

SUMA PS5320 – Sustainable Investing and Economic Growth - Spring 2018
Instructor: Satyajit Bose


Introduction to Sustainable Investing

The Financial Ecosystem and the Circular Flow of Savings and Investment
Steady State Economics, Throughput, Thermodynamics and Optimal Scale


[Lecture Slides](#) 

Readings

Sustainable Investing:

[Staub-Bisang, M. \(2012\). Sustainable Investing for Institutional Investors: Risk and Return. Sustainable Investing for Institutional Investors: Risks, Regulations and Strategies. Contributing authors, Sven Bienert et al. Wiley Finance series. Hoboken, N.J. and Singapore: Wiley. Chs 1-2.](#) 

Financial Ecosystem:

[Greenbaum, S. I., Thakor, A. V. & Boot, A. W. A. \(2016\). Contemporary Financial Intermediation. Elsevier. Ch 2.](#) 

Steady State Economics:

[Daly, H.E. \(1996\). Beyond Growth: The Economics of Sustainable Development. Beacon Press, Boston. Chs. 1-2.](#) 

Daly, H. E. (1997). "[Georgescu-Roegen versus Solow/Stiglitz.](#)" Ecological Economics 22(3): 261-266.

Solow, R. M. (1997). "[Georgescu-Roegen versus Solow-Stiglitz.](#)" Ecological Economics 22(3): 267-268.

Stiglitz, J. E. (1997). "[Georgescu-Roegen versus Solow/Stiglitz.](#)" Ecological Economics 22(3): 269-270.

Daly, H. E. (1997). "[Reply to Solow/Stiglitz.](#)" Ecological Economics 22(3): 271-273.

2 Corporate Governance and the Joint Stock Corporation
(Thurs Jan 25, 2018 06:10 PM - 08:00 PM)

Corporate governance and the principal-agent problem

The concept of Fiduciary duty for the 'sustainable investor'


The history of the joint stock corporation


[Lecture Slides](#) 

Readings

Corporate Governance and Fiduciary Duty

[Monks, R. A. G. and N. Minow \(2011\). Corporate governance. Hoboken, NJ, John Wiley & Sons. Ch 1.](#) 


[Youngdahl, J. \(2014\). The Basis of Fiduciary Duty in Investment in the United States. Cambridge Handbook of Institutional Investment and Fiduciary Duty. J. P. H. e. al. Cambridge, Cambridge UP: 20-30.](#) 

[Kaen, F. R. \(2003\). CHAPTER 11: ALTERNATIVE GOVERNANCE SYSTEMS: GERMANY AND JAPAN, in Blueprint for Corporate Governance. American Management Association International: 187-210.](#) 

History of the Corporation

[Ekelund, R. B., Jr. and R. D. Tollison \(1980\). "Mercantilist Origins of the Corporation." The Bell Journal of Economics 11\(2\): 715-720.](#)



[Robins, N. \(2012\). "THE CORPORATION THAT CHANGED THE WORLD: HOW THE EAST INDIA COMPANY SHAPED THE MODERN MULTINATIONAL." Asian Affairs 43\(1\): 12-26.](#) 

[Robertson, J. and W. Funnell \(2012\). "The Dutch East-India Company and accounting for social capital at the dawn of modern capitalism 1602–1623." Accounting, Organizations and Society 37\(5\): 342-360.](#)

3 Modern Portfolio Theory

(Thurs Feb 1, 2018 06:10 PM - 08:00 PM)


Markowitz portfolio choice and diversification.


Alternative measures of risk.

[Lecture Slides](#) 

Readings

[Elton, E. J. and M. J. Gruber \(1997\). "Modern portfolio theory, 1950 to date." Journal of Banking & Finance 21\(11–12\): 1743-1759.](#) 

[Wilford, D. S. \(2012\). "True Markowitz or assumptions we break and why it matters." Review of Financial Economics 21\(3\): 93-101.](#) 

[Byers, S. S., et al. \(2015\). "Using portfolio theory to improve resource efficiency of invested capital." Journal of Cleaner Production 98: 156-165.](#) 

Example: [Two-stock data for portfolio optimization](#) 

4 The Capital Asset Pricing Model

(Thurs Feb 8, 2018 06:10 PM - 08:00 PM)

CAPM as a form of equilibrium pricing.

[Lecture slides.](#) 

Readings

[Perold, A. F. \(2004\). The Capital Asset Pricing Model. *Journal of Economic Perspectives*, 18\(3\), 3-24.](#) 

[Fama, E. F., & French, K. R. \(2004\). The Capital Asset Pricing Model: Theory and Evidence. *Journal of Economic Perspectives*, 18\(3\), 25-46.](#) 

Example: [Two Stock Portfolio Optimization](#) 

Example: [GMI.SP500.Ratings.xlsx](#) 

5 ESG Integration through Fundamental and Quantitative Due Diligence

(Thurs Feb 15, 2018 06:10 PM - 08:00 PM)

[Lecture Slides](#) 

How is ESG integrated into investment management?

