

FINA 444 – Corporate Risk Management  
Fall 2017 - Professor Niehaus  
Course Information

**Course Objectives:**

This course focuses on business risk management. Students will learn the concepts and tools that businesses use when managing risk and will apply these concepts and tools to cases. We adopt an enterprise risk management perspective, which implies that ideally all of the major risk exposures of an enterprise are identified and managed. As a consequence, we will consider a variety of risk exposures, including price risk, credit risk, property and liability risks, and human resource risks, as well as a variety of methods for managing these risks, including holding capital, mitigation, insurance, and hedging. The main objective of the course is to provide a decision making framework that can be applied to many different situations involving risk.

**Specific Learning Outcomes**

By the end of the course, successful students will be able to:

- Identify and explain various interpretations of risk
- For each interpretation of risk, understand and be able to calculate various measures of risk
- Calculate and interpret characteristics of probability distributions
- Understand the steps of the risk management process
- Understand the methods that businesses use to manage risk
- Understand basic financial valuation models and how risk is incorporated in these models
- Understand the condition under which diversifiable risk does and does not affect firm value
- Evaluate circumstances under which risk reduction will increase firm value
- Interpret Value-At-Risk (VaR), calculate VaR in simple settings, & know the shortcomings of VaR
- Conduct and interpret Monte Carlo simulations using @RISK
- Develop metrics to provide information about specific types of risk
- Appreciate the importance of leadership, culture, and governance in risk management
- Calculate hedge ratios for hedging pricing risk given historical data
- Understand the factors that determine the price of insurance in a competitive market
- Construct a simulation model to price insurance contracts
- Understand contractual provisions in commercial insurance contracts
- Understand the types of derivative contracts and how they can be used to reduce risk
- Understand why non-traditional types of risk transfer contracts, such as catastrophe bonds and captives, are used
- Understand the benefits and costs of using an enterprise risk management approach
- Apply the tools and concepts learned in the course to cases and new situations

## **Expectations Outside of Class**

I expect students to spend a considerable amount of time outside of class reading the required materials, working on problems and cases, and studying for exams. Expect to spend 6-10 hours outside of class each week. My strong recommendation is not to get behind. If you have questions, do not hesitate to ask in class or outside of class. I want to help you, but you need to ask for help.

## **Classroom Expectations**

I expect students to come to class prepared to discuss material that has been assigned to them. Periodically, there will be assignments (both individual and group) done in class. Sometimes these assignments will be based on the assigned material for class. Sometimes these will be unannounced.

There will also be short (sometimes unannounced) quizzes during class on material that you were expected to have read or problems that you were expected to have analyzed prior to class.

Computers may be used only for taking notes. Doing anything else on the computer is NOT allowed and will result in grade penalties, as it interferes with other students' learning and is distracting to me.

Cell phones should be turned off and should not be used in class. Violations will result in grade penalties.

## **Office Hours: (room 457H)**

Tuesday 11:00 – 1:00

Thursday 11:00 – 1:00

Friday 2:30-4:00

Or email for an appointment

My e-mail is [gregn@moore.sc.edu](mailto:gregn@moore.sc.edu)

## **Lecture Notes:**

Class meetings typically will consist of a lecture/discussion with powerpoint slides used as the outline. Prior to each class (hopefully, the night before), the powerpoint outline will be available on blackboard. The outline is to facilitate note taking and discussion in class. The outline is not a substitute for attending class.

## **Common Final Exam**

There will be a common final exam for the two sections of the course.

It is scheduled on **FRIDAY 12/15 at 7:30pm DMSB 136**

### Extra Class Session in September

In an effort to facilitate your learning of the @RISK software, I will hold multiple tutorial sessions in the Trading Room at the beginning of the semester. You must attend one of these sessions (you may attend multiple sessions). The available times will be announced in class. Not everyone can attend the same session, so we will have a sign-up sheet.

### Grades:

There will probably be 6 to 10 Short Quizzes and in class assignments, sometimes announced and sometimes unannounced. The points on the quizzes will typically be worth between 10 and 50 points.

In-class assignments and quizzes, each worth between 10-50 points	30%
Homework and Group Case Assignments (between 4 - 6)	25%
Final exam	35%
Contribution to class	10%

All quizzes and exams are cumulative.

Late assignments will suffer a 10% penalty per day, but cannot be handed in once the material on the assignment is discussed in class or solutions are distributed.

Grievances regarding grades are handled according to the Moore School's policy, which can be found at

[http://sc.edu/study/colleges\\_schools/moore/internal/rights\\_and\\_responsibilities/grievances.php](http://sc.edu/study/colleges_schools/moore/internal/rights_and_responsibilities/grievances.php)

### Course Grading Scale

The overall percentage score will determine your final grade. If you achieve an overall percentage in the ranges below, you will receive at worst the letter grade associated with that range. It is possible that grades will be curved at the end of the semester, so that some scores in a particular range will obtain a letter grade associated with a higher range. For example, it is possible that a 78 overall average could result in a B grade.

90-100	A
87-89	B+
80-86	B
77-79	C+
70-76	C
60-69	D
< 60	F

### Classroom Expectations and Contributions to Class

To encourage you to contribute to class, your grade depends on my subjective assessment of your contribution to class over the semester. You start the semester with a grade for contribution to class

equal to 60 percent. You can increase that grade by contributing to class in a positive manner. You can decrease that grade by detracting from class.

