

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ACCG806
Risk Management and Derivatives

Semester 2, 2010

Department of Accounting and Finance

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Year and Semester: 2010, Semester 2

Unit convenor: Associate Professor Geoffrey Loudon

[Prerequisites / Corequisites:]

There are no formal prerequisites. However, this is an advanced unit of study and students should have successfully completed at least one prior unit in finance. Students should have strong quantitative skills and reasoning ability.

Credit points: 4

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

ABOUT THIS UNIT

- **Unit description:** This unit examines current techniques for measuring and managing the financial risk faced by corporates and financial institutions, with an emphasis on the practical use of derivative financial products such as forwards, futures, swaps and options to manage risk.
- **Unit rationale:** The rationale of this unit is to provide a research-based, conceptual framework designed to enable the more effective use of derivatives in managing financial risk in a corporate setting. Practical applications reinforce important unit concepts. The unit takes the perspective of corporate risk managers.

TEACHING STAFF

Convenor Associate Professor Geoffrey Loudon
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Email: geoff.loudon@mq.edu.au

CONSULTATION TIMES

Consultation hours are on Wednesday 12-1pm during teaching weeks. Other times are available, but by prior arrangement only.

You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours. Staff will not conduct any consultations by e-mail. You may, however, phone staff during their consultation hours.

In order to gain access to staff located at levels 1, 2 and 3 of building E4A during their consultation hours please ring the staff member from the phones available in the lobby (phone numbers of relevant staff members will be provided on Blackboard and are available next to the phones).

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

CLASSES

- Classes comprise a weekly, three-hour seminar. Students should attend all classes, both for learning and assessment purposes.
- The timetable for classes can be found on the University web site at: <http://www.timetables.mq.edu.au/>
- Attendance counts as part of the participation assessment component.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

- The recommended textbook for this unit is R.M. Stulz, Risk Management & Derivatives, Thomson South-Western. This book is available in the library and can be purchased from the Macquarie University Co-op Bookshop.
- Additional readings are selected from relevant academic books and journals. Compulsory readings can be downloaded from the unit web site.

TECHNOLOGY USED AND REQUIRED

- Students will need to access the unit web site using Blackboard.
- The web page for this unit can be found at: <http://learn.mq.edu.au>
- Students are encouraged to use spreadsheets for learning about quantitative models studied in the unit.

LEARNING OUTCOMES

The learning outcomes of this unit are to increase the ability of students to:

1. recognise the role of derivatives in financial risk management
2. know the fundamental principles of derivatives valuation
3. explain the methods and limitations of risk measurement techniques
4. understand the value of effective risk management and the dangers of poor risk management
5. evaluate alternative risk management strategy and tactics
6. implement appropriate risk management solutions for corporate risk scenarios
7. critique the theory underlying risk management and review the empirical evidence.

GRADUATE CAPABILITIES

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop the capabilities the University's graduates will need to develop to address the challenges, and to be effective, engaged participants in their world. This unit contributes to this by developing the following graduate capabilities:

1. Discipline Specific Knowledge and Skills
 - a. Familiarity with the major issues in risk management and derivatives.
 - b. Cognisance of the key theories and research in risk management and derivatives.
 - c. Awareness of implementation problems when theory meets practice.
2. Critical, Analytical and Integrative Thinking
3. Problem Solving and Research Capability
4. Effective Communication
5. Capable of Professional and Personal Judgement and Initiative

TEACHING AND LEARNING STRATEGY

This unit is taught in a seminar style. Each session runs for three hours including breaks and consists of a variety of interactive learning activities. Learning activities are designed to both equip students with necessary technical skills for effective risk management with derivatives, as well as to develop their generic skills, especially within the context of risk management. Class activities include a short interactive lecture on topic material; small group discussion of key issues and student presentations of responses to class discussion questions.

Students are expected to carefully read the required references prior to each seminar and be prepared to discuss these in class. Small groups are formed to discuss key issues. Nominated students are required to lead the class discussion for their allocated question and all other students are expected to have thought about the important issues prior to the class. Class discussion questions are contained in the lecture notes for each topic.

With regard to preparing for the final examination, students should develop their ability to understand unit concepts and how to apply them in practical situations, rather than merely being able to memorise and use formulas.

Topic List		
Week	Topic	Text references [other readings are notified to students from the Blackboard site]
1	Introduction to risk management and derivatives	Stulz, Chapter 1
2	Adding value by risk management	Stulz, Chapters 2 and 3
3	Derivatives valuation: principles	Stulz, Chapter 5; Chapter 11, sections 11.1-3; Chapter 12, section 12.1
4	Derivatives valuation: practice	Stulz, Chapter 12
5	Measuring risk exposures: principles	Stulz, Chapter 4; Chapter 8; Chapter 13, Sections 13.1 and 13.2
6	Measuring risk exposures: practice	Stulz, Chapter 19, Sections 19.1-3
7	Risk management with derivatives: principles	Stulz, Chapter 6, up to and including section 6.3.2; Chapter 10, section 10.1; Chapter 13, section 13.4
	Mid semester break	
8	Risk management with derivatives: practice	Stulz, Chapters 6 and 7; Chapter 13, section 13.3
9	Interest rate risk management	Stulz, Chapter 9, Sections 9.1-9.3; Chapter 14, Sections 14.1-14.3; Chapter 16, Sections 16.1 and 16.2
10	Credit risk and liquidity risk	Stulz, Chapter 18
11	Operational risk and model risk	
12	Risk management failures	Stulz, Epilogue
13	Unit review	

