



**Department of Economics
Hong Kong University of Science and Technology**

**Economics 3143
Macroeconomic Theory II
Fall 2021**

Lecture: Jenny Xu

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**Time and Venue: Mondays 03:00PM - 04:20PM
Fridays 10:30AM - 11:50AM**

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Please go to Canvas to find course related material.

Office Hours:

**Mondays, 3:00-4:00 pm
through Zoom or in my office**

Teaching Assistant: Astor Fok, *Email: ecastor@ust.hk*
Office Hour: TBA.
Office Number: 6066

Required Textbook: Blanchard, Olivier *Macroeconomics*, 7th Edition, Prentice Hall, 2017

Teaching Arrangements:

- Following the current university's **guideline** (<https://covid19info.ust.hk/teaching-arrangements-fall-term-202122>, Aug 9, 2021), the default teaching mode is **in-person on campus**.
- If any student cannot physically go back in Hong Kong after the add-drop period because of travel restrictions, the course will be conducted in the **mixed-mode lite**, which features **limited interaction with online students**.
- All **in-HK** students (students who are physically in HK), even if the course will be in mixed-mode, **according to the School policy, zoom class is not an option**. That means

they cannot attend the online class. However, class recordings (either RVC or Zoom recording) will be available for all students to review after class.

- Proctored midterm and final **exams** will be held **on campus** for all students, except those who cannot be in Hong Kong. For those students, we will have a simultaneous online exam with Zoom proctoring with the same set of questions.

Pre-requisites

This course is for BSc degrees in Economics. It is also available to other students as permitted by the regulations. Therefore,

1. Students are expected to have completed Econ 3123 or an equivalent intermediate macroeconomic course.
2. According to a curriculum change effective since Fall 2021, Microeconomic Theory I (ECON 3113) is a prerequisite for taking ECON 3123 and 3143. 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
3. This requirement will be waived for two years of the transition period until Spring 2023.

Course Description:

In Macroeconomics I (Econ 3123), we have studied the economies in the short and medium run. Specifically, we use the IS-LM model and the IS-LM-PC model to study how the output, the price level, and the employment are determined in the short-run and medium-run. We also examine the impact of various policies on the economy in the short run and in the medium run. In the short run, business cycles (fluctuations around the trend of growth) are important. However, in the long run, what dominates is not fluctuations, but growth. So the determinants of long-term economic growth, such as the role of capital formation and technological progress in long run growth are also investigated.

Having studied the economy in short run, medium run and long run, we have developed a basic framework for economics and policy analysis. However, to understand the real economy, we need to take uncertainty and expectations into consideration. Expectations play a major role in most economic decisions, and by implication, play a major role in the determination of output.

In this course, we will first introduce how expectation about future economic variables will affect the current consumption and investment decisions of household and firms, thus in turn leads to changes in the current output and prices. The role of financial market in this process will also be analyzed. We will find that after we introduce the role of expectation and uncertainty, many

conclusions regarding the monetary and fiscal policy we learn from Macroeconomics I need to be adjusted accordingly.

Another important and necessary extension, especially applicable to Hong Kong and the Asia-Pacific region, is to extend the study from closed economy to open economy models. How the openness in goods and financial market affect the output, price and exchange rate determination? Why some countries will adopt fixed exchange rate regimes, like Hong Kong, while others adopt flexible exchange rate regime. We will focus on issues like the exchange rate regime, the exchange rate determination, and the impact of monetary, fiscal and exchange rate policy in open economy.

Finally, if we still have time, we will go back to the policy analysis and tries to summarize what we learned about fiscal and monetary policy. We will also analyze some unconventional monetary policy that has been used by policy makers in the recent 2008 financial crisis.

PLEASE READ: Change of Curriculum starting from Fall 2021

From Fall 2021 there will be some changes of core curriculum for Econ 3123 and Econ 3143

- A) From Fall 2021, ECON3123 (Macroeconomic Theory I) will cover IS-LM-PC as well as expectation and open economy, using Blanchard, Olivier (2021), *Macroeconomics*, 8th ed., Pearson.
- B) From Spring 2022, ECON3143 (Macroeconomic Theory II) will cover more advanced topics than ECON3123, trying to provide a bridge between UG-level macroeconomics and Master/PhD level macroeconomics. A different (more advanced-level) textbook will be used for ECON3143. A tentative textbook for ECON 3143 for Spring 2022, is Barro, Chu, and Cozzi (2017), *Intermediate Macroeconomics*, Cengage.

Course Objective:

This course aims

- (i) to give an integrated view of macroeconomics by introducing role of expectation and open economy macroeconomics;
- (ii) to help students to develop the necessary analytical concepts and tools to analyze the current macroeconomic events and its impact on the business environment and the economy;
- (iii) to enable students to understand and evaluate the effects of various government policies on the business environment and the economy;
- (iv) to encourage students to think critically and creatively when making effective economic decisions and policy suggestions supported by macroeconomic theories and analytical and quantitative techniques.

