

Professor: Dr. Audra Boone

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Office Hours: MW 10:30 to 11:30 am and by appointment

1. Overview and Learning Objectives

This course examines the key concepts and techniques used by firms in managing financial risks. Risks come in a variety of flavors, but firms are often concerned with those factors that increase volatility and downside uncertainty of future earnings and cash flows. Therefore, firm may engage in practices that preserve their ability to raise capital, make investments, and return funds to shareholders. One mechanism for mitigating risk is via the use of derivative instruments such as forward, futures, and options contracts. There are a variety of other techniques firms have in their arsenal with which to combat volatility and risk. These include: maturity and structure of debt, managing cash balances, timing of capital raising, and disclosure. We will also cover these topics to achieve a holistic view of how firms engage in a variety of risk management techniques.

Course objectives are to provide students with an understanding of various forms of risk management and the potential valuation consequences for shareholders. Therefore, by the end of the course, students should understand the economic rationale for managing risk, be able to assess various types of financial risk, master the basic techniques for valuing derivative securities, learn how to construct an appropriate hedge, be able to clearly communicate the these ideas to people in a business setting.

2. Prerequisites and Preparation

Courses: Graduate standing and FIN 285, FIN 385

3. Course Materials:

Required:

1. Course packet, which is available at the University COOP, contains some readings and cases.
2. Course-related information, including the syllabus and class notes, and assignments will be posted on Canvas.

Reccomended:

1. [Financial Risk Management: A Practitioner's Guide to Management Market and Credit Risk](#), 2012, Allen, Wiley, 2nd Edition.

4. Evaluation and Grading Policies:

Exam 1	35%
Exam 2	35%
Homework	20%
In-class participation	5%

a. Exams. There will be two exams that each count for 35% of the final grade in the course. The material for the first exam covers topics discussed in class through that date. The second exam will emphasize material from the second half of the course, but by the nature of the material and topics, some aspects will cumulate knowledge from the whole course. You must be present for both exams. Failure to take an exam will result in a grade of zero.

b. Homework. Homework comprises 20% of the final grade. It will be graded on a 0-2 scale, where 0 is assigned if the homework is not handed in or largely incomplete. A 1 will be awarded if the student made an effort to complete it the assignment, but there are many errors and incorrect responses. A 2 will be given if the assignment is correct. Late homework (those handed in after the beginning of class on the due date) are not accepted, and therefore, will be given a zero. There are no make-up assignments.

c. Class participation. This portion of the grade will be based on the contribution of each individual student to the class discussion throughout the term. It will be based on the quality and quantity of class participation. Quality will be the far more important of the two dimensions. To earn the top grade (a 9 or a 10 out of 10), you need to consistently come to class prepared and contribute to the class discussion. A middle grade will be awarded to those people who come to class and occasionally contribute or are prepared to answer questions when called upon. Lower grades (7 or below) will be given for people who are consistently late, disrupt class, or are unprepared.

d. Final Grade. The evaluation format is designed to generate meaningful dispersion in measured student performance. Grades will generally follow a distribution where 40% of the class will be given an A or A-, 55% will receive a B+ or B, and the remainder will get a B- or below. Though each item is graded separately, final grades will be assessed based on the totality of all work and participation of each individual.

Academic Dishonesty

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp>. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. During Orientation, you signed the Honor Code Pledge. In doing so, you agreed to observe all of the student responsibilities of the Honor Code.

If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects. The Texas MBA classroom experience is enhanced when:

Students arrive on time. On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.

Students display their name cards. This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.

Students minimize unscheduled personal breaks. The learning environment improves when disruptions are limited.

Students are fully prepared for each class. Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.

Students attend the class section to which they are registered. Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.

Students respect the views and opinions of their colleagues. Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.

Laptops are closed and put away. When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office

hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.

Phones and wireless devices are turned off. We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class. Remember, you are competing for the best faculty McCombs has to offer. Your professionalism and activity in class contributes to your success in attracting the best faculty to this program.

