

General Course Information

Instructor	Professor G. Bauer
Email	gbauer@uoguelph.ca Please be sure to use ECON 4400 in the subject of your email.
Office Location	Office hours will be conducted over Teams.
Office Hours	Tuesday 2:00 – 4:00 by Teams
Department	Department of Economics and Finance, Lang School of Business

Class Schedule: Wednesday night 7:00 – 9:30 MINS 103

Pre-requisites: The official prerequisite is ECON 2310 (Intermediate Micro). However, it is probably better if you have taken FIN 2000 (Introduction to Finance) as well.

Course Description

This course is designed to be an introduction to the “gnarly” problems that firm management faces today. It is composed of two main parts: political risk and ESG opportunities and investments.

Political risk is increasing around the world. While political risk has always been present in emerging markets, there is a renewed appreciation that is affecting developed markets as well. The general acceptance of the liberal international order by the citizens of both developed and emerging market economies is on the decline and there is an increase in populist pressures in many countries. This new “geopolitical risk” is hard to measure.

The course starts by reviewing the simple idea of how to select among investment projects when the cash flows do not face any political risk concerns. We will next cover how different forms of **uncertainty** have increased, including economic policy uncertainty. As uncertainty may not be amenable to modeling using traditional econometric tools, we will use **scenario analysis** to generate alternative business outcomes and examine the ability of the firm to improve its profit (or reduce its losses).

We will next examine **foreign direct investment** and show how firms that invest abroad face a growing level of political risk and the rising phenomenon of **geopolitical risk**. We will also cover the backlash against **globalization** and show how the optimal level of globalized markets may be studied. We will see how **political risk insurance** may be used. We then switch to the rising global levels of **populism** and see how firms can respond.

The next topic to be covered is a review of **portfolio analysis** and financial **market efficiency**. It is important that we understand these concepts well as we then move to **Environmental, Social and**

Governance (ESG) management and investing. These topics are new and quite controversial. Do firms that state they follow various ESG mantras follow through with actions? How can investors evaluate firms using ESG metrics? What have the returns been on ESG-centered portfolios? What is the equilibrium if many firms are following ESG guidelines? The students will be able to answer these (and other) questions which will make them valuable to firm managers.

This course is meant to be applicable for students who are searching for a job or are starting their post-graduate careers soon. The topics covered in the course are prevalent in firms' annual reports. To show how to apply the concepts, the **students will choose a firm and do two (group) presentations.** The first presentation (after Module 4) is a (simple) scenario analysis of the firm that deals with the various types of political risk that the firm will face. The second presentation (at the end of the course) is about potential ESG opportunities available to the firm.

Summary of Course Content

The course is composed of a sequence of modules. **Please use the course website on CourseLink to find all the material, assignments, cases and lecture slides.**

Module 1: Optimal Investment Decisions

Module 2: Uncertainty and Scenario Analysis

Module 3: Foreign Direct Investment and Political Risk

Module 4: Populism

Module 5: Portfolio Analysis and the CAPM

Module 6: Market Efficiency and the Factor Zoo

Module 7: Corporate Social Responsibility and ESG Investing

Module 8: ESG in Equilibrium

The learning objectives for each module are available on the CourseLink site.

Course Assessment

Group assignments (50% total)

- **All problem sets and the two presentations will be group assignments. You will be required to form groups of 4 to 5 students.** Use the Groups tab on the navbar to organize yourselves. Please form your group by the end of the first week as the first problem set for Module 1 will be due soon thereafter.
- The problem sets are small and are designed to apply the concepts taught in the course to relatively simple problems. Please see the course website for the problem sets and due dates.
- The two presentations will be on a firm **chosen by the students.** Please send your choice to the instructor as soon as possible as each group must analyze a different firm. The first

presentation will have the students present a (simple) 2 by 2 scenario analysis of the firm that involves two separate risks faced by the firm managers. One of these must be political risk. The second presentation will be focused on management's opportunities in ESG investments. Please see the course website for additional instructions for the presentations.