- Active vs Passive
- Fundamental vs Quantitative
- Alpha vs Beta
- Stakeholder relations

[PRI. "A Practical Guide to ESG Integration for Equity Investing." 2016. pp 12-55.](#) 

[Zoltán Nagy, Altaf Kassam, Linda-Eling Lee, "Can ESG Add Alpha? An Analysis of ESG Tilt and Momentum Strategies." MSCI Report June 2015](#) 

[Jiao, Y. \(2010\). "Stakeholder welfare and firm value." *Journal of Banking & Finance* 34\(10\): 2549-2561](#) 

[Borgers, A., et al. \(2013\). "Stakeholder Relations and Stock Returns: On Errors in Investors' Expectations and Learning." *Journal of Empirical Finance* 22: 159-175.](#) 

[Four Stock Optimization.](#)

6 Extending Responsible Investment Across Asset Classes and Addressing Correlation


(Thurs Feb 22, 2018 06:10 PM - 08:00 PM)

[Lecture Slides](#)

Readings

[David Wood and Belinda Hoff. Handbook on Responsible Investment Across Asset Classes. Boston College Center for Corporate Citizenship. 2008. \(Links to an external site.\)Links to an external site.](#)

[Farrell Jr, J. L. \(2011\). "Asset Allocation under Extreme Uncertainty." Journal of Portfolio Management 37\(2\): 72-82.](#)

[Asl, F. M. and E. Etula \(2012\). "Advancing Strategic Asset Allocation in a Multi-factor World." Journal of Portfolio Management 39\(1\): 59-66.](#)


[Garcia-Feijoo, L., Jensen, G. R., & Johnson, R. R. \(2012\). The Effectiveness of Asset Classes in Hedging Risk. *Journal of Portfolio Management*, 38\(3\), 40-55.](#)

7 Sustainability and Stock Market Return


(Thurs Mar 1, 2018 06:10 PM - 8:00 PM)


[Lecture Slides](#)


An introductory article on corporate social responsibility and business strategy:

Porter, M. E. and M. R. Kramer (2006). "[Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility.](#)" Harvard Business Review 84(12): 78-92. (attached)

Three competing narratives on the link between social responsibility in investing and portfolio return:

Kempf, A. and P. Osthoff (2007). "[The Effect of Socially Responsible Investing on Portfolio Performance.](#)" European Financial Management 13(5): 908-922.

Galema, R., et al. (2008). "[The stocks at stake: Return and risk in socially responsible investment.](#)" Journal of Banking & Finance 32(12): 2646-2654.

Hong, H. and M. Kacperczyk (2009). "[The price of sin: The effects of social norms on markets.](#)" Journal of Financial Economics 93(1): 15-36.

8 Sustainability and Risk: Beyond Volatility, Tracking Error and Correlation
(Thurs Mar 8, 2018 06:10 PM - 8:00 PM)

[Lecture Slides](#) 

Sustainability performance and risk: idiosyncratic risk and market crises.


Readings:

Lee, D. D. and R. W. Faff (2009). "[Corporate Sustainability Performance and Idiosyncratic Risk: A Global Perspective](#)." Financial Review 44(2): 213-237.

Nofsinger, J. and A. Varma (2014). "[Socially responsible funds and market crises](#)." Journal of Banking & Finance 48(0): 180-193.

Critiques of the value of Social Responsibility in Portfolio Performance:

Halbritter, G. and G. Dorfleitner (2015). "[The Wages of Social Responsibility--Where Are They? A Critical Review of ESG Investing](#)." Review of Financial Economics 26: 25-35.

Utz, S. and M. Wimmer (2014). "[Are they any good at all? A financial and ethical analysis of socially responsible mutual funds](#)." Journal of Asset Management 15(1): 72-82.

Spring Break NO CLASS

(Thurs Mar 15, 2018 06:10 PM - 08:00 PM)

Sample [Midterm](#)  and [Solutions](#)  from last year for review.

In Class Midterm

(Thurs Mar 22, 2018 06:10 PM - 08:00 PM)

9 Income Inequality, the Principal-Agent Problem and the Rhetoric-Reality Gap

(Thurs Mar 29, 2018 06:10 PM - 08:00 PM)

[Lecture Slides](#) 


Income Inequality and Sovereign Risk, cross-country credit risk differentials


Aizenman, J. and Y. Jinjarak (2012). "[Income Inequality, Tax Base and Sovereign Spreads](#)." FinanzArchiv 68(4): 431-444.

BlackRock Investment Institute (2011). [Introducing the BlackRock Sovereign Risk Index: A More Comprehensive View of Credit Quality \(Links to an external site.\)Links to an external site.](#)

[Akins on Sovereign Risk](#) 

The Agency Problem and Corporate Fraud:

Bebchuk, L. A. and J. M. Fried (2003). "[Executive Compensation as an Agency Problem](#) .

