The University of Southern Queensland

Course specification

Description: Financial Risk Management

<table>
<thead>
<tr>
<th>Subject</th>
<th>Cat-nbr</th>
<th>Class</th>
<th>Term</th>
<th>Mode</th>
<th>Units</th>
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<tr>
<td>FIN</td>
<td>8107</td>
<td>48058</td>
<td>3, 2005</td>
<td>EXT</td>
<td>1.00</td>
<td>Toowoomba</td>
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 Academic group: FOBUS
 Academic org: FOB009
 Student contribution band: 2
 ASCED code: 081105

STAFFING
Examiner: Boyd Scheuber
Moderator: Martin Hovey

RATIONALE
When conducting almost all forms of competitive business activity, an understanding of financial risk measurement and management has become essential to survival. Financial risk relates to the volatility of outcomes or unexpected changes in financial variables. The deregulation and/or globalisation of financial and goods markets has resulted in the need for increased awareness by corporations and some individuals, as financial and pricing decisions are exposed to competitive global market forces. This financial risk principally arises due to unexpected changes in interest rates, exchange rates, commodity prices and equity price movements. Given a prioritization of financial risks, management and individuals must decide in each case what their preferred method of dealing with or avoiding those risks will be. In response to the challenge of managing these risks, derivative instruments have provided the means for the financial engineering of strategies relevant to the risk management needs of firms and individuals.

SYNOPSIS
This course examines advanced theoretical, empirical and practical aspects of corporate risk management. In particular, the practice of risk management is introduced which then allows the valuation of risk management instruments to be examined in context. Various practical pricing models are then introduced and applied. The opportunity to identify, measure and respond to particular risk management problems of organisations and individuals through the use of strategies involving derivative market instruments such as forwards, futures, options and swaps is provided. Finally, strategies for overall entity risk management and performance evaluation is examined.

OBJECTIVES
On successful completion of this course students will be able to:

1. describe the nature of financial risks and suggest practices for their quantification and management;
2. understand the operation of forward/futures markets (OTC and exchange) together with the theoretical pricing of related contracts;
3. understand the operation of options markets and the pricing of the standard option contract using both binomial and Black-Scholes methodology;
4. extend the standard stock option concept to stock indices, currencies and futures contracts;
5. develop financially engineered strategies to the management of interest rate, exchange rate, commodity price and equity price exposures;
6. apply the Greek Letters and Value at Risk concepts to market making and portfolios of assets held by financial institutions, respectively;
7. understand the mechanics, comparative advantages and valuation of interest rate and currency swaps;
8. discuss the important role that no-arbitrage opportunities and/or risk-neutral valuation plays in the pricing of all the above derivatives; and
9. assess the performance of risk management strategies through the application of appropriate benchmarks.

TOPICS

<table>
<thead>
<tr>
<th>Description</th>
<th>Weighting (%)</th>
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<tr>
<td>1. Introduction to risk management</td>
<td>10.00</td>
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<td>2. Forward contracts</td>
<td>10.00</td>
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<td>3. Futures markets - mechanics and strategies</td>
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<td>4. Futures markets - pricing and interest rate futures</td>
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<td>5. Options - mechanics, properties and strategies</td>
<td>10.00</td>
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<td>6. Options - pricing</td>
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<td>7. Options - variations</td>
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<td>8. Greek letters &amp; value at risk</td>
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<td>9. Swaps</td>
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<td>10. Risk management strategies and performance evaluation</td>
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TEXT and MATERIALS required to be PURCHASED or ACCESSED

ALL textbooks and materials are available for purchase from USQ BOOKSHOP (unless otherwise stated). Orders may be placed via secure internet, free fax 1800642453, phone 07 46312742 (within Australia), or mail. Overseas students should fax +61 7 46311743, or phone +61 7 46312742. For costs, further details, and internet ordering, use the 'Textbook Search' facility at http://bookshop.usq.edu.au click 'Semester', then enter your 'Course Code' (no spaces).

It is intended that the three recommended texts will be available as a shrinkwrap package from the USQ Bookshop at a discounted price for students.


**REFERENCE MATERIALS**

Reference materials are materials that, if accessed by students, may improve their knowledge and understanding of the material in the course and enrich their learning experience.

**STUDENT WORKLOAD REQUIREMENTS**

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>HOURS</th>
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<tbody>
<tr>
<td>Assessment</td>
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<tr>
<td>Directed Study</td>
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<td>Private Study</td>
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**ASSESSMENT DETAILS**

<table>
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<tr>
<th>Description</th>
<th>Marks out of</th>
<th>Wtg(%)</th>
<th>Due date</th>
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<tr>
<td>ASSIGNMENT</td>
<td>100.00</td>
<td>20.00</td>
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<tr>
<td>3 HOUR EXAMINATION</td>
<td>100.00</td>
<td>80.00</td>
<td>END S3 (see note 1)</td>
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1. The examination is scheduled to be held in the end-of-semester examination period. Students will be advised of the official examination date after the timetable has been finalised.

**IMPORTANT ASSESSMENT INFORMATION**

1. Attendance requirements:
   If you are an international student in Australia, you are advised to attend all classes at your campus. For all other students, there are no attendance requirements for this course. However, it is the students' responsibility to study all material provided to them or required to be accessed by them to maximise their chance of meeting the objectives of the course and to be informed of course-related activities and administration.

2. Requirements for students to complete each assessment item satisfactorily:
   To complete the assignment/s satisfactorily, students must attempt all questions. To complete the examination satisfactorily, students must obtain at least 50% of the marks available for the examination.

