FIN 642: Financial Risk Management
Fall 2016
San Diego State University
College of Business Administration
Department of Finance

INSTRUCTOR / COURSE INFORMATION

Name: S.G. Badrinath       Class Days: Wednesdays
Office:  SSE 3371       Class Times:  7:00-9:40 PM
Tel.: (619) 5944749       Class Locations:  SSW-2500
E-Mail:  sbadrina@mail.sdsu.edu
Office Hours: Wednesdays 5:30 – 7:00 PM & By Appointment

Course Overview

MBA Program Goals

A solid foundation in theoretical concepts and managerial skills needed to lead business organizations.

- The ability to analyze environments in which managers make and implement business decisions.
- The skills to formulate, communicate, and coordinate strategies to solve business problems and pursue opportunities.

Course Objectives:

To understand issues pertaining to pricing and hedging with options on individual stocks and indexes, to examine forwards and futures contracts for equity indexes, commodities, and interest rates and to analyze second generation derivative products such as interest rates and the management of credit risks. Current topics will be covered as relevant.

Student Learning Outcomes: ...

1) To provide a detailed understanding of financial instruments such as options, futures, swaps and other derivative securities;
2) To describe and understand the economic environment in which such instruments operate;
3) To develop and employ theoretical valuation methods to price these financial instruments;
4) To apply these instruments in managing the risk of investing and hedging activity at the individual and the corporate level.
Course Materials

There is no required text for this course. Detailed course materials are available on my [website](http://www.ramurapt.wordpress.com). On this site, under “Teaching Materials”, select “Fall 2016, Finance 642.” In addition to course materials, there are a number of supporting files, links and periodic posts designed to keep the class content current. I view these pages as constituting a virtual textbook for this course. A password for these materials will be sent to along with this syllabus on an e-mail from blackboard. Just in case you feel better having a physical textbook, here are a couple of recommendations.

a) Hull, John C., Fundamentals of Futures and Options Markets, 6th edition or later), Prentice Hall.

b) You may be aware of the [Wells Fargo Financial Markets Laboratory](http://www.wellsfargo.com) on campus. It has 11 Bloomberg terminals with real-time data and analysis pertaining to financial markets. I will be using these resources extensively and expect you to become familiar with that capability.

c) In addition to web resources, I recommend regular reading of at least one investment periodical such as Barrons, IBD, WSJ. A financial calculator and familiarity with time-value calculations is a must.

Course Structure and Conduct

The course is lecture style.

a) Expect to spend about two class periods of time in outside preparation for each class period. As the semester evolves, relevant topics of current interest may be discussed.

b) Please come prepared to participate actively in the classroom. As you know, student backgrounds tend to vary. Do not let this keep you silent.

c) Offer comments or ask questions before, after or during class, in person or via e-mail. There will be a cohort of students who will be thankful that you spoke up.

Students with Disabilities

If you are a student with a disability and believe you will need accommodations for this class, it is your responsibility to contact Student Disability Services at (619) 594-6473. To avoid any delay in the receipt of your accommodations, you should contact Student Disability Services as soon as possible. Please note that accommodations are not retroactive, and that accommodations based upon disability cannot be provided until you have presented your instructor with an accommodation letter from Student Disability Services. Your cooperation is appreciated.

Academic Honesty

The University adheres to a strict policy regarding cheating and plagiarism. These activities will not be tolerated in this class. Become familiar with the policy: (http://www.sa.sdsu.edu/srr/conduct1.html). If you have questions on what is plagiarism, please
consult the policy and this helpful guide from the Library

Assessments and Grading

Course grades will be assigned in accordance with San Diego State University policy (see General Catalog, pp. 468-470).

Grading for this course consists of two examinations weighted at 40% each, periodic quizzes and assignments totaling 20%. Quizzes are of short duration (2 questions, 20 minutes) and will be announced.

- The tests will primarily comprise material from class and my teaching notes.
- I do not give make-ups unless I am informed of an emergency prior to the date of the exam.

Grade of Incomplete. A grade of Incomplete (I) indicates that a portion of required coursework has not been completed and evaluated in the prescribed time period due to unforeseen, but fully justified, reasons and that there is still a possibility of earning credit. It is your responsibility to bring pertinent information to the instructor and to reach agreement on the means by which the remaining course requirements will be satisfied. The conditions for removal of the Incomplete shall be reduced to writing by the instructor and given to you with a copy placed on file with the department chair until the Incomplete is removed or the time limit for removal has passed. A final grade is assigned when the work agreed upon has been completed and evaluated. An Incomplete shall not be assigned when the only way you could make up the work would be to attend a major portion of the class when it is next offered. Contract forms for Incomplete grades are available at the Office of the Registrar website.

Course Schedule

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<thead>
<tr>
<th>DATE</th>
<th>TOPIC</th>
<th>READINGS</th>
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<tbody>
<tr>
<td>August 31</td>
<td>Introduction to Financial Risk Management</td>
<td>FRM-1</td>
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<tr>
<td>September 7</td>
<td>Option Market structure, basics</td>
<td>Options-G1</td>
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<td>September 14</td>
<td>Option combination strategies</td>
<td>Options-G2</td>
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<td>September 21</td>
<td>Put-Call Parity and its variations</td>
<td>Options-G3</td>
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<td>September 28</td>
<td>Basic Option Pricing, 1 and 2-stage binomial</td>
<td>Options-G3</td>
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<td>October 5</td>
<td>Black Scholes and its variants</td>
<td>Options-G4</td>
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<td>October 12</td>
<td>Exotic Options</td>
<td>Options-G5</td>
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<td>October 19</td>
<td>MID-TERM EXAMINATION</td>
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<td>October 26</td>
<td>Basics of futures markets</td>
<td>Futures - G1</td>
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<tr>
<td>November 2</td>
<td>Commodity futures and the Management of basis risk</td>
<td>Futures – G2</td>
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<tr>
<td>November 9</td>
<td>Futures Pricing</td>
<td>Futures - G2</td>
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<tr>
<td>November 16</td>
<td>Treasury Bill futures</td>
<td>T-Bill-Futures-G</td>
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<tr>
<td>November 29</td>
<td>Treasury Bond futures</td>
<td>T-Bond-Futures-G</td>
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<td>December 6</td>
<td>Swaps and Swap Pricing</td>
<td>Swaps - G</td>
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<tr>
<td>December 14</td>
<td>Credit Markets and their Derivatives</td>
<td>Credit-G</td>
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