

ECON 174 -- SYLLABUS (SUMMER II, 2011)

Foster, UCSD, July 2, 2012

Teaching Staff and Consultation Hours			
Name/Position	Times	Room	Contact Info
Carroll B. Foster (PhD/Lecturer)	MW 11-11 ⁵⁰ am	ECON 110C	cfoster@ucsd.edu

Course Information

- Course title: FINANCIAL RISK MANAGEMENT
- Lecture A00 (719332) – MW, 8 - 11 am, HSS 1305
- Description: Trading in derivatives (options/futures/swaps); theory of futures and option pricing; use of derivatives to hedge risk factors (e.g., foreign exchange 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., 2011. (Study Guide & Solutions Manual optional.) [**Required; bookstore**]
- Bodie/Kane/Marcus, *Investments*, any recent edition. [**From Ec 173A; recommended**]

Other titles of interest:

- Chance/Brooks, *Intro to Derivatives and Risk Management*, 8th ed., 2010. Another textbook.
- Bernstein, *Against the Gods*, Wiley, 1998. History of risk management (and probability).
- Mandelbrot/Hudson, *The (mis)Behavior of Markets*, Basic, 2004. Getting risk right.
- Taleb, *The Black Swan*, Random House, 2007. Everything you know is wrong.

Calendar

- Change grade option or drop w/o “W” thru F, 12 AUF; drop w/o “F” thru W, 31 AUG
- Midterm: Wednesday, 17 AUG, in class (1 hour, time TBD)
- Final: Friday, 2 SEP, 8-11 am, in HSS 1305 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 1-hour midterms. One person at a time during finals; leave paper with TA before leaving the room.
- 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 earn a zero on the test if you arrive late.
- 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, and if you are going to have too many finals on one day, drop one of the courses.) If you miss the midterm for a verifiable medical, legal or sports reason, your midterm grade will be your grade on the final. You must notify me promptly that you will miss the midterm or I will give you a zero. Unexcused absences also result in a zero.

COURSE OUTLINE and READING LIST		
Topic	Hull 7th	BKM 8th
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
INTEREST RATE RISK	Ch. 4, 6–7	§23.3–23.4
OPTIONS I – MARKETS & STRATEGIES	Ch. 9, 11	Ch. 20
OPTIONS II – OPTION PRICING THEORY	Ch. 10, 12–13	Ch. 21
AMPLIFICATION	Ch. 8, 14, 21, 25	

Study Tips

- Attend class and take notes. Do the practice problems at the end of my lecture notes. Answers are provided. If you cannot do a problem, we will show you how during office hours.
- Consult the folder of old exam questions at WebCT. Even though I will not discuss these old exams (for a variety of reasons), they are still helpful in cluing you in on things you might not understand as well as you thought. Don't panic if you can't do every question, because the course has changed over the years. Some questions are not relevant for this course this term.
- 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.
- Unless I specifically tell you otherwise, READ THE BOOKS! They are written by teachers who want to help you learn this subject.
- If you start to get lost, see me or a TA. We can help! But don't wait until the final is 2 days away.

My Pet Peeves

- The 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.