

Chinese Financial Markets
FINC-GB 2386
Fall Term 2021

Instructor: Matthew Richardson
Classroom Location: In-person
Days & Hours: Tuesday 6pm-9pm
Office: KMEC 9-59
Office Hours: M 11am-12am, W 11am-12pm, Tu 5-6pm
Or by appointment (in-person, zoom)
Email: mrpr2@stern.nyu.edu

Course Description:

This course introduces the institutions, instruments, and empirical regularities of Chinese financial markets and the role these markets play in the broader Chinese economy. The goal of the course is to provide students with a comprehensive understanding of Chinese financial markets. It focuses on current issues and debates about Chinese financial markets, including the Chinese banking (and shadow banking) system, RMB exchange rates, Chinese stock markets and bond markets, and the asset management and venture capital industries, as well as other important topics, including issues facing China's economy. The similarities and differences between Chinese financial markets and more developed markets will be highlighted.

The types of questions the course is intended to address are:

- How do Chinese banks perform? Are they really risky? Are they hurting the economy?
- What does shadow banking mean in China? How big is it? Does it endanger China's economic stability?
- Will China experience a real estate crisis? How will its slowing economy hurt the financial industry?
- What is the impact of convertible RMB on financial institutions, investors, non-financial corporations, and the rest of the world? Will RMB appreciate if convertible? Why? What's the impact on Chinese economic stability?
- Are Chinese stocks overvalued? Why are Chinese stocks so volatile?
- Should China speed up the introduction of financial innovations in Chinese financial markets? What lessons should be learned from recent (2014-2016, 2018, covid-19 pandemic) stock market turbulence?
- What is the impact of the Covid-19 pandemic on China's economy and financial markets?
- What are the major issues facing China's economy and the resulting geopolitical considerations?

Textbook and Other Teaching Materials:

There is no textbook requirement for the course. Lecture notes, academic journal articles, research reports and articles in business magazines will be provided online before the course starts and throughout the semester. That said, as a starting point, there are a few required and suggested readings prior to the beginning of the semester.

In terms of required readings, there are three:

1. The first is a series of **five articles in the New York Times** in Fall 2018 on China. While these articles are not focused exclusively on either China's economy or the financial system, they provide useful background material.
<https://www.nytimes.com/interactive/2018/11/18/world/asia/china-rules.html>
<https://www.nytimes.com/interactive/2018/11/25/world/asia/china-freedoms-control.html>
<https://www.nytimes.com/interactive/2018/11/25/world/asia/china-world-power.html>
<https://www.nytimes.com/interactive/2018/11/25/world/asia/china-economy-strategy.html>
<https://www.nytimes.com/interactive/2018/11/25/world/asia/china-us-confrontation.html>
2. The second reading is a **collection of articles** from well-known newspapers on various aspects of the Chinese financial system, written this past year, i.e., 9/2020 – 9/2021, in chronological order. I take approximately one representative story per week. These readings are grouped into a single pdf file and give the reader some idea of the most up-to-date news on China's financial system and how things have evolved this past year. Most articles are quite short. It is important that you go through these stories to give you an idea of what is currently going on in China. These are provided in the "Content" link of NYU Brightspace under "Required Readings". Note that also provided in "Brightspace" under "Overview Articles" is a similar collection of articles from 2017-2019.
3. The final reading is an article by Wayne Morrison, **China's Economic Rise: History, Trends, Challenges, and Implications for the United States**. This article provides an overview of the current Chinese economy.

Note that at the beginning of every class, including the first one, you will have a brief quiz on the required reading(s) and the previous week's material covered in class. The quiz primarily tests whether you have (i) done the reading and (ii) reviewed the previous class lectures, and is not looking for a deeper analysis. The first quiz will cover the readings in (2) and (3) above. Each class thereafter will have a quiz of (i) and (ii) above.

In terms of additional suggested readings, under the "Content" link of NYU Brightspace, there are a list of categories relevant for the class: asset management, banking, bond market, equity market, fintech, overview, private equity, RMB and shadow banking, etc.... Under each of these categories, suggested additional readings are provided.

