

FIN 5310 Financial Risk Management

Fall 2018

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Office Hours: Monday (5:00-6:00) and by appointment

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Textbook: *Managing Financial Risk, 3rd ed.*, by Smithson Charles, Clifford Smith and Wilford Sykes.

Required Cases: Selected from Harvard case materials available later.

Supplemental Readings: Financial Times, Business Week, Economist, Euro Money, Risk, Journal of Applied Corporate Finance, Financial Management, and Harvard Business Review.

Coursepack Link: Available Later

Course Objectives: Financial crisis of 2008 was largely the result of failed risk management. In this class we will examine financial risk management issues in general terms. We will focus more on framework and less on tools. It is not meant to be an exercise in numerical/spreadsheet methods or mathematical techniques. Instead, the course will focus on bigger issues in an enterprise context.

The textbook will be used as a resource to develop basic concepts but the textbook will not limit the course. The course uses case method to create an interactive learning environment where you will analyze real world business situations and communicate solutions in a clear and concise manner.

Grading Scheme:

Class Participation	20%
Executive Summaries	10%
current issues	5%
Individual Topics	15%
Group Report/Presentation	15%
Final Exam (individual)	35%

Tardiness/late arrivals/early departures/absentee events beyond one event will have a penalty equal to half a grade per event.

Class Participation and Executive Summaries/Slides: Your participation is essential. There are at least 3 aspects to participation: 1) a good grasp of the facts of the case, 2) insightful analysis, and 3) effective communication of your thoughts.

An executive summary will be a part of your participation grade. **Each** student will be required to write a one-page summary for each case. These summaries are due at the **beginning** of each class (except for assigned case presentation). Late submissions will not be accepted. I will randomly select a few summaries to grade. You will lose points by not submitting a summary or by submitting a poor summary. The summary provides an indication of your level of preparation. I would encourage you discuss the cases with your group, but summary must be written individually, the write-up of summary is NOT a group project. In addition each group will bring 1 or 2 slides (transparencies or PowerPoint) for each case as a back-up material for discussion.

Group Presentations: We will organize the class into two or three person teams or groups. Each group will be assigned one case. Each group will prepare a case report on one such assigned case. These reports have the same format as the mid-term and final reports described later. Each group will formally present the assigned case to the rest of the class. You will be playing the role of financial analysts who are making recommendations to the upper management. The upper management has a duty to critically examine your analysis and recommendations while making substantive contributions to the process. This is a collective learning experience for the whole class. This process should be constructive rather than adversarial.

~~**Midterm and Final Case Reports:** The reports should be no more than 3 double spaced pages. The first page of the report should be an executive summary of the report, this part should be no longer than one double spaced page. In addition to the 3 page report, you may add several charts, tables and exhibits. Late submissions will have zero credit.~~

~~You should NOT collaborate with **anyone outside your group** when preparing these reports. The reports should be entirely prepared by your group. Any use of any material prepared by others will result in a grade of zero for the assignment in question.~~

How to Work with a Case? The cases are actual business situations. Often times there is no unique answer and sometimes even the questions are not readily apparent. Your job is to organize the facts, define alternative courses of action and identify the associated consequences of such actions. In the end, you should be able to make a recommendation to your 'boss'. Such recommendations should be backed up by careful analysis of the situation, alternatives and consequences.

Almost all business situations involve some uncertainty and you have to make reasonable assumptions and form well considered judgments. You will often find that others have very different perspectives and insights. You should be prepared to debate such various viewpoints in a constructive manner. In the end, you have to make your own judgment and communicate it in a clear and concise manner.

The case materials provide lots of real life facts but they are usually **not well organized**. This can be a VERY frustrating experience, but don't give up. Keep at it, until you develop a good grasp of the

situation, this is an important part of your learning process. I will provide **no** help in this respect and it will take a lot of effort on your part to sort things out. In some sense, the journey has more value than the destination. In the process of analysis, please do not use any facts outside the case materials, especially the epilogue.

My role in this course is to create an open learning environment. I will **not** provide any assistance in the process of analysis nor will I provide any *routine* feedback on relative merits of various arguments. I will be a facilitator in the process of discovery and the rest is upto you. Good luck, together we can make this an enjoyable and rewarding experience.

