

ECON 174 -- SYLLABUS (Winter 2013)

Foster, UCSD, February 25, 2013

| Teaching Staff and Consultation Hours | | | |
|---------------------------------------|-------------------------------|----------------------|------------------|
| Name/Position | Times | Room | Contact Info |
| Carroll B. Foster (PhD/Lecturer) | MWF 10-11 ³⁰ am | Price Center East | cfoster@ucsd.edu |
| Mike Wither | T, 11-12 n | SEQ 228 | mwither@ucsd.edu |

Course Information

- Course title: FINANCIAL RISK MANAGEMENT
- Lecture A00 (764930) – MWF, 8 - 9 am, CENTER 214 [n₀ = 60]
- 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 or Ec 175
- Course webpage: <http://Ted.ucsd.edu>

Books and Materials

- Hull, *Fundamentals of Futures and Option Markets*, 7th ed., Prentice Hall (2011). [Required]
- Bodie/Kane/Marcus, *Investments*, 9th ed. [From Ec 173A; required]
- 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, 1 FEB; drop w/o “F” thru F, 8 MAR
- Holidays: Monday, 21 JAN (MLK); Monday, 18 FEB (Presidents’ Day)
- Midterm: Wednesday, 13 FEB (in class)
- Final: Monday, 18 MAR, 8 - 11 am, in CENTER 214 or ____

Examinations and Grading

- Exams are open book and notes. A calculator is required (no laptops).
- Midterm = 100 points; comprehensive (cumulative) final = 300. Course grade will be curved, in line with econ department norms.
- 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.
- 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 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.
- I give multiple versions of tests several times each year. If you have the right answer for the wrong version, 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 "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.