Arriving late for class or leaving in the middle of class disrupts other students; this behavior therefore will lower your contribution to class grade. Consistently missing class also will lower your contribution to class grade. Cell phones must be turned off in class, and texting is strictly prohibited. Failure to comply will lower your contribution to class grade. Being on the internet while in class (unless instructed to do so) is distracting to fellow students and to me and therefore will lower your contribution to class grade. If behavior that is distracting to others and/or me (including surfing the internet) is repeatedly observed, then you can also lose points off of your final exam grade.

Consistently being attentive in class, participating in small group discussions and class discussions, asking questions, answering questions can increase your contribution to class grade.

### **Group Case Assignments**

Some of the assignments are cases, which are to be done in groups of no more than three people in the same section. The composition of the groups should remain the same throughout the semester. I expect all group members to contribute equally to the group's work. You will be asked to give an objective assessment of the contributions of your team members at the end of the semester. These responses can be used to adjust your grades on the group assignments.

### **Textbook:**

The textbook is a custom book containing selected chapters from *Risk Management and Insurance*, by Harrington and Niehaus, along with a number of cases and readings. It is available only as an e-book and it costs \$63.52. The ebook is referred to on syllabus as the "Main book." Information on how to obtain a copy of the ebook is below. The ebook is downloadable to an iPad, iPhone, iPod touch, Android, or Kindle Fire, or a computer, and it can be printed. In addition, it can be accessed through the internet from any computer with internet access.

In this course, you are also responsible for some material that was covered in FINA 341 and MGSC 291 (prerequisites for the course). So that the students who took FINA 341 do not have to repurchase the same material again, the readings from the 341 course are not included in the main book mentioned above. Instead, the necessary material from FINA 341 is contained in a supplemental electronic book (referred to as "Prereq book") and it costs \$21.12.

To order the ebook(s), **follow the steps in the file eBookstore\_instructions which is on blackboard.**

Step 1. Go to <http://create.mheducation.com/shop/>

Step 2. Search for and select the book by ISBN #:

Main Book: ISBN #: 9781307097887

Prereq Bok: ISBN #: 9781307097917

Step 3. Add the book to your cart and pay using a credit card.

The following link may be helpful.

[Purchasing a book using a credit card - PDF](#)

**Questions?** McGraw-Hill Technical Support: 800-331-5094 (prompts 2, 3, 2) – [www.mhhe.com/support](http://www.mhhe.com/support)

### **Software:**

The course requires that each of you learn software that facilitates running Monte Carlo simulations. This software is called @RISK and is available as a download from Blackboard. The software is an add-on to excel, so you are required to use excel quite extensively throughout the semester. @RISK is on the machines in “trading room” and in the computer room on the second floor (corner of the building closest to Assembly and the Colliseum).

### **University of South Carolina Honor Code**

Suspected violations of the honor code will be reported to the Office of Academic Integrity. Violations of the honor code will result in disciplinary measures.

#### Honor Code:

It is the responsibility of every student at the University of South Carolina to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. The following examples illustrate conduct that violates the Honor Code, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code.

**Unauthorized Assistance:** Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.

***Examples:*** cheating on tests, helping someone to cheat on a test, working on an assignment or homework with someone when it is not permitted, etc.

**Unauthorized Materials:** Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.

***Examples:*** cheat sheets during tests, using a cell phone during a test to get answers, use of a calculator during a test when not permitted, etc.

**Access to Exam Before Examination:** Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.

***Examples:*** disclosing the content of a test to a friend who is in another section and taking the test after you, stealing a test before it is given, etc.

**Plagiarism:** Unauthorized use of another person's work without proper acknowledgment of source.

***Examples:*** copying and pasting information as if it were your own work, not citing quotes or materials, poor paraphrasing, not citing after paraphrasing, utilizing another student's paper and turning it in as your own, etc.

**Lying:** Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).

***Examples:*** fabricating documents, signing someone in on the attendance sheet for a class (or asking someone to sign in for you), taking a test or quiz for someone, lying about why you missed class, or need to make up a test, or need an extension on an assignment, etc.

**Bribery:** Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.

***Examples:*** Offering someone money for a better grade in the class, on a project, etc.

**Interference:** Conduct intended to interfere with an instructor's ability to evaluate accurately a student's competency or performance in an academic program.

### **Darla Moore School of Business Code of Student Conduct**

In 2010, student leaders developed and the faculty endorsed the following Code of Conduct for undergraduate students.

The Darla Moore School of Business is recognized globally for educating students who are prepared to become responsible business and civic leaders. An effective learning environment where students and faculty value integrity, professionalism and diligence is foundational to this mission. Consistent with these values, the Student Leadership Council and the faculty of the Darla Moore School of Business expect students to:

- spend a minimum of two hours outside of class studying for each hour of classroom time;
- exhibit classroom behavior that is respectful to faculty and fellow students;
- refrain from the use of phones and other electronic equipment during class, unless permitted by the instructor;
- arrive at class on time, actively participate in class, and not leave class early;
- keep up with assigned readings and complete assignments on time;
- contribute fully to team assignments;
- respect the university's staff and be responsible stewards of its facilities; and
- abide by the University of South Carolina Honor Code Approved by the Undergraduate Student Leadership Council and the faculty of the Darla Moore School of Business