- **Please see the course website for the due dates** of all the problem sets and presentations. We will discuss the cases and problem sets on the day that they are due. Thus, they must be handed in on time. **LATE ASSIGNMENTS WILL NOT BE ACCEPTED.** If it is handed in late your group will receive a grade of zero.
- There will be a team self-assessment at the end of the course. **Shirkers will be heavily penalized.**

Quizzes (20% = 2 x 10% each)

- There will be two **individual** quizzes during the course. **They will be done in person only.** The first follows Module 3 while the second follows Module 7. There are practice quizzes on the course website. The format of the quizzes will closely follow that of the practice quizzes (which are taken from previous offerings of the course.)
- **There are no make up quizzes.** If you miss the quiz for any reason the weight will be transferred to your final exam.
- **You are allowed a "cheat sheet" for the quizzes.** This is one side of an 8x10 piece of paper. My goal is not to have you memorize the course material; rather, it is to have you use it to solve real world problems. **You will need a financial calculator for the quizzes.**

Final exam (30%)

- The final exam will be during the scheduled exam period. It is **done individually in person.** No remote exams will be offered.
- There are practice questions for the final exam on the course website. The format of the final exam will closely follow that of the practice questions (which are taken from previous offerings of the course.)
- **You are allowed a "cheat sheet" in the final** which is both sides of an 8x10 piece of paper. **You will need a financial calculator for the final.**

About the Instructor:

Dr. Bauer is a full Professor of Finance at the Gordon S. Lang School of Business and Economics. Prior to joining Lang, he was the Michael J. Barclay Alumni Professor and Associate Dean of Full-Time Programs at the Simon Business School, University of Rochester. He is a five-time winner of the Superior Teaching Award from the Simon MBA program and a multiple winner of teaching awards from the Executive MBA program. In addition to teaching Macroeconomics, International Finance, and Capital Markets courses at the Rochester campus, he has developed courses on international financial markets for executive students in India. He helped develop the Simon MS Wealth Management program and delivered the Financial Markets and Investment Management course in Switzerland, Hong Kong and Singapore.

Prior to rejoining the Simon School in a full-time capacity in 2017, he was the Senior Research Director in the Financial Markets Department of the Bank of Canada. His research has contributed to important public policy debates on the likelihood of house price corrections; the interaction of monetary and financial

stability policies; and the limitations imposed by financial markets on the ability of central banks to conduct conventional and non-conventional monetary policies. His work received attention in the Canadian press and had an impact on the inflation-targeting agreement between the Bank and the Government of Canada. He has published scholarly articles in the *Journal of Financial Economics*, the *Review of Economic Studies*, the *Journal of Econometrics*, the *Journal of International Money and Finance*, and the *International Journal of Central Banking*.

Bauer received his doctorate from the Wharton School of Business at the University of Pennsylvania. He holds the Chartered Financial Analyst (CFA) designation.

Course Resources

Required Text:

- *The Fat Tail: The Power of Political Knowledge in an Uncertain World* by Ian Bremmer and Preston Keat. The 2010 paperback edition is on Amazon.ca for CAD 21.95. The Kindle version is even cheaper.

The students will need a financial calculator for the quizzes and final exam. Neither cell phones nor laptops will be allowed in either.

Recommended Texts (for keeners only): The following are recommended only for those students who wish to do a deeper dive into some of the topics that will be covered:

- Dani Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy*, 2012. (Paperback is CAD 19.35 on Amazon.) A very readable introduction to the history of and contemporary thinking about globalization.
- Cas Mudde and Cristobal Rovira Kaltwasser, *Populism: A Very Short Introduction*, 2017. (Paperback is CAD 13.50 on Amazon.) What it says on the tin.
- Lukasz Pomorski, *The Puzzle of Sustainable Investment: What Smart Investors Should Know*, 2024. (Hardcover is CAD 39.70 on Amazon.) Probably the most thoughtful book on ESG investing.

The links to other resources including readings are available on the course website. These are all free.

Course Policies

Classroom Conduct

- Arrive on time, ready to begin, and minimize disruptions throughout the session.
- To facilitate a sense of a personalized classroom community, display a name tent.
- **Turn off and put away your phone.** If you must keep a phone on because of a personal emergency, you must inform the instructor before class begins.
- **Participation is expected and encouraged. You are paying for this experience and should want to get your money's worth. A good question is just as worthwhile as a good answer.**

- Do not use your laptop or tablet unless explicitly permitted or instructed to do so.

