

FIN 397 - Fall 2015

Financial Risk Management

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Class: TTH 3:30-4:45 in CBA 4.328
Office Hours: Tuesday, 2-3:30 pm
Thursday, by appointment

TAs: Ben Zhang (Miao.Zhang@phd.mcombs.utexas.edu)
Office hours: Wednesday, 1-2:30 pm, CBA 1.312E
Adam Winegar (Adam.Winegar@phd.mcombs.utexas.edu)
Office hours: Monday 1-2:30 pm, CBA 5.334 N

Course Overview:

This course is an advanced elective designed to teach you when and how firms should manage risk. The class will have a large case component, along with discussions of current issues related to risk management. By the end of the class, you should be familiar with both the sources of risks and the tools managers use to deal with these risks. You will also be very aware of the pitfalls and dangers associated with poorly designed risk management

Much of our time in class will be devoted to discussions of assigned cases; it is essential that you come prepared to these discussions.

Required Materials:

Wall Street Journal access: You can follow the link in Canvas for a discounted subscription for the semester. You will need access either to a paper copy of the Journal (that you can bring to class) or the electronic version. An e-subscription is probably the most convenient as I anticipate emailing links to articles we will discuss.

The course pack will be available from HBS publishing by the second week of class. An email will follow.

A set of slides outlining the upcoming lecture will be posted on Canvas no later than the day before the lecture. After the lecture, the full slide deck will be made available, also on Canvas. Readings from outside the course pack will be posted in Canvas in a timely fashion. When copyright is an issue, I may instead post instructions for obtaining the reading via the UT library.

DerivaGem:

Please download this package. We will use it to price derivatives. It is designed to go along with the Hull textbook.

Other Materials:

Optional (but highly recommended) textbook: Risk Management and Financial Institutions (Links to an external site.). Fourth Edition. John Hull. 2015

This book covers many of the topics we will address, with good coverage of pricing and measures of risk. The focus, however, is more on risk within financial institutions, in particular hedging by traders. We will focus more on the corporate side of risk management, so the textbook is not perfect for us.

Other references:

Options, Futures, and Other Derivatives. John Hull.

Much greater detail on pricing of financial derivatives. Highly recommended/essential if you plan to become a derivatives trader.

Value at Risk: The New Benchmark for Managing Financial Risk. Philippe Jorion.

An entire book devoted to VAR. Recommended if you plan to work at a bank.

Grading policy:

Class participation:	25%
Exam I:	20%
Exam II:	20%
Exam III:	20%
Major Assignment I:	5%
Major Assignment II:	5%
Weekly assignments:	5%

This class is an advanced elective. I expect a high level of effort. As this is a small class I will not enforce a particular grading curve, though I expect the averages to be in line with upper level elective classes. Students will be judged individually. I am comfortable giving everyone high grades if the class is a success. I am also quite comfortable giving low grades.

Makeup exams can only be given for true emergencies, and all such issues must be handled through student emergency services.

Details on graded work:

Participation: Class participation is an essential part of this class. You are expected to come to class prepared. I will cold call on students to summarize required reading at the beginning of class. We will spend a great deal of time discussing cases, and you will be expected to contribute to the analysis of the problem in the case.

Exams: All exams are open notes and open book. There will be no multiple choice questions. Exams will require you to analyze problems related to those we cover in class. There will be some problems that mirror the simple examples we cover in lectures, but most of the exam will consist of analyzing scenarios related to, but different than, the scenarios we study in our cases. The exams will probably be unlike most of the exams you have had here, and they will be challenging. Exams are, by necessity, effectively cumulative.

Weekly writeups: On an approximately weekly basis, I will ask you to complete a small assignment or analysis of either a problem, a current event, or a mini-case. These assignments will vary in length; in most cases they will be graded based on completion. You may work together on these assignments, but everyone must prepare his or her own solution.

Major Assignments: The two major assignments will be cases that you will need to analyze in small groups, and each group will turn in a report on the case. Please know that I am capable of using Google and am fully aware of the firms that will sell "custom made" solutions to cases. You should be aware

that there is no honor among thieves; these firms will without hesitation identify you to the University if I raise suspicion about any solution turned in to me.

Course policies:

While not strictly required, I highly recommend bringing a device with internet connectivity and a spreadsheet program to class on a daily basis. Use of these devices for entertainment during lectures is strongly discouraged but will be tolerated if sufficient discretion is exercised; note that such activities will probably indirectly detract from your class participation grade.

Canvas:

Privacy in Canvas: Information in Canvas is protected by your UTEID login. Please be aware that I will use a merged Canvas site for all sections of the course that I am teaching this semester. This will allow students in other sections to see that you are enrolled in the course and send you email from within Canvas. However, they will not actually learn your email address and no other personal data will be revealed through Canvas. If you have any concerns, please contact the ITS Help Desk at 475-9400 for help removing your name from view of other students.

Date	Details
Thu Aug 27, 2015	What do managers worry about?
Tue Sep 1, 2015	How do we measure risks?
Thu Sep 3, 2015	Guest Speaker -- Dr. Ehud Ronn
Tue Sep 8, 2015	Mean Reversion/Metallgesellschaft
Thu Sep 10, 2015	Interest rate risk/interest rate swaps
Tue Sep 15, 2015	Jefferson County case
Thu Sep 17, 2015	Credit Risk -- Case prep
Tue Sep 22, 2015	Bank Risk/Regulation
	UPMC case
Thu Sep 24, 2015	JP Morgan Chase
Tue Sep 29, 2015	Unit I wrap up
Thu Oct 1, 2015	Exam I -- Basics of RM and RM in banking
Tue Oct 6, 2015	Issuance choices and risk management
Thu Oct 8, 2015	Petrobras case
Tue Oct 13, 2015	Managing for liquidity needs
Thu Oct 15, 2015	Cephalon case
	GM Case
Tue Oct 20, 2015	Supply chain risk
Thu Oct 22, 2015	Noble Group case
Tue Oct 27, 2015	Second unit wrap up
Thu Oct 29, 2015	Exam II -- Risk management in corporations
Tue Nov 3, 2015	Reputation risk/Wells Fargo case
Thu Nov 5, 2015	Operational risk/Jet Blue
Tue Nov 10, 2015	Foreign exchange and sovereign risk
Thu Nov 12, 2015	Disney Case
Tue Nov 17, 2015	Securitization and structured finance
Thu Nov 19, 2015	Securitization case

Tue Nov 24, 2015 [Risk management in startups](#)

Thu Nov 26, 2015 [Thanksgiving](#)

Tue Dec 1, 2015 [Class wrap up](#)

Thu Dec 3, 2015 [Exam III -- advanced topics](#)
