

## FBE 559 – Management of Financial Risk

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### **Course Description**

This course intends to be an introduction to financial derivatives, namely options, futures and swaps. Our main goal will be to focus on the uses of derivatives for hedging and speculation and to understand risk neutral pricing of derivatives. The emphasis of the course will be on conceptual issues as opposed to the institutional aspects (although the basic institutional aspects will be covered). By all standards this is a quantitative class and a good background in calculus and statistics is highly desirable, if not necessary. Knowledge of Excel will be useful (though not required) as some analysis will be done in Excel.

### **Class Schedule**

The class meets on Tuesdays and Thursdays from 5:00–6:20 p.m. in JKP 102.

### **Course Website**

All teaching materials will be posted on Blackboard. Class announcements and problem sets will be posted here.

### **Office Hours**

I will hold office hours on Wednesdays from 11:00 a.m.–noon, HOH 402, or by appointment (sjoslin@usc.edu). Feel free also to ask questions by email.

### **Course Requirements and Grading**

The following weighting scheme will be used to determine the course grade:

- 25% Midterm Exam
- 40% Final Exam
- 20% Problem Sets
- 15% Constructive contribution and in-class presentations

The midterm will be in class on Tuesday February 26th. The final will be held **Thursday May 9th, 4:30–6:30 p.m.** Problem sets are an important part of the course, and are strongly recommended. However, if you choose not to turn in a problem set, the extra weight (5%) will be given either the midterm grade (for problem sets 1–2) or the final exam grade (for problem sets 3–5). This rule will also apply for any problem set with score lower than the corresponding exam. The final exam is cumulative.

The constructive contribution portion of your grade is based on positive and quality contributions shared in class, made with thoughtful planning and preparation prior to class meetings. The grade is not for time spoken in class (quantity), but rather on the quality of the contribution. Key factors that I will use in my assessment:

- In-class short group presentations (see below) of interesting market-related articles.
- A positive attitude that enriches the learning experience of the class (e.g., showing excitement towards the course and the topic), in and out of the classroom.
- Helping other students.
- Sharing with the class finance-related stories.

Entering, leaving, or disturbing during class, and/or lack of attendance will have a negative effect on the grade. If you are unable to attend a class, please notify me about it by email.

### **In-Class Presentation**

For a few minutes in each class, a different group should present and discuss an interesting topic related to derivatives, speculation, or financial risk management. Other finance-related topics may be acceptable for presentations as well. The student groups should find a topic, and prepare to present it and answer potential questions in class.

Students should form groups and book their presentations with me. By Saturday at 6:00 p.m. before the presentation, one of the students in the group should email me information about the topic and how the group plans to present it in class. Make sure you contribute to one presentation during the course because it will affect your grade. I will not evaluate students differently within each group; rather, I will evaluate the group performance as a whole. Thus, it does not matter whether you presented or helped behind the scene in the preparation for your group presentation.

### **Course Materials**

- Class Notes: Notes will be available on Blackboard.

- Problem Sets: Problem sets will be available on Blackboard.
- Optional Textbook: John C. Hull, Options, Futures, and Other Derivatives, 8th edition, Prentice Hall, and Student Solution Manual.

All material for the problem sets and exams will be covered in the course notes. The optional textbook (or an older edition) is recommended, but is not required. Copies will be on reserve in the library.

## **Exams**

The midterm and final exams will test your understanding of the key class concepts. They do not test your ability to memorize or to use your calculator. To prepare for these exams, you should review the slides together with your own class notes, the problem sets, and the sample exams. The final exam is cumulative.

The exams are closed book. You will be allowed one double-sided page of notes at the midterm exam and two double-sided pages of notes at the final exam. The sheets must be no larger than 8.5" × 11". There are no restrictions on the content of the formula sheets.

You must take the exams at the scheduled times; no exceptions will be granted. If you must miss an exam, you will be required to make it up after the semester is over.

No laptops or smartphones are allowed on the exam.

## **Problem Sets**

There will be 5 problem sets over the course of the semester. Late problem sets will not be accepted. You are encouraged to work in groups on the problems, but you must hand in your own copy. You also need to acknowledge any help you received on the first page of your work. The exam questions will have the same format as the problem sets.

## **Academic Dishonesty**

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, ([www.usc.edu/scampus](http://www.usc.edu/scampus) or [scampus.usc.edu](http://scampus.usc.edu)) contains the University Student Conduct Code (see University Governance, Section 11.00), while the recommended sanctions are located in Appendix A.

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at [www.usc.edu/student-affairs/SJACS/](http://www.usc.edu/student-affairs/SJACS/). Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

## **Disability**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me (or to your TA) as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. For more information visit [www.usc.edu/disability](http://www.usc.edu/disability).