

Risk management

Lecturer

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Module description

This module is concerned with the management of financial/investment management institutions from a risk management perspective. The recent financial crisis and the development of structured products are introduced and reviewed. Lessons drawn from the crisis and risk management failings are discussed in the context of the risk management process. Derivatives – futures, options, credit and swaps- are briefly reviewed and illustrations of their application to managing various risks are presented. Value-at-risk (VaR), Expected shortfall, and Credit models are discussed and illustrated. The roles of stress testing and back testing of such models are emphasised. Asset-liability management and its relevance to pension funds will be at an introductory level. A review of developments in liquidity risk management will be provided

Objectives

At the end of the course students should be able to:

- discuss the risk management process and steps involved.
- understand some of the risk management failures and lessons to be drawn from the crisis.
- illustrate hedging various risk exposures using interest, credit and currency derivatives.
- Illustrate the computations of Value-at-Risk(VaR) and CreditVaR models.
- Discuss the strengths and weaknesses of VaR and CreditVaR models
- discuss stress testing and back testing of models.
- understand liquidity risk.

Assessment

- 1-hour class test in March (25%)
- 2-hour exam in May/June (75%)