Course Requirements:

Teaching materials are drawn from several books, newspapers, and periodicals. There are assigned readings for each class. I expect students come to class prepared for the materials that will be covered that day. Course requirements include active class attendance, intensive reading, participation in group work, and timely completion of quizzes.

Grading Policy:

Ten In-Class Quizzes	40%
Group Presentation & Term Paper	40%
Class participation	20%

Presentation and Term Paper:

The class will form small groups of students. Potential paper topics will be offered to the class, but students are also free to choose their own, although the paper must be approved by the professor. I will post on google drive suggested topics, or students can post their own, and students can sign on. It is **IMPORTANT** that everyone signs onto a group by the 2nd class. Each class, we will have a 20-minute breakout session of the groups in which students can discuss the topic and form a strategy. I will join the breakout groups. Work on the class project should begin immediately once the semester starts.

Examples of past topics include, amongst others: China's Belt and Road Project, Insider Trading and Stock Market Volatility in A Shares, Follow the Money: The State of Chinese Innovation Economy, Australia's Financial Relationship with China, China's Need for a Social Safety Net, Asian Infrastructure Investment Bank, Supply Chain Financial Technologies in the Chinese Market, FinTech in China, China's Hospitality and Tourism Industry, China's Ghost Cities, Is China Forming a Real Estate Bubble?, Chinese Textiles and Apparel Industry, Chinese Foreign Direct Investment Abroad, Chinese FX Markets: Golden Opportunity for Arbitrage, Mobile Payments in China, China's Housing Market, Made in China 2025 and The Government's Reform Agenda for Debt Explosion in China.

Each group will consist of a small number of students. The last week (or two), each group will be asked to present their topic to the class, and turn in a corresponding paper of not more than 6 pages (not including Tables/Figures) which is due at the end of the course. Each presentation takes 30 minutes, including 5 minutes of Q&A.

Quizzes:

- There will be a brief quiz at the beginning of each class that covers each classes' required reading and the previous week's lecture. Note that when we have an outside speaker, the quiz will likely be after the speaker's presentation.
- There will be no final exam. The accumulation of 10 quizzes serves as the exam.

Course Timeline

Each class will consist of a quiz, an occasional outside speaker (more on this below) who are experts on the particular topic, a breakout session for the class project, and, for the majority of the class time, a series of lectures. Most of the lectures will involve a formal lecture, but, to keep the lectures interesting, there will be occasional videos which will highlight the class material. Some of these videos will be required as homework, along with the readings.

Outside Speakers

This past January, in a version of this course, we had four outside speakers (all on zoom):

Yiping Huang (Jin Guang Chair Professor of Economics and Deputy Dean of the National School of Development (NSD) and Director of the Institute of Digital Finance (IDF), Peking University, board of directors Ant Financial.

Tony Tang (Head of Blackrock China)

Timothy Moe (Goldman Sachs, co-head of Macro Research in Asia and is the chief Asia Pacific regional equity strategist)

Mei Gao (Partner, IDG Capital)

Over the next few months, we will try to organize a similar (albeit possibly different) number of outside speakers, with some being in person and others being remote. (Note that three of the four speakers were in Asia when they zoomed with the class.)

Course Topics

Note that the lectures below are tentative topics.

Sept 21 **Brief History of Chinese Economy**

- Introduction
- Ancient China
- The Mao Period
- The Reform Period

Sept 28 **Cracks in the System**

- The Reform Period continued...
- Geopolitics
 - Covid-19 Pandemic
 - Trade War with U.S.
 - One Belt, One Road
- Problem #1:
 - The Housing Crisis (?)

