Course Description

Investors increasingly recognize that politics matters at least as much as economic fundamentals to economic performance in many developing economies, and matters more than they had long thought possible in developed ones as well. As the relevance of political factors has become more apparent to investors, so has the dearth of comprehensive and systematic tools for evaluating political risk.

This course will focus on building a solid theoretical foundation to analyze political risk, examine the value of having a structural view for identifying and monitoring political risks, and apply these skills to current, real-world problems. The course will explore how political science theory, complemented by other fields, especially economics and political economy, can serve as a basis to study how politics influences a variety of economic concerns including portfolio investment (financial services) and fixed investment (corporates).

The nature of political risk will be both explored through case studies that will incorporate alternative frames of reference including alternative disciplines (political science, political economy, law, and finance), level of analysis, and time horizon. For example, on level of analysis, political risk matters at the macro (national and international) level, and at the micro- (local) level. The international political strategies of countries such as Russia and China will influence the investment environment, but so will decisions made by local politicians in a sub-region of either country.

Similarly, time horizons vary substantially across types of investors. In the near term (from 15 minutes to the next 3 months), currency strategists and some traders in bonds and equities markets try to manage the impact of near-term political developments on their market positions. Over the medium term (3 months to 2 years), more strategic capital markets participants take “extended” views on country risk dynamics and company managers cope with local political and social developments. In the long term (2 to 15 years), corporations with more substantial fixed, country-specific capital assets, and strategic planners for companies or governments, need to make projections and strategize over a range of future scenarios.