

ECON 174 -- SYLLABUS (WINTER 2012)

Foster, UCSD, January 2, 2012

Teaching Staff and Consultation Hours			
Name/Position	Times	Room	Contact Info
Carroll B. Foster (PhD/Lecturer)	MWF 10-10 ⁴⁵ am	Price Center East	cfoster@ucsd.edu
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Course Information

- Course title: FINANCIAL RISK MANAGEMENT
- Lecture A00 (734800) – MWF, 8-9 am, CENTR 115 [n = 90]
- Description: Trading in derivatives (options/futures/swaps); theory of futures and option pricing; use of derivatives to hedge risk factors (e.g., price, exchange rate or interest rate risk).
- Prerequisite: Ec 173A
- Course webpage: <http://Ted.ucsd.edu> (formerly WebCT)

Books and Materials

- Hull, *Fundamentals of Futures and Option Markets*, 7th ed., Prentice Hall (2011). [Required]
- Hull, *Study Guide & Solutions Manual*. [Optional]
- Bodie/Kane/Marcus, *Investments*, 9th ed. [From Ec 173A; required]
- Bernstein, *Against the Gods*, Wiley (1998). History of risk management (and probability).
- Taleb, *The Black Swan*, Random House (2007). Everything you know is wrong.
- Michael Lewis, *The Big Short: Inside the Doomsday Machine*, Norton (2010). CDS and CDO stories.

Calendar

- Change grade option or drop w/o “W” thru F, 3 FEB; drop w/o “F” thru F, 9 MAR
- Holidays: Monday, 16 JAN (MLK); Monday, 20 FEB (Presidents’ Day)
- Midterm: Friday, 17 FEB, in class
- Final: Monday, 19 MAR, 8-11 am, in CENTR 115 or _____

Examinations and Grading

- Exams are open book/notes; calculator required.
- Midterm = 100 points; cumulative final = 300. Course grades will be curved.
- Regrade period is 1 week after midterm papers first returned in class.
- No bathroom breaks during midterms. One person at a time during finals; you will be escorted by a TA, with whom you will leave your exam paper.
- If you arrive late to an exam, I allow you to take the exam in the time that remains *as long as no one has turned in an exam and left the room*. Once a classmate has turned in an exam, you will not be allowed to begin the exam and will get a zero.
- No rescheduled or make-up exams. You MUST take the final with the rest of the class on schedule during finals week. (Make travel/wedding plans accordingly; if you are going to have too many finals on one day, drop one course.) If you miss the midterm for a verifiable medical, legal or sports reason, your midterm grade will be your grade on the final. Notify me promptly that you will miss the midterm or you will get a zero. Unexcused absences also result in zero.

COURSE OUTLINE and READING LIST		
Topic	Hull 7th	BKM 9th
INTRO & REVIEW	Ch. 1	§2.5
FUTURES I -- MARKETS & TRADING	Ch. 2	§22.1–22.2
FUTURES II – HEDGING & STRATEGIES	Ch. 3	§22.3; §23.1-23.2
FUTURES III – FUTURES PRICING THEORY	Ch. 5	§22.4-22.5; §23.5
OPTIONS I -- MARKETS & STRATEGIES	Ch. 9, 11	Ch. 20
OPTIONS II – OPTION PRICING THEORY	Ch. 10, 12-13	Ch. 21
INTEREST RATE RISK	Ch. 4, 6-7	Ch. 14-15; §16.1; §23.3-23.4

Study Tips

- Attend class and take notes. Do the practice problems at the end of my lecture notes.
- Consult the folder of recent exams at Ted, to get a feel for the format of my tests.
- There are usually a lot of problems at the ends of chapters of textbooks. Often, the answers are provided for the even-numbered or odd-numbered problems.
- READ BOTH BOOKS! They are written by teachers who want to help you learn this subject.

My Pet Peeves

- UC may begin offering on-line courses, but this is not one of them. If you don't plan on coming to the lectures, please drop the course.
- My view of grades is that they certify attainment of a particular level of competence in a subject or field. They are NOT a reward for effort, but rather for achievement. I am horribly offended when students beg me to raise their grade because they “need” a better mark. I do not honor such requests. Would you like to go under the anesthetic on the operating table knowing that your surgeon got thru medical school by begging for passing grades?
- I give multiple versions of tests several times each year. What would you do with a student who had the right answers for one of the OTHER versions of the test?
- A lot of cheating takes place during the last few minutes of an exam when papers are handed in. In Spring 2010, 4 students handed in their midterms after I declared “pencils down,” and 3 of them subsequently got caught cheating on the final. So I know what I am talking about. If you don't hand your exam in when I call “Time,” I will reduce your score by half.
- In Fall 2011, a lot of cheating by students purportedly on “bathroom break” was reported. You may not leave the room in during a midterm, and will be escorted by a TA during a final.