

# MFE 237I: Financial Risk Management

## Problem set 6

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due 5/22 before midnight

You should work with your assigned group but should write up your answer individually. Give the name of your group members in your writeup and post it on CCLE before Monday May 22 at midnight.

### 1 LTCM

Please read in details the paper “Risk Management Lessons from Long-Term Capital Mangement” by Philippe Jorion (on CCLE). Write short essays answering the following questions.

1. What was the broad trading strategy of LTCM?
2. Why did they need so much leverage?
3. How did their demise happen?
4. What were the most important issues with their risk management approach?
5. How would you manage risk for a fund trying to trade similar strategies?