- Oct 5 **Cracks in the System continued...**
- Problem #2:
 - The Debt Bomb
 - Problem #3:
 - Long-Term: Demographics, Demographics, Demographics
 - Sources of Unrest:
 - A Tale of Two Countries
 - Climate Change
 - Corruption and the Economy
- Oct 19 **Overview of Chinese Financial System**
- Brief History
 - Importance of Financial Systems
 - Structure of Chinese Financial System
 - Comparison with Other Financial Systems
 - Challenges Facing Chinese Financial System
- Oct 26 **China's Foreign Exchange System**
- The Economics of Exchange Rates
 - The History of the RMB
 - The Internationalization of RMB and Comparison with Other Currencies
 - China's Digital Currency
- Nov 2 **The Banking System of China**
- History
 - The Big 4
 - How Banks work
 - China Specific
 - Mobile Banking
 - Shadow Banking
 - The Systemic Risk of Chinese Banks
- Nov 9 **Chinese Capital Markets: Introduction**
- China's Banking System continued...
 - The Systemic Risk of Chinese Banks
 - History
 - The Role of Capital Markets
- Nov 16 **The Chinese Stock Market**
- Introduction
 - How It Works
 - Comparison with Other Stock Markets
 - Why Is China's Stock Market So Volatile?
 - The Fall and Rise of the Stock Market 2014-2015

- Nov 23 **The Chinese Bond Market**
Introduction
- Growth of China's Bond Market
 - The Corporate and Government Sectors
- Nov 30 **China's Asset Management Industry**
- A Primer on Asset Management
 - Introduction to Alternative Investments
 - Hedge Funds
 - Private Equity & Venture Capital
 - The Size of the Asset Management Sector in China
- Dec 7 **Private Equity and Venture Capital in China**
- Introduction
 - Venture Capital in China
 - Comparison to United States
- Dec 14 **Class Presentations**

Tentative Required Readings

Sept 21

PDF Newspaper/Magazine Articles from 9/2020-9/2021.

Morrison, Wayne, China's Economic Rise: History, Trends, Challenges, and Implications for the United States, 2015.

Sept 28

Allen, F., Qian J. and M. Qian, A Review of China's Institutions, 2019, Annual Review of Financial Economics, 11:39-64.

Liu C. and W. Xiong, 2019, China's Real Estate Market, Handbook of China's Financial System, chapter 8.

TBD

Oct 5

TBD

Oct 19

Allen, Franklin, Gu, Xian, and Jun Qian, An Overview of China's Financial System: Growth and Risk, 2017, Annual Review of Financial Economics, 9:191-231.

Elliott, Douglas J. and Kai Yan, The Chinese Financial System: An Introduction and Overview, 2013.

Oct 26

Bernanke, Ben, 2016, China's Trilemma and a Possible Solution, Brookings Institution.
Guo, Kai, Jiang, Ningxin, Qi, Fan and Yue Zhao, 2019, RMB Internationalization: Past, Present and Prospect, Handbook of China's Financial System, chapter 9.

Nov 2

Michael, Martin, China's banking System: Issues for Congress, 2012, Congressional Research Service.
Stent, James, China's Hybrid Banks, 2017, China's Banking Transformation: the Untold Story, chapter 1

Nov 9

Hu, Grace Xing, Pan, Jun and Jiang Wang, 2018, Chinese Capital Market: An Empirical Overview, NBER working paper 24346.

Nov 16

Allen, F., Qian J., Shan C., and J. Zhu, 2019, The Development of the Chinese Stock Market, Handbook of China's Financial System, chapter 11.
Carpenter, Jennifer and Robert Whitelaw, 2017, The Development of China's Stock Market and Stakes for the Global Economy, Annual Review of Financial Economics, 9: 233-57.

Nov 23

Amistad, Marlene, and Zhiguo He, Chinese Bond Market and Interbank Market, 2019, Handbook on China's Financial System, chapter 6

Nov 30

Hong, Yi, Jiang, Jinlong, Yan, Hong and Xi Zhao, 2017, On the Performance of hedge Funds in China, SAIF working paper
Jiang, Wenxi, Investment Funds in China, 2019, Handbook on China's Financial System, chapter 15

Dec 7

Huang, Zhaojun and Xuan Tian, China's Venture Capital Market, 2019, Handbook on China's Financial System, chapter 16