Preparation and Interaction

- To achieve positive learning outcomes for you and other students, be prepared to engage fully in each session through the completion of required work before the session, and focused attention and active involvement during the session.
- Respect the classroom as an inclusive learning environment where diverse points of view and experiences can be shared to facilitate everyone's learning.
- Maintain the privacy and intellectual property of everyone in the class by, for example, not sharing recorded images or audio of student or instructor interactions, or course content.

Policy on Digital Recording

- **NO digital or electronic recording of any kind may be made during either lectures or labs without explicit written permission from the course instructor.**
- NO digital or electronic recordings of any kind provided by the instructors or teaching assistants may be shared, posted, or distributed by any means. Any digital content or electronic recordings remain the property of the instructors and are protected by copyright and privacy law.
- By accessing these recorded materials, you agree to these terms, and you agree to be responsible for any damage that may result if you breach them.

Grading Policies

Please see the section on course assessment above.

Students who find themselves unable to meet course requirements by the deadlines or the criteria expected because of medical or personal reasons, should review the regulations on academic consideration in the Academic Calendar and discuss their situation with the instructor, program counselor or other academic counselor as appropriate.

<http://www.uoguelph.ca/registrar/calendars/undergraduate/current/c08/c08-grds.shtml>

If you have religious observances which conflict with the course schedule or if you are registered with Student Accessibility Services, please contact the course instructor in order to make arrangements for your assessment if appropriate.

University Policies

Academic Consideration

When you find yourself unable to meet an in-course requirement because of illness or compassionate reasons, please advise the course instructor in writing, with your name, id#, and e-mail contact. See the academic calendar for information on regulations and procedures for Academic Consideration:

<http://www.uoguelph.ca/registrar/calendars/undergraduate/current/c08/c08-ac.shtml>

Academic Misconduct

The University of Guelph is committed to upholding the highest standards of academic integrity and it is the responsibility of all members of the University community, faculty, staff, and students to be aware of what constitutes academic misconduct and to do as much as possible to prevent academic offences from occurring.

University of Guelph students have the responsibility of abiding by the University's policy on academic misconduct regardless of their location of study; faculty, staff and students have the responsibility of supporting an environment that discourages misconduct. Students need to remain aware that instructors have access to and the right to use electronic and other means of detection. Please note: Whether or not a student intended to commit academic misconduct is not relevant for a finding of guilt. Hurried or careless submission of assignments does not excuse students from responsibility for verifying the academic integrity of their work before submitting it. Students who are in any doubt as to whether an action on their part could be construed as an academic offence should consult with a faculty member or faculty advisor.

The Academic Misconduct Policy is detailed in the Undergraduate Calendar:

<https://www.uoguelph.ca/registrar/calendars/undergraduate/current/c08/c08-amisconduct.shtml>

Accessibility

The University of Guelph is committed to creating a barrier-free environment. Providing services for students is a shared responsibility among students, faculty and administrators. This relationship is based on respect of individual rights, the dignity of the individual and the University community's shared commitment to an open and supportive learning environment. Students requiring service or accommodation, whether due to an identified, ongoing disability or a short-term disability should contact Student Accessibility Services as soon as possible.

For more information, contact SAS at 519-824-4120 ext. 56208 or email sas@uoguelph.ca or see the website: <https://wellness.uoguelph.ca/accessibility/>

Course Evaluation Information

Please refer to the [Blue by Explorance system](#).

Recording of Materials

Presentations which are made in relation to course work—including lectures—cannot be recorded or copied without the permission of the presenter, whether the instructor, a classmate or guest lecturer. Material recorded with permission is restricted to use for that course unless further permission is granted.

Drop date

The last date to drop one-semester courses, without academic penalty, is **Friday, April 4, 2025**. For regulations and procedures for Dropping Courses, see the Academic Calendar:

<https://www.uoguelph.ca/registrar/calendars/undergraduate/current/c08/c08-drop.shtml>