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

	Assessment Task 1	Assessment Task 2	Assessment Task 3	Assessment Task 4
Title/Name	Class quiz	Participation	Group project	Final exam
Description (<i>including length or similar if applicable</i>)	The quiz is a short, written exercise containing a mix of objective and open-ended questions.	Participation marks awarded for attendance and participation in class discussion plus a short oral presentation.	Students prepare a document that critically reviews a research article on a current issue in financial risk management.	3 hour exam with 10 minutes reading time.
Due date	Week 4 class	In class time throughout the semester.	Week 10 class	End-of-semester examination period
% Weighting	10%	10%	20%	60%
Grading method - marking criteria/ standards - expectations in relation to presentation - referencing requirements or refer to attached marking rubric	Assessed and graded on extent to which student demonstrates achievement of learning outcomes.	Assessed and graded on extent to which student demonstrates achievement of learning outcomes.	Marking criteria provided with assessment task.	Assessed and graded on extent to which student demonstrates achievement of learning outcomes.
Submission method	Hand in quiz paper to instructor.	Class activity.	Hand in project report to instructor.	Hand in exam paper to invigilator.
Feedback (<i>type, method, date</i>)	Responses to the quiz discussed in class. Individual scores posted to Blackboard in week 5.	Material discussed in class after presentation.	Group scores and report on student performance posted to Blackboard by week 12.	SNG.

	Assessment Task 1	Assessment Task 2	Assessment Task 3	Assessment Task 4
Estimated student workload (hours) *	3 hours.	12 hours.	Approximately 18 hours.	The average student should spend four hours per week per credit point, including class attendance.
Learning outcomes assessed				
1	X	X	X	X
2	X	X		X
3		X		X
4		X	X	X
5		X	X	X
6		X	X	X
7		X	X	X
Graduate capabilities assessed				
1a	X	X	X	X
1b	X	X	X	X
1c		X	X	X
2		X	X	X
3	X	X	X	X
4		X	X	X
5		X	X	X
* Note: Estimated student workloads shown above for the assessment tasks are only estimates and they may vary from student to student.				

Other important information regarding the above assessment tasks:

1. Absence from the class quiz, or late submission of the group project, will not be accepted, except where adequate documentary evidence of illness or unavoidable disruption is provided. In such cases you need to advise the convenor as soon as possible.
2. Class quiz
 - a. This is an early, low risk diagnostic task designed to provide feedback for students and the unit convenor to address likely learning challenges. It tests students' engagement with the unit material and provides them with some useful guidance as to their capacity to achieve the learning outcomes for the unit.
 - b. Students identified at risk by the diagnostic are counselled in relation to their study practices and encouraged to seek academic advice during staff consultation times.
3. Class participation
 - a. Participation marks are awarded for attendance and participation in class discussion [5%] and the class presentation [5%].
 - b. Participation is assessed to stimulate its effectiveness. Effective participation is important as it encourages active engagement in learning. Group discussions in class foster more cooperative and collaborative learning. Class presentations assist students to develop their communication skills in the context of the unit material. They also enable peer feedback and foster self-awareness.
4. Group project:
 - a. The group project will require students to review critically a research article on a current issue in financial risk management. Reviewing a research article provides students with the opportunity to enhance their interpretation and evaluation of cutting-edge thinking in the field by experts. It develops their critical analysis and problem-solving skills. Group work encourages collaboration, co-operation and communication among students. This facilitates authentic, contextual development of self-awareness and interpersonal skills; communication skills.
 - b. Groups will be required to submit a written report that addresses several important issues arising from a paper selected by the convenor. The chosen paper, the specific questions and solution guidance is posted to the unit web site in week 4.

A final examination is included as an assessment task for this unit to provide assurance that:

- i) the product belongs to the student and
- ii) the student has attained the knowledge and skills tested in the exam.

A 3 hour final examination for this unit will be held during the University Examination period.

The University Examination period in Second Half Year 2010 is from Wednesday, November 17, 2010 to Friday, December 3, 2010.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. The University's policy on special consideration process is available at http://www.mq.edu.au/policy/docs/special_consideration/policy.html

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period.

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at: <http://www.mq.edu.au/policy/docs/examination/policy.htm>

ACADEMIC HONESTY

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged

- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

GRADES

All final grades in the Department of Accounting and Finance are determined by a grading committee and are not the sole responsibility of the Unit Coordinator.

Macquarie University's Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a Standardised Numerical Grade (SNG).

The Standardised Numerical Grade (SNG) is not a summation of the individual assessment components.

To be awarded a specific grade, students are required to perform at an equivalent standard in the final examination and their overall assessment marks in the unit.

Please also refer to relevant pages in the Handbook of Postgraduate Studies.

GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

http://www.businessandconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals

SPECIAL CONSIDERATION

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

http://www.mq.edu.au/policy/docs/special_consideration/procedure.html

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

For faculty specific support, contact BESS - (Faculty of) Business and Economics Student Services in Room 106, Building E4B, or <http://www.businessandeconomics.mq.edu.au/current/undergraduate/bess>.

IT CONDITIONS OF USE

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. At all times, student ID cards must be displayed in the locations provided.

Students are expected to act responsibly at all times when utilising University IT facilities. The following regulations apply to the use of computer labs and online services:

- Accessing inappropriate web sites, or downloading inappropriate material, are not permitted, material that is not related to coursework in units authorised to use these facilities is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may possibly result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students are reminded to communicate to staff only through the Macquarie University email as this is the only official channel.