

**FINA695-CC
Seminar in Risk
Management**

Instructor: Ravi Mateti

Time: Tuesdays 5:45PM-8:15PM

Location: H-562

Textbook: Risk Management and Financial Institutions 4th ed.
by John Hull

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Office hours: Tuesdays 3:30PM-5:00PM, Wednesdays 12:30PM-2:00PM

COURSE OBJECTIVES:

This course deals with the measurement and management of risks faced by corporations and financial institutions. Risk management has been growing in importance for all corporate entities in the last few decades, and especially so for financial institutions because of the special role they play in the financial system. Although the nature of operations may differ among various firms, they all face certain common risks. For instance, most corporations hold securities and/or accounts receivable that are subject to default risk. Mismatches in the maturities of assets and liabilities held by financial institutions as well as loans and bonds used to finance corporations leaves them exposed to interest rate risk. Liquidity needs are uncertain and lack of their proper assessment could result in the failure of both corporations and financial institutions. Finally, all firms face operational risk because of inadequate internal systems and processes, and external events beyond their control. All these risks will be covered in the course.

Having identified the risks they face, financial and non-financial firms have to analyze and take appropriate actions to manage and keep them under control. The course deals in-depth with the tools, techniques, and instruments that firms use to manage the risks they face. Students will be exposed to statistical techniques, simulations, and Excel modeling with the purpose of understanding how specific risks and the aggregate risk faced by firms are managed. Lessons can be learnt from major risk management failures of financial and non-financial institutions in the past; therefore, many such instances of failure will be discussed in the course.

LEARNING GOALS:

After completing this course, students should be able to:

- Understand the risks arising from off balance sheet activities of financial institutions and recommend suitable courses of action to manage these risks;
- Understand advanced modeling techniques banks use to quantify and manage various kinds of risks;
- Apply alternate risk management techniques and compare their relative strengths and weaknesses;
- Understand the approaches financial institutions use to estimate economical capital required for different types of risk and different business units;
- Develop and implement an organization-wide risk and control framework and report corporate risk assessment to the board as a final project.
- Use Excel with powerful add-ins like @risk and PrecisionTree to analyze risk management problems and come up with solutions

RECOMMENDED READINGS

In addition to the assigned readings from the textbook, it is suggested that you begin developing your interest and knowledge by reading about current business practices and issues in other accessible publications. Excellent sources of information include the Wall Street Journal, Barrons, The Economist, Business Week, The Financial Times and Fortune Magazine.

EVALUATION PROCEDURE:

Homework Assignments / Project	20 %
Midterm Examination	40%
Final Examination	40 %
Total Grade	100 %

You are expected to turn in the assigned homework problems at the beginning of class on the date they are due.

Please start working on your assignments early enough so you can see me in my office in case you encounter any difficulties.

The midterm examination will be held after six weeks of classes. Early or late examinations (either for the midterm or final) will not be granted. Examinations will stress materials covered in the course notes, in class discussions, and in the assigned homework questions.

Please bring a calculator with you to all classes and examinations.

Remedial work will not be allowed to improve your grade. You are encouraged to seek help at any time if you have difficulties understanding the material.

In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

GRADES:

Grades will be assigned as follows:

A+	≥95%	B+	75 – 79%	C	60 – 64%
A	85 – 94%	B	70 – 74%	F	0 – 59%
A-	80 – 84%	B-	65 – 69%		

ACADEMIC INTEGRITY:

The Code of Conduct (Academic) at Concordia University states that the “integrity of University academic life and of the degrees, diplomas and certificates the University confers is dependent upon the honesty and soundness of the instructor-student learning relationship and, in particular, that of the evaluation process. As such, all students are expected to be honest in all of their academic endeavours and relationships with the University.” [Undergraduate Calendar, section 16.3.14 or Graduate Calendar, 2005-2006, page 667].]