Learning Outcomes

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

1. Have a general knowledge of macroeconomics. Describe the main questions in macroeconomics and the main components of standard Macroeconomic theories. Explain the impact of each key component and the consequence of including them; and critique the applicability of models.
2. Apply the 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.
3. Analyze qualitatively and quantitatively basic macroeconomic problems, apply your 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.
5. Locate, gather, organize and use appropriate information for macroeconomic studies.
6. Demonstrate an understanding of the determinants of long run growth and the role of expectation in modern macroeconomics models and its application to policy analysis and evaluation;
7. Apply macroeconomics model to analyze macroeconomic issues and effects of monetary and fiscal policies such as exchange rate regime choice, possible effects and causes of recent financial crisis, and stabilization policy effectiveness in an open economy context.

Teaching Approach

This course is primarily delivered through lectures, tutorials, and class discussion.

Teaching and Learning Activities	Roles in the Course	Course Learning Outcome addressed
Lectures with in class discussions	Explain key concepts and models to students	1, 2, 3, 4, 5, 6,7,8
Tutorials	Review basic model and concepts; Presenting answers to homework and exams; Review and introduction of empirical and quantitative tools; Presentation of Group Project;	3,4,5,7
Homework assignments and Essay Analysis	Practice problem solving, apply models to analyze current economic issues	3,4,5,6,7,8

Course Outline:

I Beyond the IS-LM: Uncertainty and Expectation

1. Financial Markets and Expectations (Chapter 14) -Week 1-2
2. Expectations, Consumption and Investment (Chapter 15) – Week 2-3
3. Expectation, Output and Policy (Chapter 16) - Week 3-4

II Exchange Rate and Open Economy

1. Openness in Goods and Financial Markets (Chapter 17) Week 4-6
We will have a midterm during class time in Week 6 or 7 (tentatively Friday, Oct. 15th, 2021).
2. Goods Market in an Open Economy (Chapter 18) Week 6-7
3. Output, the Interest Rate, and the Exchange Rate in the short-run (Chapter 19) Week 7-9
4. Exchange Rate Regimes (Chapter 20) Week 9-10

III Back to Policy

1. Fiscal Policy: A Summing Up (Chapter 22) Week 10-11
2. Monetary Policy: A Summing Up (Chapter 23) Week 11-12

Remark: Depending on our progress, we may or may not cover all these topics. The associated chapters in Blanchard are in parentheses, and I highly encourage you to read them entirely.

Grading Policy:

Problem Sets	-----	20%
Midterm	-----	30%
Final Exam	-----	45%
Class participation	-----	5%
Class participation	-----	3.5%
Tutorial Participation	-----	1.5%

1. There will be **four** Problem Sets. Problem sets should be handed in through Canvas online (when we have class online) or in hard copy to the assignment collection box on the due date.

In order to insure the timely posting of the answer keys, **no late problem sets will be accepted.**

2. Midterm is tentatively scheduled in class on Friday, **October 15th, 2021**. Venue to be announced later. There will be no lecture on **Oct. 15th, 2021**. There will be no make-up midterm exams. If for any reason, you cannot write the exam, please let me know in advance and the weight for the midterm will be shifted to the final.
3. Exams are closed book and closed notes. You can request a review of the grade within two weeks after the exam is returned to you. After that period grades can NOT be revised.
4. Class participation mark will depend on attendance, discussion performance (such as answering questions in class), and classroom conduct. Misconduct in class, such as late arrival, early leaving, chatting, surfing, and using mobile phones will result in losing part or all of class participation marks. For students who take class online, the class participation mark will be decided mainly based on online attendance and online class participation (such as answer questions in the poll or in chat box) during zoom class and zoom tutorial.

General Policies:

Lecture Notes: I will post power point slides for each chapter. However, during the lecture I will give more detailed explanation. Each student is responsible for lectures missed due to absences.

Academic Policy: Dishonesty or plagiarism will not be tolerated. Any student violating **HKUST Academic Integrity and Honor Code** (<http://www.ust.hk/vpao/integrity>) will be subjected to disciplinary procedure. Any student observed cheating on exams, or plagiarizing material, will receive an "X" for the course, to show that the grade resulted from cheating. This X grade stays with your record until graduation. If you cheat again and "earn" another X grade, you will be dismissed from the University.

Classroom Courtesy: Class discussions will be conducted in an orderly fashion. Late arrival and early leave will not be tolerated. You should ask for my permission first if you have any emergent situation to attend. If a student must enter the classroom after class has begun, please do so as quickly and quietly as possible. You are welcome to bring your laptop to class in order to take notes. However, since we use a lot of graphs for illustration, it is recommended that you write notes down. **Note that you may not engage in distracting behavior such as using your laptop to surf the Web, to check e-mail, or to do instant-messaging. Chatting or using mobile phones in class is not allowed either.** Violators will lose part or all class participation marks. I will also reserve the rights to ask violators to leave the class room or not allowing violators to write the exams.

Please read the following files for good learning environment.
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

No Make-up of Course Requirements: No make-up examinations will be administered except under very unusual circumstances. If something prevents you from attending an exam or from turning in an assignment on time, you should notify me, and we can make alternative arrangements **BEFORE** the exam or class period during which the assignment is due. Note that outside activities or more than one exam in a day are not acceptable excuses for missing an exam or turning in an assignment late. (Please plan accordingly!) If I am not contacted in advance, where possible, I will reserve the right to assign a failing grade for the exam missed.

Student Counseling: Students who are experiencing difficulty with the course should visit the instructor during office hours or by appointment.

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 could include the following headings: 1) Things that I like; 2) Things that I dislike; and 3) Suggestions for improvements.