



香港中文大學
The Chinese University of Hong Kong

GLEF 4010- China and Global Economy

2023-24 Term 1

Course outline

Instructor: Dr. Paul YIP, Sau Leung

Time: Thu 14:30-17:15

Office Hours: by appointment

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COURSE DESCRIPTION

This course is designed as an up-to-date course that will equip our students with the appropriate analytical framework and updated knowledge on China and the Global Economy. The course will cover the following macroeconomic and political issues in China and the Global Economy:

- China and the global economy before and after the economic reform in 1978;
- Import substitution strategy, export promotion strategy and the gain from trade;
- The Twin Deficit in the US and the Twin Surplus in China;
- The US pressure for major RMB revaluation;
- China's exchange rate system reform since July 2005;
- China's banking reform in 2005-06, and its lessons to other emerging economies;
- Implications of the reforms on the Strong China Route with high GDP growth, low unemployment rate, huge trade surplus, rising foreign reserves, ongoing accumulation of overseas assets and low risk of currency crisis;
- China's trade, foreign investment, balance of payment and foreign reserve management policies since 2006;
- The stock market bubble and its bursting in 2006-08, another stock market bubble and its bursting in 2014-15, lessons for policy makers and stock investors;
- Some objective indicators for stock investment, and their applications;
- The characteristics of the seeding stage, the development stage and the final stage of an asset bubble, its implications for policy makers and asset investors;
- The causes and consequences of high real property prices in China: microeconomic pains, macroeconomic risk, and the recommended solution;
- The global financial crisis in 2008-09, and China's ultra-expansionary fiscal and monetary policies to offset the impacts of the global financial crisis; and
- The renminbi crisis in 2015-16 and another two renminbi crises during the two episodes of Sino-US Trade War in 2018 and 2019;

If time allows, we will also discuss some of the following topics:

- The Covid-19 and the global stock market crash in March 2020, the Quantitative Easing thereafter, the triggering and underlying causes of the surge in global inflation, the US interest rate hikes in 2022-23 and the banking crisis in the US;
- The Thucydides's Trap and the Sino-US Conflicts
- The One Belt One Road Initiative, and its economic and political impacts;



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- China's property-firm crisis in 2021-23, the Doctrine of Impossible Trinity and the pre-condition for the use of monetary policy to stop the crisis from spreading, and lessons for the future; and
- The recommended long-term exchange rate system for China.

Pre-requisite

The pre-requisite for this course is First-year Macroeconomics. Students with Second-year Macroeconomics, Money and Banking or International Monetary Economics will on average performs better than those without.

Lecture Schedule

Lecture	Topics	Readings
1.1	China and the Global Economy before the Exchange Rate System Reform in 2005 China and the Global Economy before and after the economic reform in 1978 The Chinese Economy before the Reform in 2005 <ul style="list-style-type: none">• the major RMB devaluation in the 1991 reform: the beginning of China's trade surplus• the rapid growth of trade surplus thereafter• the Asian Financial Crisis: the beginning of the peg of RMB to the US\$• the Twin Deficit in the US and the Twin Surplus in China• the US pressure for major revaluation of RMB• Other macroeconomic conditions before the reform	Yip (2011), Ch 1
1.2	Debates before the reform: China's economic characteristics and the risk of various reform proposals	
2-4	The Exchange Rate System Reform and the Banking Reform in 2005-06 Transitional and Medium-term Designs of the Reform <ul style="list-style-type: none">• The proposed transitional reform:<ul style="list-style-type: none">- Gradual appreciation, no major or medium jump in exchange rate, and no widening of band;- A basket of currencies with special care to the renminbi-US dollar rate at the early stage; and- A narrow exchange rate band at the early stage• The Doctrine of Impossible Trinity and the medium-term recommendation	Yip (2011), Ch 2-5



