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. The mid-term exam is worth 25% and the final exam is worth 45% of your final grade.

COURSE SCHEDULE

This is a tentative schedule subject to adjustment based on class progress and course improvement.

Lecture	Date	Topics ¹	Reference ²
1	Sep 1	Admin, Motivation and Introduction to Global Imbalances – Global data on trade, current account, and financial account imbalance, including US-China imbalances.	Ch.1, Course Notes
2	Sep 3	Guest Speaker (Asian Markets) – Mr. Thomas Taw (Blackrock, Head of Investment Strategy EII APAC) and Intro to Global Imbalances (Continued)	Ch. 1 Course Notes, Speaker Notes
3	Sep 8	Current Account Sustainability – We explore the sustainability of a CA or trade deficit in a 2-period model and discuss whether the United States can run a trade deficit or current account deficit indefinitely.	Ch. 2, Course Notes.
4	Sep 10, 15, 17	Current Account in a Production Economy – We build a small open economy to analyse optimal behaviour of households and firms in a 2-period dynamic general equilibrium model. We study the impact of productivity shocks and terms of trade shocks on savings, investment and the current account.	Ch. 3,5
5	Sep 22, 29	Market Analysis I - Real Exchange Rate and Purchasing Power Parity - 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, including the role of non-tradable goods and trade barriers.	Ch. 9, Course Notes
6	Oct 6, 8	Market Analysis I - Exchange Rate Determination – Mundell Fleming (MF) and other practical reduced form exchange rate models. The MF model is a reduced form model of a small open economy that can be used to analyse the impact of trade, monetary and fiscal policy on the trade balance, the nominal exchange rate and real GDP under fixed and floating exchange rate regimes. We also study a practical short-run demand/supply model of FX.	Ch.18-19*, Course Notes
7	Oct 13, 15	Large Open Economy Model – A micro founded 2-country model to analyse the international transmission of country-specific shocks and the impact of country size on global interest rates.. We take the US as a large economy and attempt to explain the US current account deficit.	Ch. 7. Course Notes
8	Oct 20	<i>Midterm Exam</i> ³	<i>Lectures 1-7</i>
9	Oct 22, 27, Nov 3	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.	Course Notes, Ch. 15
10	Nov 3, 5, 10	Market Analysis II - Bond Markets, Macro Strategy and Capital Market Integration. After addressing bond	Ch 4-6*, Ch.11

¹ Additional references may be provided for certain topics on CANVAS or in class.

² References are for Schmitt-Grohe, S., Uribe, M. and Woodford, M. (2022). If * then Mishkin (2019).

³ The midterm exam will be during the week of October 20 at a time and location confirmed early in the semester.

		valuation we study the macro factors that shift bond demand & supply curves – sovereign and corporate. We examine the role of duration in macro investing and relate it to contemporary issues on bond investing. Finally, we examine covered and uncovered interest rate parity to help understand interest rate differentials across countries.	
11	Nov 12	Market Analysis III - An Introduction to Macro-focused Equity Investing. We examine the factors that impact equity demand and supply. We introduce some equity valuation theory such as the dividend discount model and the Gordon Growth model and explain the role that economic policy (monetary and fiscal) has on equity prices, using this methodology.	Ch. 7*, Course Notes
12	Nov 17	Market Analysis III - Inside an Asian Equity Strategy Investment Process – We provide a recipe for a global top down macro strategy and methodology. Macroeconomic inputs are taken alongside financial metrics such as valuation and earnings in a macro-focused investment process.	Course Notes, Industry Reports
13	Nov 19	Macro and Micro Thematics in an Asian Equity Strategy. The role of themes in a stock selection process and the broader use of themes in macro strategies.	Course Notes, Industry Reports
14	Nov 24	Macro Investing with Data – Role of factor analysis in equity investment and identification of key macro-finance indicators.	Course Notes, Industry Reports
	Nov 26	Guest Speaker (Role of ETF's in a Macro Investment Strategy) - Mr Aleksey Mironenko (Leo Wealth and Former Blackrock iShares) and Final Exam Preparation	Speaker Notes, Group Presentation Materials
	TBD	<i>Final Exam</i>	<i>Lectures 1-14</i>

ASSESSMENT TIMETABLE

Date	Topics
Sep 10	After Add-Drop Form Groups and Choose Economies
Oct 20	Midterm Exam
Oct 25	Group Meetings Online with Prof. Kitney
Nov 17	Submit Class Presentation
Nov 19	Class Presentations (in Tutorial)
Nov 26	Class Presentations (in Tutorial)
Nov 26	Macro Investment Report Due
TBD	Final Exam

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/vpao/integrity/>