

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

ACCG806  
Risk Management and Derivatives

Semester 1, 2011

*Department of Applied Finance and Actuarial Studies*

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

<b>Year and Semester:</b>	2011, Semester 1
<b>Unit convenor:</b>	Associate Professor Geoffrey Loudon
<b>[Prerequisites / Corequisites:]</b>	Completion of any Faculty of Business and Economics unit at 600 level or admission to MCom or MIB or MEd or MActPrac prior to 2011
<b>Credit points:</b>	4

Students in this unit should read this unit guide 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**

- 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.
- 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	Room:	E4A 230
Tel:	9850 8536	Email:	<a href="mailto:geoff.loudon@mq.edu.au">geoff.loudon@mq.edu.au</a>

## CONSULTATION TIMES

The convenor is available for student consultation on Tuesday 12-1pm and Friday 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 email. 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.

- Additional readings are selected from relevant academic books and journals. Refer to unit web site for further details on reading materials.

#### **TECHNOLOGY USED AND REQUIRED**

- Access to the unit Web Site.
- Word processing software for report writing.
- Students are encouraged to use spreadsheets for learning about quantitative models studied in the unit.

#### **UNIT WEB PAGE**

- Course material is available on the learning management system (BlackBoard)
- The web page for this unit can be found at: <http://learn.mq.edu.au>
- Students should consult the web page frequently. Learning, teaching and other reference materials are posted to this site throughout the semester.

#### **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.

- Week-by-week list of the topics to be covered:

Week	Topic
1	Introduction to risk management and derivatives
2	Adding value by risk management
3	Derivatives valuation: principles
4	Derivatives valuation: practice
5	Measuring risk exposures: principles
6	Measuring risk exposures: practice
7	Risk management with derivatives: principles
	<i>Mid semester break</i>
8	Risk management with derivatives: practice
9	Interest rate risk management
10	Credit risk and liquidity risk
11	Operational risk and model risk
12	Risk management failures
13	Unit review

## RESEARCH AND PRACTICE

- This unit uses research from external sources, primarily from leading international academic journals in finance.
- This unit gives you practice in applying research findings in your assignments.

## RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

	<b>Assessment Task 1</b>	<b>Assessment Task 2</b>	<b>Assessment Task 3</b>	<b>Assessment Task 4</b>
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
<b>% Weighting</b>	<b>10%</b>	<b>10%</b>	<b>20%</b>	<b>60%</b>
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.
Estimated student workload (hours)	6	30	45	60
	These hours are estimates only and may vary across students.			

	Assessment Task 1	Assessment Task 2	Assessment Task 3	Assessment Task 4
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

**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 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](http://www.mq.edu.au/policy/docs/special_consideration/policy.html) In any case, you must 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.

## 5. Examinations

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

The University Examination period in First Half Year 2011 is from 6 June 2011 to 24 June 2011.

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](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. (Individual Faculties may wish to signal when the Faculties' Supplementary Exams are normally scheduled.)

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](http://www.mq.edu.au/policy/docs/academic_honesty/policy.html)

## GRADES

Macquarie University uses the following grades in coursework units of study:

HD - High Distinction  
D - Distinction  
CR - Credit  
P - Pass  
F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at:

<http://www.mq.edu.au/policy/docs/grading/policy.html>

All final grades in the Department of Applied Finance and Actuarial Studies 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 the overall assessment mark 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.businessandeconomics.mq.edu.au/new\\_and\\_current\\_students/undergraduate\\_current\\_students/how\\_do\\_i/grade\\_appeals](http://www.businessandeconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/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](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. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit 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 result in criminal proceedings.

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

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.