International Monetary Economics
Course code: GLEF 3010
Chinese University of Hong Kong

Spring 2015

Professor LIU, Qing (CYT 1313)
Email: qing.liu.hz@cuhk.edu.hk
Lecture: Friday, 8:30 – 11:00AM
Classroom: Chen Kou Bun Bldg UG04
Office hour: Friday, 11:15 – 12:30, or by appointment

Teaching Assistant, TA Email and TA Office Hours:
CHEN, Jianghui; georgechen0810@gmail.com
Office hour: TBA
Tutorial: TBA

Course Objectives
The aim of this course is to provide students with an understanding of the principles and applications of international macroeconomics, so that students will be better equipped to analyze issues related to international monetary system. The course develops a framework for the analysis of the balance of payments, the determinants of international capital movements, trade imbalances, and nominal and real exchange rates. The framework can be used as the basis for the discussion of policy issues such as the emergence of the U.S. as the largest foreign debtor, the developing country debt crisis of the 1980s and the current European debt crisis, exchange-rate-based inflation stabilization, currency unions, debt default, balance-of-payment crises, and the effect of the great recession of 2008 on the world economy.

Learning Outcomes
The lectures will focus on developing a coherent analytical framework for thinking about the fundamental problems in international macroeconomics. After taking this course, the students are expected to develop a good grasp of both the analytical tools and the relevant policy issues.

Useful Books
We will mainly use the following textbooks:

Grading Policy:

There will be ONE **final exam** that focuses on the theory part of lectures (*Exams are closed book and notes*). Several problem sets will be distributed regularly during the course. These exercises are essential adjunct to the lecture material, and will assist you in preparing for the exams, therefore, it is important to work on them carefully and to attend the tutorial session, during which the TA will go over the difficult problems. You are required to print, sign, and hand in the declaration of honesty together with your homework every time you turn in your homework. The declaration of honesty is available at: [http://www.cuhk.edu.hk/policy/academichonesty/](http://www.cuhk.edu.hk/policy/academichonesty/). Please note that **NO** late submission of the assignments will be accepted.

Besides the assignments and exams, you are also expected to give a presentation in class. This project can be done in a group. The entire class will be divided into 15 teams (or less, depending on the size of the class) after the Third week. We will assign you the topics for presentation. You are encouraged to talk to me or our TA regarding the topics that you are interested in.

**Date for Presentation:** Last week of Classes (two sections).

The final grade will be based on students’ performance on the assignments, project and exams. The preliminary marking scheme is planning as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignments</td>
<td>10%</td>
</tr>
<tr>
<td>Group project</td>
<td>30%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>60%</td>
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</tbody>
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**Exam Schedule**

- **Final Exam:**
  - April 10, 2015
  - In-class exam

**Team Presentation**

- **The last week** (Two sessions)
  - April 17, 2015
  - 8:30 – 13:00
Course Outline (Tentative, subject to changes)

1. Syllabus Overview and Introduction to the International Monetary Economics

2. Perspectives on Global Imbalances and Current Account Sustainability
   - The National Income Account
   - Balance-of-Payments Accounting
   - Current Account Sustainability

   - Exchange Rates and International Transactions
   - The Foreign Exchange Market
   - Interest Rates, Expectations, and Equilibrium
   - Forward Exchange Rates and Covered Interest Parity

4. Money, Interest Rates, and Exchange Rates
   - Individual and Aggregate Money Demand
   - The Equilibrium Interest Rate: The Interaction of Money Supply and Demand
   - The Money Supply and the Exchange Rate in the Short Run
   - Money, the Price Level, and the Exchange Rate in the Long Run
   - Inflation and Exchange Rate Dynamics

5. Price Levels and the Exchange Rate in the Long Run
   - The Law of One Price, Purchasing Power Parity
   - A Long-Run Exchange Rate Model Based on PPP
   - Empirical Evidence on PPP and the Law of One Price
   - Explaining the Problems with PPP
   - Beyond Purchasing Power Parity: A General Model of Long-Run Exchange Rates
   - International Interest Rate Difference and the Real Exchange Rate
   - Real Interest Parity

6. Output and the Exchange Rate in the Short Run
- Short-Run Equilibrium for an Open Economy
- Inflation bias and Other Problems of Policy Formulation
- Macroeconomic Policies and the Current Account
- The IS-LM Model and the DD-AA Model
- Intertemporal Trade and Consumption Demand

7. Fixed Exchange Rates and Foreign Exchange Intervention
- How the Central Bank Fixed the Exchange Rate
- Stabilization Policies with a Fixed Exchange Rate
- Managed Floating and Sterilized Intervention
- The Timing of Balance of Payments Crises and Capital Flight

8. Macroeconomic Policy and Coordination under Floating Exchange Rates
- The Case for Floating Exchange Rates
- The Case against Floating Exchange Rates
- A Two-Country Model of Macroeconomic Interdependence under a Floating Rate
- What Has Been Learned Since 1973?
- Are Fixed Exchange Rates Even an Option for Most countries?

9. (optional) Issues on The International Monetary System (for discussion and presentation)
- The Bretton Woods System and the International Monetary Fund
- Optimum Currency Areas and the European Experience
- Developing Countries: Growth, Crisis, and Reform
- The Exchange Rate Systems in Hong Kong

***The instructor reserves the right to make revisions to the syllabus***