

FIN 377 - Fall 2017

Financial Risk Management

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Class: TTH 12:30-2:00 in UTC 1.132
Office Hours: Tuesday, 2:00-3:30 pm
Thursday, by appointment

TAs: Alex Priest (Alex.Priest@mcombs.utexas.edu)
Office hours: Wednesday, 3:30-4:30 pm, CBA 5.324D
Garrett Schaller (Garrett.Schaller@phd.mcombs.utexas.edu)
Office hours: Thursday 2:45-3:45 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:

You will need to install Python and a Python editor in order to complete some in class and out of class assignments. We will go over this process on the first day of class. If you have trouble or enroll

in the class late, please contact a TA.

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:	60%
Exam I:	10%
Exam II:	10%
Exam III:	10%
Homework:	10%

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 may 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. Note that class participation is by far the most important component of the final grade. Excellent class participation will require significant effort in analyzing the cases prior to class. Preparing exhibits to share with the class is a particularly valuable exercise and can result in high class participation scores.

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.

Homework: Your primary work in the class is to prepare for the case discussions. Additionally, I will likely assign two or more significant assignments to complete outside of class, including cases that you

will need to analyze in small groups, and problem sets.

Course policies:

You will need a laptop or an arrangement to share a laptop with someone else in the class. You are welcome to use other devices (phones, etc.) to look up material during class discussions. 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:

The class website is through Canvas. Contact a TA if you have problems accessing the Canvas site. 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.

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259.

Scholastic Dishonesty

In my view, the University of Texas views scholastic dishonesty as a great way to raise the four year graduation rate. Faculty seem to face significant consequences for reporting incidents of academic dishonesty.

Course Summary:

Date	Details
Thu Aug 31, 2017	Introduction
Tue Sep 5, 2017	Measuring Risk
Thu Sep 7, 2017	In class exercise I
Tue Sep 12, 2017	Spot and Forward Prices
Thu Sep 14, 2017	Interest Rate Risk and Swaps
Tue Sep 19, 2017	Jefferson County Case I
Thu Sep 21, 2017	Jefferson County Case II
Tue Sep 26, 2017	Review/Catch-up
Thu Sep 28, 2017	Exam I
Tue Oct 3, 2017	Capital Structure
Thu Oct 5, 2017	Petrobras Case
Tue Oct 10, 2017	Bank Risk
Thu Oct 12, 2017	Chase Syndication Case
Tue Oct 17, 2017	In class exercise II
Thu Oct 19, 2017	Options
Tue Oct 24, 2017	Cephalon Case
Thu Oct 26, 2017	Advanced Options
Tue Oct 31, 2017	Risk Measurement
Thu Nov 2, 2017	Review/Catch up
Tue Nov 7, 2017	Exam II
Thu Nov 9, 2017	Noble Group Case
Tue Nov 14, 2017	Sovereign and Currency Risk I
Thu Nov 16, 2017	Sovereign and Currency Risk II
Tue Nov 21, 2017	Disney Case
Tue Nov 28, 2017	TBD
Thu Nov 30, 2017	Class Exercise III
Tue Dec 5, 2017	Review/Catch up
Thu Dec 7, 2017	Exam III

