

Duke University Department of Economics
Economics 378
FINANCIAL RISK MANAGEMENT

Instructor: Connel Fullenkamp

Office: 329D Social Science

Phone: 919-660-1843

Email: **cfullenk@duke.edu**

Office Hours: Tues n Thurs 1 -3 pm and by appointment.

Course Description: This course is an introduction to both the techniques and the issues of financial risk management. Every firm faces financial risks, but they are most pronounced for firms in the financial services industry. Therefore, we will focus our analysis on banks and other financial intermediaries. As we shall see during the course, risk management of individual firms has significant consequences for other firms in the same industry as well as for the broader economy. Therefore, regulation is a key driving factor in risk management and the design of risk management policy will be one of the main topics we consider. Of course, the tools of risk management will figure prominently as well. This course will rely heavily on the ideas and techniques you learned in statistics and econometrics courses.

Texts and Software:

Course info site: <https://sakai.duke.edu>

I am going to require you to read the *Wall Street Journal*, so that we can discuss articles that come up in the paper. You should be able to obtain a costless digital-only subscription by going to [wsj.com/activateschool](https://www.wsj.com/activateschool) and setting up your account. On the other hand, if you would prefer a print edition in addition to the digital one, you may obtain a 15-week subscription in digital plus print for a very low price using this link: <https://r.wsj.com/PROFug50>

Most of the readings for the course will be posted on the Sakai site, but you will be asked to read almost all of *Plight of the Fortune Tellers* by Ricardo Rebonato. Please obtain this book as soon as possible.

Also, many of our cases will be covered in *Global Derivatives Debacles*,

From Theory to Malpractice by Jacques Laurent. You may wish to get a copy of this book (2nd edition is the latest).

If you want a risk management book for your own reference, then I would recommend *Risk Management and Financial Institutions* (latest edition), by John Hull. We'll use a few ideas and some readings from this book in the course.

Requirements:

This course is intended to function a lot like a seminar—readings will be assigned and I'll expect you to come prepared to discuss what you've read. Participation will count for a large part of your final grade—at least half.

In addition, I will aim to have at least one (short) written assignment due each week. They may be very brief written responses to a reading assignment, or more technical assignments in which you must explain or use some risk-management tool.

Finally, there will also be a final exercise of some kind, probably a short-to-medium paper, in which each person in the class will be assigned a discussant who will comment on the paper.

Absences, Late Papers, Statute of Limitations

If you miss class without an excused absence, I will count it against you—a little at first, then rising exponentially. In addition to anything the University says is an excused absence, I also excuse **off-campus** job interviews **if you give me advanced notice**. If you are called at the last minute and are rushing out the door, simply send me a quick email and you're covered.

I will also try to cut you slack for on-campus interviewing, but if my course time becomes your default interview time, I will penalize you as if the absences are not excused.

All written assignments—problem sets as well as papers—will be considered due at the beginning of class on the day they are to be handed in. **Please hand in hard copies of problem sets and use the digital dropbox in Sakai to send me electronic versions of your papers. Any computational assignments need to be handed in, in hard copy form.** I will not accept late papers. Extensions will be

granted only in cases of illness or certifiable family emergency. Be sure to submit the electronic forms or bring your documentation with you.

Course Overview

This course addresses five broad questions associated with financial risk management:

- How do human beings define, perceive, and deal with risk, and what does this imply for financial risk management?
- Why should financial institutions manage risk, and why should their risk management be regulated?
- What are the main financial risks and the tools used to manage them?
- How have financial risk management and its regulation evolved?
- What are some of the most important financial risk management case studies from history, and what do they teach us?

Rough Outline of the Course



In the first part of the course, we'll review some basic ideas about finance and focus on the first two questions listed above. This should take less than one third of the course.

For the remainder of the semester, we'll mostly address the last three questions listed above. These three questions are strongly intertwined, so every session will probably have a slightly different emphasis on these three questions, depending on what the reading assignment for that class period is.

Schedule of Readings

I will try to post a reading schedule in a separate document on the course Sakai site. I will try to post readings for the next 1-2 weeks, so that you can get a bit ahead if you wish.

Duke University's Academic Honor Code: The Duke Community Standard

	<h3 style="margin: 0;">THE DUKE COMMUNITY STANDARD</h3>	
<p>Duke University is a community dedicated to scholarship, leadership, and service and to the principles of honesty, fairness, respect, and accountability. Citizens of this community commit to reflect upon and uphold these principles in all academic and nonacademic endeavors, and to protect and promote a culture of integrity. The Duke Community Standard was developed and codified by students, and serves as the campus honor code for actions in and out of the classroom.</p>		
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> <p><i>To uphold the Duke Community Standard:</i></p> <ul style="list-style-type: none"> I will not lie, cheat, or steal in my academic endeavors; I will conduct myself honorably in all my endeavors; and I will act if the Standard is compromised. </div> <div style="width: 35%; border: 1px solid black; padding: 5px;"> <p>For more information about the history of the Duke Community Standard, please visit integrity.duke.edu/ugrad/. For a full list of university policies, please reference the “Duke Community Standard in Practice” at https://studentaffairs.duke.edu/conduct/about-us/duke-community-standard.</p> </div> </div>		
<h3 style="margin: 0;">NOTES ON INTEGRITY WITHIN THIS COURSE</h3>		
<p><i>Collaboration on Problem Sets is permitted and encouraged in this course.</i> Nonetheless, students are required to hand in their own copies of completed problem sets.</p> <p><i>Quizzes, Exams, and Papers:</i> students should work independently on these exercises.</p> <p><i>When in doubt, ask:</i> If you are ever confused about what collaboration or outside resources are permitted on any assignment or exercise, ask the instructor for clarification.</p>		

To this standard, I add the following comments.

Any kind of academic dishonesty is a Code violation, including witnessing a Code violation and not reporting it. The most serious type of academic dishonesty is handing in someone else's work and claiming that it is your own. This includes, in the context of essay writing, plagiarism. It also includes collaborating, *even with a student who is not in this course or section*, on any graded work that is supposed to be done independently. All quizzes and exams are to be done independently, as well as all paper writing. I may allow collaboration on other exercises, and if so, I will explicitly state the type and extent that I will allow. If I do not specify, you are to assume that you must work independently.

Yet another type of academic dishonesty is using work that is not original--that is, recycling your own or other students' work from other courses or sections of this course to be handed in to meet the requirements of this course, or using one piece of work to satisfy the requirements in two different courses simultaneously. In the latter case, I may allow this **if** you clear this with me ahead of time.

I believe that you are honest. Nevertheless, if I see evidence of any academic dishonesty, I will confront it according to the procedures described in the Bulletin of Duke University.