

ECON 174 -- SYLLABUS (Winter 2014)
Foster, UCSD, April 1, 2014

"All of life is the management of risk, not its elimination."
 Walter Wriston (former CEO of CitiGroup)

Teaching Staff and Consultation Hours			
Name/Position	Times	Room	Contact Info
Carroll B. Foster (PhD/Lecturer)	MWF 12 n - 1 pm	ECON 110C	cfoster@ucsd.edu
Ling Shao Dora Fan Xia R ½	T, 12 n - 1 pm n/a	SEQ 205 n/a	lshao@ucsd.edu faxia@ucsd.edu

Course Information

- Course title: FINANCIAL RISK MANAGEMENT (ID = 796316) [n = 125 < 150]
- Lecture A00 – MWF, 1-2 pm, SOLIS 104
- 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, interest rate risk).
- Prerequisite: Ec 173A

Books and Materials

- Hull, *Fundamentals of Futures and Option Markets*, 8th ed., Prentice Hall. [Required]
- Bodie/Kane/Marcus, *Investments*, 10th ed. [From Ec 173A; required]¹
- Lecture notes at course webpage: <http://Ted.ucsd.edu>

Some Suggested Reading

- 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, 31 JAN, ; drop w/o “F” thru F, 7 MAR
- Holidays: Monday, 20 JAN (MLK); Monday, 17 FEB (Presidents’ Day)
- Midterm: Friday, 14 FEB, in class
- Final: Friday, 21 MAR, 1130-1430, in _____

COURSE OUTLINE and READING LIST		
Topic	Hull 8 th	BKM 9 th
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

¹ Any recent edition from the 7th will do.

Examinations and Grading

- Exams are closed book and open notes. A calculator is required (no laptops). YOU MUST BRING A VALID PHOTO ID TO ALL EXAMS.
- Midterm = 100 points; comprehensive final = 300. Regrade period is 1 week after papers first returned in class.
- No bathroom breaks during midterms. One person at a time during finals; leave paper with TA.
- 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.

Study Tips

- Attend class and take notes. Do the practice problems at the end of my lecture notes.
- READ THE BOOKS! They were written by teachers who want to help you learn this subject.
- Consult the folder of recent or old exams at Ted to get a feel for the format of my tests. PLEASE NOTE THAT WE WILL NOT DISCUSS OLD EXAM QUESTIONS OR ANSWERS.
- 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.

My Pet Peeves

- This is not an on-line class. If you don't plan to come to the lectures, please drop the course.
- My view of grades is that they certify attainment of a certain level of competence and expertise in a subject. They are a reward for achievement, not effort. I am amused when students ask for a higher grade because they "need" a better mark. I don't honor such requests. I mean, would you want to go through life with a degree from a university where you can pass by whining and begging?
- I give multiple versions of tests several times each year. If you have the right answer for the wrong issue, I withhold your grade until the issue is resolved by AIC.
- 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. If you don't hand your exam in when I call "Pencils down," I will reduce your score by half.
- In Fall 2011 and Spring 2013, a lot of cell-phone cheating by students purportedly on "bathroom break" was reported on campus. A few cases of students not even enrolled at UCSD taking the exams for someone else have also recently surfaced.
- Honest students are put at a disadvantage by cheating students, and I don't like that. Hence, my exam rules and restrictions.