Chaitman, H. D. & L. Gotthoffer. "[Hallelujah: Jamie Dimon's Been Born Again — or Has He?](#) .

[Schroeder on JPMadoff](#) 

Optional Reading:

Dyck, A., et al. (2010). "[Who Blows the Whistle on Corporate Fraud?](#) .

10 A Primer on Valuation Analysis and Energy and the Limits to Growth
(Thurs Apr 5, 2018 06:10 PM - 08:00 PM)

[Lecture Slides](#) 

Review of comparable valuation analysis:

[GD.Comp.xlsx](#) 

The Role of Energy in Economic Growth

Readings

Valuation:

Holthausen, R. W. and M. E. Zmijewski (2012). "[Valuation with Market Multiples: How to Avoid Pitfalls When Identifying and Using Comparable Companies.](#) .

Jayashankar, P., et al. (2015). "[Slow money in an age of fiduciary capitalism](#) .

PRI. (2013). "[The Value Driver Model: A Tool for Communicating the Business Value of Sustainability \(Links to an external site.\)Links to an external site.](#)"

Damodaran, A. (2018) [Stream On: An IPO Valuation of Spotify. \(Links to an external site.\)Links to an external site.](#)

Energy and Limits to Growth:

Daly, H.E. (1996). [Beyond Growth: The Economics of Sustainable Development. Beacon Press, Boston. Ch. 4](#) .

Ayres, R. U. (2008). "[Sustainability economics: Where do we stand?](#)" Ecological Economics 67(2): 281-310.

Mitchell, T. (2011). [Carbon Democracy: Political Power in the Age of Oil. Verso. Conclusion.](#) 

11 Tentative Solutions

(Thurs Apr 12, 2018 06:10 PM - 08:00 PM)

[Lecture Slides](#) 


Readings


Lietaer, B. and G. Hallsmith (2011). [Making Money for Business: Currencies, Profit, and Long-Term Thinking.](#)  Rocky Mountain Institute. 2: 64-69.

Omercevic, E. (2014). "[Introducing Good Money: Legal Tender Problem or Question of Structured Approach?](#)"  Danube: Law and Economics Review(1): 53-64.

Clarkin, J. E. and C. L. Cangioni (2016). "[Impact Investing: A Primer and Review of the Literature.](#)"  Entrepreneurship Research Journal 6(2): 135-173.

Griffith, J., Woelfel, T. & Faire, K. (2015). [Unleashing the Power of Pensions: Expanding Economically Targeted Investments by U.S. Pension Funds](#) .

Cho, M. (2017). "[Benefit Corporations in the United States and Community Interest Companies in the United Kingdom: Does Social Enterprise Actually Work?](#)"  Northwestern Journal of International Law & Business 37(1): 149-172.

Stecker, M. J. (2016). "[Awash in a Sea of Confusion: Benefit Corporations, Social Enterprise, and the Fear of "Greenwashing"](#)"  Journal of Economic Issues (M.E. Sharpe Inc.) 50(2): 373-381.

12 Case Studies

(Thurs Apr 19, 2018 06:10 PM - 08:00 PM)

[Lecture Slides](#) 

1. Generation Investment Management

Read the HBS Case 9-609-057 on Generation Investment Management (attached).

2. Could the Rana Plaza fire have been predicted?

Motlagh, J. (2014). "The Ghosts of Rana Plaza. (cover story)." Virginia Quarterly Review 90(2): 44-89. (attached)

The article discusses the April 24, 2013 Rana Plaza factory collapse that occurred in Dhaka, Bangladesh and killed more than 1,000 garment factory workers. Topics

discussed include the rescue efforts that followed the collapse, the reasons for the failure of the building, and the efforts of Abul Khair.

Labowitz, S. & D. Baumann-Pauly (2014). "[Business as Usual is Not an Option: Supply Chains and Outsourcing after Rana Plaza \(Links to an external site.\)](#)[Links to an external site.](#)" Report by NYU Stern Center for Business and Human Rights.

Some useful contextual readings, including an important controversy between NYU and UC Santa Barbara are available at:

<http://business-humanrights.org/en/%E2%80%9Cbusiness-as-usual-is-not-an-option-supply-chains-and-sourcing-after-rana-plaza%E2%80%9D#c100411> ([Links to an external site.](#))[Links to an external site.](#)

[Generation+Investment+Management+2009.pdf](#) 

[RanaPlaza.VQR.pdf](#) 

[Lec 12 Case Studies 2016.pptx](#) 

Student Presentations

(Thurs Apr 26, 2018 06:10 PM - 08:00 PM)

Group Presentations of investment cases.

6:15 Panasonic Yes

6:30 Panasonic No

6:45 Q&A

6:50 Gazprom Yes

7:05 Gazprom No

7:20 Q&A

7:25 Ethereum Yes

7:40 Ethereum No

7:55 Q&A