Country Risk Analysis
ITRN759-B01
DRAFT

Bill Block
George Mason University
Summer 2015
Office Hours: By appointment (E-mail, Skype)

Overview:

When is a country “risky” or not? This course will examine various aspects of country risk analysis and issues that can shape cross-border lending, investment, and policymaking decisions. Which factors drive country risk? Which risk indicators are most relevant? Which methodologies can be used to analyze country risk? How can country risks be managed?

The main goal of the course is to help students understand economic and political factors that can impact country risk. Rather than seeking to develop expertise in a particular country or region, the course aims instead to provide students with a more general set of skills and techniques that can be applied across a wide range of countries. By the end of the course, students will have greater familiarity with factors that can shape country risk profiles, strengths and weaknesses of various country risk methodologies, and various country risk management techniques. We will also see that there is no formula or “cookbook” for performing country risk analysis.

The course will be taught at an intermediate level. Previous coursework in macroeconomics and finance, though not required, will be very helpful since a large part of understanding country risk involves economic and financial analysis. Some previous coursework in international relations will be similarly helpful because country risk can also be strongly influenced by global politics.

Readings:

Most reading materials will be drawn from electronically available sources provided at the time the course begins. Books used throughout the course will include:

- Country Risk Analysis by Mina Toksöz
- Managing Country Risk by Daniel Wagner
- Argentina and The Fund: From Triumph to Tragedy by Michael Mussa
- Stress Test by Tim Geithner (recommended, not required)
• The Shifts and The Shocks by Martin Wolf (recommended, not required)

In addition, good sources of information about country risk often come from higher-quality economic and financial journalism. Students are thus encouraged to regularly read publications like the Financial Times, The Economist, and The Wall Street Journal, each of which provides good examples of the kinds of issues that will be covered throughout the course.

Requirements:

Course requirements will include two short memos written individually along with a longer, end-of-term paper and a recorded presentation done in small groups. The perspective in these assignments will be one of a practitioner whose job is to address some practical, “real world” aspect of country risk. The group assignment will be an opportunity for students to debate different views about country risk that are common in everyday work settings among risk analysts. Further details about the course assignments will be provided after the term begins.

General Course Outline:

Unit 1: Country Risk Themes, Concepts, and Terminology
Introductory discussion about higher-level themes relating to country risk analysis as well as the cross-disciplinary nature of country risk analysis.

Unit 2: Country Risk Methodologies
Examination of some widely used methodologies for country risk analysis (surveillance, scorecards, quantitative models, credit ratings) along with their strengths and weaknesses.

Unit 3: Risk Indicators and Early Warning Systems
Discussion about some widely used economic and financial risk indicators along with an introduction to the European Commission’s “Macroeconomic Imbalance Procedures.”

Unit 4: Fiscal Risk
Fiscal performance, fiscal risk indicators, and the role of fiscal transparency in risk analysis.

Unit 5: Monetary Risk
Discussion about various monetary policy risks – e.g., inflation, central bank credibility and independence, monetary policy coordination, and ways monetary policy tools can affect risk.

Unit 6: Financial System Risk
Discussion about financial system soundness, systemic financial risk, and the “shadow banking system.”
Unit 7: Exchange Rate Risk
Exchange rates, exchange rate risks, and their potential impact on company and country risk.

Unit 8: External Risk
Overview of the balance of payments accounts and their potential impact on country risk.

Unit 9: Current Account Risk
Examination of the important role played by the current account balance in country risk and factors that can shape current account risk.

Unit 10: Financial Account Risk
Examination of the financial account (counterpart to the current account) and ways of gauging financial account risks as well as the potential for “sudden stops.”

Unit 11: Economic Stabilization and Sovereign Debt Risk
Economic stabilization and adjustment programs, the role of IMF lending, and risks of sovereign debt distress.

Unit 12: Political Risk
Discussion about three different types of political risks and methods for evaluating political risk.

Unit 13: Foreign Direct Investment Risk
Examination of FDI and additional country risks that direct investors face – e.g., legal risks, business climate risks, bureaucracy risks, currency convertibility risk, and market entry barriers.

Unit 14: Country Risk Management Strategies
Overview of the way country risk management can affect risk-return analysis as well as various techniques available for managing country risk exposures.

Welcome to country risk analysis!