3. Penalties for late submission of required work:
   If students submit assignments after the due date without prior approval by the Examiner, a penalty of 20% of the total marks gained by the student for the assignment will apply for each working day late.

4. Requirements for student to be awarded a passing grade in the course:
   To be assured of receiving a passing grade a student must submit all of the summative assessment items, achieve at least 50% in the examination and at least 50% of the available weighted marks for the summative assessment items.

5. Method used to combine assessment results to attain final grade:
The final grades for students will be assigned on the basis of the weighted aggregate of the marks obtained for each of the summative assessment items in the course.

6 Examination information:
This is an open examination. Candidates may have access to any material during the examination except the following: electronic communication devices (e.g., mobile phones, pagers), bulky materials, devices requiring mains power and material likely to disturb other students.

7 Examination period when Deferred/Supplementary examinations will be held:
Any Deferred or Supplementary examinations for this course will be held during the next examination period.

8 University Regulations:
Students should read USQ Regulations 5.1 Definitions, 5.6. Assessment, and 5.10 Academic Misconduct for further information and to avoid actions which might contravene University Regulations. These regulations can be found at the URL http://www.usq.edu.au/corporateservices/calendar/part5.htm. Students should also read the Faculty of Business Guide to Policies and Procedures of the Faculty which can be found at the URL http://www.usq.edu.au/handbook/current/buspolproc.html.

**ASSESSMENT NOTES**

1 Assignments: (i) The due date for an assignment is the date by which a student must despatch the assignment to the USQ. The onus is on the student to provide proof of the despatch date, if requested by the Examiner. (ii) Students must retain a copy of each item submitted for assessment. This must be produced within 24 hours if required by the Examiner. (iii) The Examiner may grant an extension of the due date of an assignment in extenuating circumstances. All applications for extensions must be accompanied by supporting documentation. In all circumstances no assignments will be accepted two calendar weeks after the due date. The Examiner shall consider the statement accompanying a late assignment and decide on the outcome. (iv) The Examiner will not accept submission of assignments by facsimile. (v) Assignments are to be submitted in the appropriate assignment folders.

2 Course Weightings: Course weightings of topics should not be interpreted as applying to the number of marks allocated to questions testing those topics in an examination paper. The examination may test material already tested in assignments.

3 Dishonest Actions: (i) Any student who is alleged to have performed a dishonest action relating to any assessment in the course will have a course of action taken against him/her as outlined in the Academic Regulations. (ii) Pieces of assessment should be the work of individual students. Joint pieces of assessment are not permitted unless written approval has been obtained from the Examiner. (iii) Dishonest action in relation to assessment includes: copying or attempting to copy the work of others; use of or attempting to use information prohibited from use in that form of assessment; submitting the work of another as your own; consciously committing acts of plagiarism, that is, taking and using another's thoughts or writings as one's own with intent to deceive, which occurs when paragraphs, sentences, a single sentence or significant parts of a sentence which are copied directly, are not enclosed in quotation marks and appropriately footnoted or referenced in the text; direct quotations are not used, but text is paraphrased or summarised, and the source of the material is not acknowledged by footnoting or other reference in the text.

4 Deferred Examinations: (i) Deferred examinations will be granted based on non-attendance for medical reasons, family/personal reasons, or employment-related reasons. Deferred examinations must be recommended by the Faculty Assessment
Coordinator and approved by the Examiner or Moderator or Dean's Nominee. If a deferred examination is granted, students shall sit the deferred examination in the next semester examination period. If, for whatever reason, this deferred examination is not taken then the student will be graded 'F'. (ii) To be eligible for consideration for a deferred examination, students must have submitted a genuine attempt at all mandatory assessment items. (iii) Deferral of an examination CANNOT be granted on an existing deferral in that course. (iv) Requests must be in writing to the Faculty Assessment Coordinator clearly stating student name, student number, current address, course alpha-numeric identifier and name for the examination not attended. (v) Requests MUST be supported by original or suitably authenticated documentation. (vi) Requests and documentation must be submitted to the Faculty Assessment Coordinator within ten (10) calendar days of the missed examination date. (vii) Requests based on medical reasons must be supported by medical evidence on the appropriate University of Southern Queensland medical certificate or doctor's certificate. A medical certificate must be dated with the same date as the period of illness for which the absence from examination is being sought and clearly indicate the student's name and, if possible, student number (retrospective medical certificates will not be accepted for either assignment work or examinations). Only original or authenticated medical certificates will be accepted. A student's medical condition must be stated clearly (IN ENGLISH). (Certificates stating a student has a 'medical condition' may not be sufficient grounds for deferment of examination). Medical evidence must cover the student for the day(s) of the missed examination(s). (viii) Requests based on family/personal reasons must be supported by a clear statement (IN ENGLISH) from a medical practitioner, counsellor or independent member of the community. (ix) Requests based on employment-related reasons must be supported by a clear statement (IN ENGLISH) from the student's employer. (x) Students who have a medical condition or genuine compassionate or employment-related problems on the day of the examination are advised to obtain the relevant documentary evidence and NOT attempt the examination. If a student makes an attempt at the examination, the assessment item will be marked and a grade awarded. In these cases, a student cannot, after receiving a 'fail' grade, request a deferred examination or special consideration. (xi) Students who have been granted deferred examinations will not be granted a waiver of prerequisites, without the permission of the Head of Department, in subsequent semesters (if they do not have a passing grade).

OTHER REQUIREMENTS

1 Learning Resources: Prescribed texts and materials (see above); recommended reference materials (see above); printed Introductory Book, Book/s of Selected Readings, and Study Book/s; and course Website accessible via USQConnect.