

ECO2506H1F

Economics of Financial Risk Management

Fall 2018

Instructor

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Office: Max Gluskin House, room 228

Office Hours: Tuesday 12:00pm-1:00pm

Time and Place

Tuesday 3:00pm – 5:00pm / WW119

Course Description

This course focuses on the motivations for and the effects of financial risk management, with a strong emphasis on non-financial corporations. Topics include firms' motivations for hedging financial risks, the use of derivative securities for risk management, and the quantification of financial risks (including Value-at-Risk measures). Students will discuss recent empirical academic research in the field and practical case studies.

Course Materials

There is no textbook for the course. Slides and additional material will be posted on Blackboard. Students might find selected chapters of the following books useful as general reference:

- Grinblatt, Titman, Financial Markets and Corporate Strategy, McGraw Hill, 1998
- Brealey, Myers, Allen, Principles of Corporate Finance, 9th Ed., McGraw Hill, 2008
- Hull, Options, Futures and Other Derivatives, 9th Ed., Prentice Hall, 2014

Marking Scheme

<i>Tasks</i>	<i>Weight</i>	<i>Due date</i>
Midterm test	20%	Oct 16
Presentation and discussion	30%	Session 5 and session 9
Final exam	50%	December exam period

Final exam is closed book and covers the whole course.

Presentations (sessions 5 and 9)

- Sessions 5 and 9 will be based on the discussion of empirical academic papers on financial risk management in corporations.
- Each student will be assigned an empirical paper to be presented in front of the class.
- Students who are not presenting that particular paper will be asked to prepare a written paragraph on each paper (note that this means that the students presenting a paper on that day will also be required to prepare questions on the other papers discussed in the

session). Questions will need to be submitted to me via email by 7:00pm on the day *before* class (e.g., on the Monday). Failure to provide questions on time will count negatively towards the presentation and discussion grade.

- The list of papers will be announced 2 weeks in advance. Presenters will be randomly allocated to papers.
- Depending on enrollment numbers, students may be asked to do the presentations (and prepare discussion questions) in groups. In that case, note that the class participation component of the final grade will remain student-specific.

Case studies

Selected sessions will be based on practical case studies of non-financial corporations risk management operations. Students will be expected to prepare the case study (e.g., carefully read the case study) in advance of the in-class discussion. Cases will be announced on Quercus as the course progresses.

Missed Term Test

There will be no make up test. If you are unable to write the term test, you are required to provide appropriate documentation on time to the instructor within seven days of the test. The documentation must be submitted in person - no email will be accepted. If I am not on campus, you can also submit it to the department's secretary (she can date/time stamp it for you). In the event of illness, appropriate documentation must include a completed and signed University of Toronto Medical Certificate. The date on the medical certificate should indicate that you visited the doctor prior to or on the day of the test. Medical Certificates dated after the test date will not be considered appropriate documentation.

With appropriate medical note on time, your final exam will be reweighted to 70%. If you fail to present the appropriate documentation on time, you will receive a zero for the test you missed and your final exam will not be reweighted.

Appeals

If you appeal to re-grade one of the exam questions, I will re-grade the entire exam. Note that this may lead to a lower overall grade. Your complaint has to be in writing, it must be submitted within 10 days from the day that graded midterms become available for pick-up, and it must explain why you believe grading to be incorrect.

These conditions do not apply to clerical errors (i.e. adding your scores incorrectly); if a clerical error occurs, please notify me as soon as possible.

Academic Misconduct

Copying, plagiarizing, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero on the assignment, test or examination to dismissal from the university as outlined in the academic calendar. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties. As a student it is your responsibility to ensure the integrity of your work and to understand what constitutes an academic offence. If you have any concerns that you may be crossing the line, always ask your instructor. Your instructor can explain, for example, the

nuances of plagiarism and how to use secondary sources appropriately; he or she will also tell you what kinds of aids -- calculators, dictionaries, etc. -- are permitted in a test or exam. Ignorance of the rules does not excuse cheating or plagiarism. For more information regarding the Code of Behaviour please see the Academic Calendar.

Communications

There is a Quercus website for the course. Please check it periodically for announcements, handouts, etc.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc. If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

Tentative Course Schedule

Details on suggested readings will be provided as the course progresses.

Session	Date	Topic
1	Sep 11	Risks faced by firms and individuals; the role of financial markets
2	Sep 18	Instruments and strategies for corporate hedging
3	Sep 25	Instruments and strategies for corporate hedging
4	Oct 2	Should firms manage financial risks?
5	Oct 9	Should firms manage financial risks? - Presentations and discussion
6	Oct 16	----- Midterm test-----
7	Oct 23	Hedging in practice: how do firms manage financial risk
8	Oct 30	Hedging in practice: how do firms manage financial risk
	Nov 6	----- No class / reading week -----
9	Nov 13	Does hedging increase firm value? - Presentations and discussion
10	Nov 20	Guest lecture by industry professional (TBA)
11	Nov 27	Measuring risk: value at risk
12	Dec 4	Introduction to liquidity risk / Wrap-up