

Gregory H. Bauer

Teaching Statement

At the Simon School, I have taught two elective courses for second year MBA students: **International Finance** and **Financial Institutions**. I have attached my teaching ratings for both of the courses. As can be seen, my rankings have been consistently high relative to the Simon School average. In addition I have received the “**Superior Teaching Award**” from the second-year MBA students for the years 1999, 2000, and 2002. (I have attached copies of the awards). You should note that the Simon School as a whole received the highest ranking for “Elective Teaching” in the 2000 Business Week survey. Descriptions of the two courses are given below.

In addition, I have also taught executive students in the Simon School Rabobank Executive Development Program. In this program, executives from Rabobank in the Netherlands travel to the US to do a number of courses at the Simon School. I have taught them portions of both my International Finance and Financial Institutions courses.

International Finance.

This course provides an introduction to international financial markets. It focuses on the risks and rewards facing the firm operating in international financial markets. Because of the high degree of variability in international financial markets, derivative instruments are used to manage a variety of firm risks. Thus, managers in international corporations must know how to price these instruments and how to design optimal hedging strategies. It is also important to realize that the high variability of foreign exchange rates makes forecasting difficult.

There are three main objectives for the course. The first is to make the students aware of the unique forms of risk that are encountered in international financial markets. The risks are not always obvious and the appropriate way to measure the risk exposure can be tricky. Thus, students must understand the basic economic principles of international finance. The second objective is to make the students comfortable with the instruments and markets that are used in international transactions. Because of the high degree of volatility of exchange rates, derivative contracts are often used to hedge the foreign exchange risk. Students must be comfortable with the mechanics of these instruments. The third objective is to make students aware of how to design appropriate hedges for given international business problems.

Financial Institutions.

In this course, I concentrate on the various forms of risk that financial institutions face in the modern world. I start with an examination of the theory as to why financial institutions exist. The modern theory has financial institutions servicing corporate and retail customers in two primary ways. The first is to help customers transfer risk. The second is to help customers by acting as agents in the increasingly complex world of financial markets and derivative securities. I explore both aspects of the theory in this course.

I then proceed to examine the influences that have most shaped the roles of financial institutions. These include financial innovation, the globalization of financial markets, and a change in the regulatory climate. The students do a number of case studies on these issues.

Because traders in financial institutions now deal in risky instruments in large volumes, their managers must be concerned with the overall risk of the institution. I thus look at "Value at Risk" management in detail as this gives us a way of summarizing all of the market risks faced by the institution in a single number.

In the final part of the course, I investigate specific types of risks that are not covered in detail in other Simon School courses. These include: credit risk in both individual transactions and in portfolios; risks in securitized transactions (e.g. CMOs); and country risk. I examine the methods that financial institutions provide for measuring and hedging these risks (e.g. credit derivatives).