Very Tentative Course Outline, FIN 5310

Week 1 Oct 1	Course Introduction and Overview
Week 2 Oct 8	Forwards and Futures: Basics, Ch 4, 5 Case: Coca-Cola Harmless Warrants
Week 3 Oct 15	Forwards and Futures: Applications, Ch 6, 7 Case: American Express TRS Charge Card Receivables
Week 4 Oct 22	Options: Pricing and Applications, Ch 10, 11, 12 Assignment 2 on options. Present preliminary outline on Individual Topics
Week 5 Oct 29	Swaps, Ch 8, 9 Case: Hedging Currency Risk at AIFS
Week 6 Nov 5	New Products and Hybrids Ch 14, 15 Case: Arley Merchandise Corporation
Week 7 Nov 12	Veteran's Day
Week 8 Nov 19	Case: Liability Management at General Motors Individual Topics
Week 9 Nov 26	Case: J P Morgan 2008 Individual Topics
Week 10 Dec 3	Case: Lehman Brothers Rise and Fall Individual Topics, Q&A
Week 11 Dec 10	Final Exam, 6:00-7:00pm

Time Management:

I would recommend that you budget your time to 2 hours analyzing the bigger issues in the case. Writing a 3 page group report and slides can easily be done in 2 hours. Executive summary should take about 10 to 15 minutes. Weekly media articles should take no more than 20 minutes.

Grading Policy:

The learning environment is seriously frustrated by the focus on grades. Every now and then, your class will have students whose primary pre-occupation is with letter grades. For their benefit, I have provided the following information.

As we all know, the exams are not a perfect measure of knowledge. The grades reflect your overall performance as measured by the scheme on the prior page. This is a standard metric for the entire class. The amount of effort you put in or your special needs for a particular letter grade do not allow me to fashion a special customized metric for different individuals.

We will use the following structure for letter grades. The grades will be assigned after the final exams are graded. I have no possible way to assign a course letter grade, or any partial letter grade, before the final exam is completed.

Overall score out of 100 points for the course	Letter grade for the course
96-100	A
91-95	A-
86-90	B+
76-85	B
71-75	B-
66-70	C+
61-65	C
56-60	C-
56 and below	D, E, F

Missed Classes: This course is interactive and is not geared up for on-line or remote learning. Absentee from class will put a lot of burden on you to catch up and I have no practical way of helping you. *Office hours are not meant to be make-up sessions for missed classes.* You should make it a point to draw on your study group to make up for any unavoidable absentee events for all aspects including housekeeping details.

Surfing, cellphones, other disruptive issues, and private conversations in class: Clearly should be avoided.

Academic Honesty

Seattle University is committed to the principle that academic honesty and integrity are important values in the educational process. Academic dishonesty in any form is a serious offense against the academic community. Acts of academic dishonesty will be addressed according to the Seattle University Academic Honesty Policy. The policy can be found at the address below:

http://www.seattleu.edu/regis/Policies/Policy_2004-01.htm

If you are not sure whether a particular action is acceptable according to the Academic Honesty Policy, you should check with your instructor before engaging in it.

Exams and case reports are confidential and should not be distributed, nor should older exams/reports be used. If you find out about any circulation of older exams/reports, please report it immediately.

Disability

If you have, or think you may have, a disability (including an 'invisible disability' such as a learning disability, a chronic health problem, or a mental health condition) that interferes with your performance as a student in this class, you are encouraged to arrange support services and/or accommodations through Disabilities Services staff in the Learning Center, Loyola 100, (206) 296-5740. Disability-based adjustments to course expectations can be arranged only through this process.

Laptops

The use of laptops, netbooks or PDAs in class to take class-notes, view powerpoints or work on class projects is allowed and encouraged. However, please do not use laptops, netbooks or PDAs (cellphones, hand-helds) in class for any other non-class related activity (including instant messaging, web-browsing, etc.) unless specifically permitted by the instructor.

Audio and Video taping

For protection of proprietary knowledge and for a variety of other reasons, audio and videotaping of any class session is strictly prohibited without prior approval of the instructor. Under extreme circumstances or for a pre-approved class absence, audio taping a class session will be allowed on a case by case basis and with the express permission of the instructor. The student will be responsible for making all necessary arrangements. Students will need to adhere to the appropriate agreed upon use of the content material of these audio tapes.