COURSE DESCRIPTION

This course introduces you to corporate risk management. We survey the current practices corporations use in protecting their assets from random events. You will learn of the tools firms use to measure, estimate, and mitigate a variety of risk exposures, by insurance, hedging, and diversification. Covered risk exposures include interest rate risk, fx risk, credit risk, market risk, liquidity risk and operational risk. In light of current financial markets crisis, the course will focus on risk exposures associated with financial intermediation. However, much of the material presented is equally important to non-financial institutions, multinationals in particular.

In addition to meeting the academic pre-requisite for the course, students are assumed skilled in using Excel as well as using financial calculators.

COURSE MATERIALS

The main textbook is *Financial Institutions Management: A Risk Management Approach* by Saunders and Cornett, 6th edition, from McGraw-Hill. Additional reading material will be distributed in class or posted on Blackboard.

I will post practice material on Blackboard. I expect you to work hard on these practice sets and voice in class any disagreement with or difficulty in understanding the solutions to the practice sets. I will also give homework assignments which will earn a total of 5 extra points on a pass/fail basis provided you turn in 4/5 of all homework assignments and you do not fail your final exam. If either condition is not met, you earn zero points regardless. Although you are encouraged to work in groups on your weekly practice sets, you must work alone on your homework assignment and hand in your individual typed copy on due date in class (email not accepted). Please note that late assignments are not accepted. Please also note that I do not distribute solutions to these assignments but will go over their solution in class if students ask and can explain their attempts. You MUST have a financial calculator at all lectures. Be sure it is a financial calculator. I recommend the BA II plus Professional. Any other calculator needs to be approved early on in the semester before it is admitted for use in exams. Programmable calculators are not allowed.
CLASS ORGANIZATION & ADMINISTRATION

Term Project  The term project has two components:

First component is a 25-30 page paper. The paper must be typed, double spacing, Times New Roman font, size 12. You need to submit both an electronic and a hard copy of your paper. Second component is a PowerPoint presentation lasting 12-15 minutes (I will ask you to wrap it up at 14 minutes, and will stop you at the end of 15 minutes). You need to submit both an electronic and a hard copy of the slides used in the presentation.

I will assign you a case from the set below in our second meeting. You need to research what happened, and tell the class the story emphasizing what went wrong, the type of risk exposure involved, the regulatory changes implemented consequent to the crisis, etc ... Arguably, what is it that you are looking for will become clearer as the class progresses and you learn about the different risk exposures. However you can start by looking into the ‘story’.

1- Baring
2- Orange County
3- Long-Term Capital Management
4- Allied Irish bank
5- Procter and Gamble vs Bankers trust
6- Kidder Peabody
7- National Westminster’ Swaps
8- Sub-prime Housing Market
9- Lehman
10- AIG
11- Societe Generale

Protocols

Class protocol the teaching method emphasized throughout the semester is “learning by problem solving”, that is we solve problems during the lectures, and most of your homework and exams are strictly problem solving. As a result, (i) class participation is crucial: you are expected to attend and you are responsible for every problem/question solved/answered in class; (ii) be sure you have your financial calculator with you at all lectures.

Exam protocol

Exam procedure all electronic devices must be turned OFF completely. You cannot check your cell phone once the exam has started. You cannot exit the room once the exam has started. The only two items allowed on your table are an authorized calculator and a pen.

Exam Policy As a rule, I do not give make-up exams. If you miss an exam and I do not accept your excuse, your grade for that exam will be zero. Sending me a last minute email that you will miss an exam does not mean I accept your excuse. Please note that if you miss the final exam you will fail the course regardless of your performance earlier in the semester. In the rare case in which I may grant you a make-up exam, you acknowledge that I reserve the right to change the format and the content of your make-up exam.

Email protocol Please make sure to follow this email protocol:
Start the subject line with the course number, 601 for this class, followed by F10 for Fall 2010, followed by an underscore and a space, followed by the subject of the email. This will insure that I receive your email and that it is filed properly. e.g. Subject: 601F10_Absence, etc.

Please note that I do not explain course material by email only in class and/or office hours.

FINAL GRADE ASSIGNMENT

Your grade for this course will be determined as follows:

Term Project 10%
Midterm 45%
Final Exam 45%

Your course letter grade is likely to be determined as follows:
A>94, B+>87, B>84, C+>77, C>74, D>60, F<60

Finance (22:390:601)

COURSE SCHEDULE

Week 1
Introduction to the subject of risk management (RM)
Evolution of instruments used in RM
Evolution of the market players
Chronology of financial disasters
Typology of risks
ch 1,2,3,4,5,6,7

Week 2
Derivatives Overview
ch 23,24,25

Week 3
Interest Rate Risk I
ch 8

Week 4
Interest Rate Risk II
ch 9

Week 5
Market Risk and VaR
ch 10

Week 6
Credit Risk I_individual loan risk
ch 11

Week 7
Credit Risk II_portfolio loan risk
ch 12

Week 8
MIDTERM
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<td>Week 11</td>
<td>Sovereign &amp; Operational Risk</td>
<td>ch 15, 16</td>
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<td>Week 12</td>
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<td>K Adequacy, Loan Sales, &amp; Securitization</td>
<td>ch 20, 26, 27</td>
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<td>Week 14</td>
<td>Words of Caution, Presentations</td>
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