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	<ul style="list-style-type: none">• The transitional reform in 2005 and the market response <p>The Banking Reform and its lessons for other emerging economies</p> <p>Implications of the reforms on the Strong China Route with high GDP growth, low unemployment rate, huge trade surplus, rising foreign reserves, and low risk of currency crisis</p> <p>The difference in experience between China and Vietnam</p>	
5	Hedge Fund's Speculative Attack and Currency Crisis Hedge Fund's speculative attack during the Asian Financial Crisis The renminbi futures market in Hong Kong and how it could be abused by hedge funds	Yip (2011), Ch 5
6	The Second Stage Transitional Reform and Potential Choices for the Long Term System Proposed design on the second stage transitional reform Actual implementation of the second stage transitional reform The medium-term exchange rate arrangement Potential choices on the long term exchange rate system	Yip (2011), Ch 6
7	China's Foreign Reserves, Trade Surplus, Outward Investments and Overseas Assets Foreign reserves and holdings of foreign assets: some misconceptions and its policy implications Increase domestic demand to attain trade balance: a misleading proposal Trade balance not a good choice for China in the near future: dynamic optimum vs static optimum Reducing China's dependence on exports: another misleading proposal	Yip (2011), Ch 7
8	China's Stock Market Bubbles and lessons for policy makers and stock investors The stock market bubble and its bursting in 2006-08 Another stock market bubble and bursting in 2014-15 Lessons for policy makers and stock investors; Some objective indicators for stock investment, and their applications; The characteristics of the seeding stage, the development stage and the final stage of an asset bubble, its implications for policy makers and asset investors.	Yip (2011), Ch 8



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9-10	The causes and consequences of high real property prices in China The high real property price in China Microeconomic pains: why it could be disastrous to let free market force to guide China's property market under the imperfect setting, the role of informal cartel, indicator effect and wealth inequality Macroeconomic costs and systemic risk, The Recommended Solution	Yip (2011), Ch 9-10
10-12	Some of the following hot topics will be discussed: <ul style="list-style-type: none">• The Covid-19 and the global stock market crash in March 2020, the Quantitative Easing thereafter, the triggering and underlying causes of the surge in global inflation, the US interest rate hikes in 2022-23 and the banking crisis in the US;• The Thucydides's Trap and the Sino-US Conflicts• The One Belt One Road Initiative, and its economic and political impacts;• China's property-firm crisis in 2021-23, the Doctrine of Impossible Trinity and the pre-condition for the use of monetary policy to stop the crisis from spreading, and lessons for the future; and• The recommended long-term exchange rate system for China.	Yip (2019), additional reading materials

Textbooks

Yip P.S.L. (2011), China's Exchange Rate System Reform and Macroeconomic Policies: Lessons for Macroeconomic Policy Management, Scientific World: Singapore.

Yip P.S.L. (2019), From the Global Financial Tsunami to the Property Bubbles in Asia: The Need for a New Discipline in Macroeconomic Management, Scientific World: Singapore.

+ supplementary reading materials

BLACKBOARD

Course materials, including syllabus, homework assignments, handouts, etc., will be uploaded to Blackboard.

GRADING POLICY

There will be **four assignments** and **one comprehensive final exam**. Each assignment will account for 12% of your total grade. Students are required to complete the assignment independently and submit the completed assignments by the specified deadlines. Class participation will account for another 12% of the total grade. The **COMPREHENSIVE** final will account for 40% of the total grade. Final Exam date and venue are set by the university and



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will be announced in class.

GRADE DESCRIPTORS

Please refer to CUSIS.

CLASS PARTICIPATION

This is your education! I have generally found that students who come to all the classes score well and students who skip out all the time perform badly.

Please be adult, be responsible, be respectful and be kind in the classroom.

This includes:

1. Come to class on time and stay to the end. If you must leave early, let me know at the beginning of the class and leave quietly. If you get here late, enter quietly.
2. Don't chat during the lectures. This is a distraction to those of us who are engaged in learning.
3. Be respectful of others who may have different views and backgrounds than your own. Do not use derogatory or vulgar language in the classroom. It is the University's policy that students attending classes should be well taken care of. Since all students have the right to attend classes, those students who have chosen not to attend classes should respect the wish of others who want to attend classes.
4. Turn off your cell phone or put it in vibration/silent mode.

HONESTY IN ACADEMIC WORK

The Chinese University of Hong Kong places very high importance on honesty in academic work submitted by students and adopts a policy of *zero tolerance* on cheating in examinations and plagiarism. Any related offence will lead to disciplinary action including termination of studies at the University.

Attention is drawn to University policy and regulations on honesty in academic work, and to the disciplinary guidelines and procedures applicable to breaches of such policy and regulations. Details may be found at

<http://www.cuhk.edu.hk/policy/academichonesty/>.

SUCCESSFUL STUDENT STRATEGIES

1. Attend each class.
2. Read text before class.
3. Ask questions, when material is unclear.
4. Review notes and text after class.
5. Do all the homework assignments and study in advance of the exam.