HKUST Department of Economics

ECON 6110N The Economics of ESG Investing

Course Outline: Spring 2023

Instructor: Dominic PEGLER

Email: ecdjpegler@ust.hk

Office hours: by appointment (Zoom meeting code: 515-008-9299)

Course Webpage: https://canvas.ust.hk

Lecture time: Fridays 16.30 -19.20; 3rd February-5th May

Lecture venue: Online via Zoom

Teaching Assistant: ENTEZARI Fatemeh

Office: LSK 6066

Email: fentezari@connect.ust.hk

Office hours: tbd

Important dates

Fridays 16.30 -19.20; 3rd February-5th May	Lectures
1st March 2023	Deadline for assignment #1
22nd March 2023	Deadline for assignment #2
26th April 2023	Deadline for assignment #3

Course Description

Environmental, Social and Governance (ESG) issues are now an important topic in economics, finance and investment.   Environmental phenomena such as climate change, biodiversity and access to water are already having an effect on the world, and threaten even greater changes in future.   Social concerns, such as child labour and workers' rights, have become important considerations for consumers, policy-makers and investors.   At the same time, Governance issues, relating to how companies are managed, are now attracting more attention than before.

This course considers the implications of ESG issues for investors.   We will consider the following topics:

1. Economic welfare and ESG issues: what does economic theory tell us about the welfare implications of ESG issues?
2. ESG issues and companies: how are companies behaving in the face of ESG issues, and what are the implications for their financial performance?
3. ESG and the asset management industry: how is the asset management industry responding to increased investor focus on ESG issues?   We will consider the following topics:
   a. An introduction to the asset management industry: who does what within the industry, and the competitive landscape for asset managers
   b. The role of ESG data providers
   c. The role of index providers and passive investment, and the impact that ESG considerations are having on them
   d. Factor investing, 'Smart beta', and applications of this approach to ESG investment
   e. ESG and active investment management: what impact do ESG considerations have on asset returns?
   f. ESG integration: how do asset managers integrate ESG issues in their investment processes?
   g. Activist and Impact investment: what these approaches are and the role they play in ESG investment

Course Outline

A rough outline of the lectures is as follows (this is subject to change - we will cover as much of the material as time allows):

Lecture 1	Introduction to ESG Investment; ESG and Economic Welfare
Lecture 2	Companies and ESG
Lecture 3	ESG and company profits
Lecture 4	ESG and firm value
Lecture 5	Introduction to the asset management industry
Lecture 6	The role of data providers
Lecture 7	Indices, passive management and screening approaches

Lecture 8	Factor investing and 'Smart beta'
Lecture 9	ESG and market efficiency
Lecture 10	Investors' returns from ESG investing
Lecture 11	Expected returns and ESG investing
Lecture 12	Active management and ESG integration
Lecture 13	Activist and Impact investing

Pre-Requisites

Knowledge of microeconomics at intermediate undergraduate level and knowledge of Excel are both required.

Learning Outcomes

This course contributes to the MSc learning outcome: "Have deep understanding of economic issues based on knowledge of economics, including microeconomics, macroeconomics and econometrics".

Teaching Materials

1. Recommended textbooks

There is no single textbook that covers all the topics in the course. The following is useful for the investment theory aspects of the course:

Elton, Gruber, Brown and Goetzmann, Modern Portfolio Theory and Investment Analysis, Wiley.

The following textbooks are useful for the economic welfare aspects of the course:

Nicholson & Snyder, Microeconomic Theory: Basic Principles and Extensions, Cengage Learning

Varian, Intermediate Microeconomics, WW Norton & Co.

2. Recommended reading

It is a good idea to keep up to date with developments in the financial markets, global politics and economics. The best way to do this is to read regularly some of the leading newspapers (the Financial Times, the Wall Street Journal, South China Morning Post) and periodicals (the Economist, Business Week, Fortune, Forbes, Far Eastern Economic Review).

All course materials and announcements will be posted on the CANVAS course website.

There will be readings assigned during the course. These will be announced and posted on Canvas in time for you to read before the lectures.

Please check regularly for the latest information.

Assessment

The course grade will be calculated as follows:

3 course assignments	10% each (30% total)
Final exam	70%

Regrading

Disputes on individual exam questions will result in re-grading of the entire exam by the instructor. The re-graded score will be final and it may be higher or lower than the original one. Requests for re-grading must be submitted in writing to the instructor within one week of the publication of the exam score.

Academic honesty and integrity

Academic integrity and honesty are key values of HKUST. Cheating and plagiarism are treated with zero tolerance. Please read the information on academic integrity carefully. It is your responsibility to be familiar with the Academic Honor Code and the content on the Academic Integrity website (http://www.ust.hk/provost/integrity). The Code is to be strictly enforced. All cheating cases will be reported to the University without exception.

Student instructor interaction

Students are always welcome to speak to me before or after class, and drop by to my office to discuss anything about the course. Please use e mail for questions and concerns. I will try to reply to you quickly to help you get the most from the course.

Student feedback

Your feedback is very important to help me improve my teaching and to improve the course. I encourage you to give me feedback during the course (either verbally or else by e mail). I will also request that you complete an anonymous assessment of the course towards the end of the semester.