*All students enrolled at Concordia are expected to familiarize themselves with the contents of this Code. You are strongly encouraged to visit the following web address:
<http://johnmolson.concordia.ca/ugrad/codeofconduct.pdf>, which provides useful information about proper academic conduct*

TENTATIVE SCHEDULE:

Please note that this schedule is tentative, i.e. I will sometimes go faster or slower.

WEEK	DATE	CHAPTER (McDonald book)	DESCRIPTION
1	January 12	7	How Traders Manage Their Risks
2	January 19	8	Interest Rate Risk
3	January 26	8	Interest Rate Risk
4	February 2	9	Value at Risk
5	February 9	10	Volatility
6	February 16	11	Correlation and Copulas
7	March 2	MIDTERM EXAM	
8	March 9	14	Market Risk VaR: The Historical Simulation Approach
9	March 16	16	Credit Risk: Estimating Default Probabilities
10	March 23		Financial Risk Modeling using Excel
11	March 30		Financial Risk Modeling using Excel
12	April 6		Financial Risk Modeling using Excel
13	April 12		Financial Risk Modeling using Excel
14	TBA	FINAL EXAM	

In case you have trouble understanding the covered material or if you run into difficulties with your homework assignments, please let me know in advance so I can reserve additional class time or schedule an individual appointment.

ASSESSMENT OF LEARNING OBJECTIVES:

The learning objectives are assessed through assignments, cases, a group project, and examinations.

Learning Objective \ Learning Activity	Assignments	Group project	Cases	Examinations (mid-term and final)
Recognize examples and counter-examples of fundamental business theories in reports of current business activities.		Exploration of contemporary issues in organizations or business to find evidence supporting or challenging fundamental theories	Exploration of contemporary issues in organizations or business to find evidence supporting or challenging fundamental theories	Exam questions based on fundamental theories
Perform critical analyses of business texts.	Evaluating the given problems	Gathering and analysis of secondary sources such as books, articles, and company annual reports	Gathering and analysis of secondary sources such as books, articles, and company annual reports	
Construct persuasive arguments using the language of business.	In-class debates	Project write-up	Case write-ups	Short-answers and essay exam questions
Demonstrate awareness of and interest in current business events.	In-class discussions about current business illustrating fundamental theories	Monitoring of current news pertaining to the business issues studied in the group project	Monitoring of current news pertaining to the business issues studied in the cases	Exam questions
Work effectively in groups.		Group project based on the collection and analysis of evidence from a variety of primary and secondary sources	Case analyses based on the collection and analysis of evidence from a variety of primary and secondary sources	Group discussions in preparation for the exams

BIOGRAPHIES:

Dr. Ravi Mateti

Dr. Ravi Mateti did his Ph.D. in Finance from the University of Connecticut. His research interests are in Mathematical Finance and Corporate Finance and he has several publications and ongoing research projects in those areas. He has extensive teaching experience and has been teaching courses on Options & Futures, Corporate Finance, Fixed Income, and Risk Management (a course he recently co-designed) at Concordia University. Earlier he taught at the University of Massachusetts Dartmouth and the University of Connecticut.

Dr. Thomas Walker

Dr. Thomas Walker is a native of Germany. He received a Ph.D. degree in Finance and an MBA degree in Finance and International Business from Washington State University (WSU) in Pullman. Dr. Walker joined Concordia University in 2001. Prior to his academic career, he worked for several years in the German consulting and industrial sector at such firms as Mercedes Benz, Utility Consultants International, Lahmeyer International, Telenet, and KPMG Peat Marwick. His research interests are in IPO underpricing, securities regulation and litigation, institutional ownership, corporate governance, and insider trading. In 2010, Dr. Walker was appointed as Laurentian Bank Professor in Integrated Risk Management. Among other things, he has served as chair of the finance department (2011-2014), on the steering committee of the Montreal chapter of the Professional Risk Managers' International Association (PRMIA), and as member of Concordia's senate finance committee.