

MFE 409 LECTURE 1A

OVERVIEW

Valentin Haddad

Spring 2019



WHO AM I?

■ About me:

- ▶ 2008 - M.Sc. Applied Mathematics and Economics - Ecole Polytechnique
- ▶ 2012 - Ph.D. Economics and Finance - University of Chicago
- ▶ 2012 -2016: Assistant Professor - Princeton University
- ▶ 2007, 2008: Credit Suisse - FI research, Counterparty Risk

■ Research

- ▶ Equilibrium models of financial intermediation
- ▶ Risk management and asset prices: banks, insurance companies, buyouts
- ▶ Monetary policy and financial markets
- ▶ Behavioral economics

■ Teaching

- ▶ Derivatives (MFin), Money and Banking, Asset Pricing

CONTACTS

■ Me:

- ▶ Email: valentin.haddad@anderson.ucla.edu
- ▶ Office hours: drop by or make an appointment
- ▶ Office: C419

■ TA:

- ▶ Paul Huebner, paul.huebner.phd@anderson.ucla.edu
- ▶ TA sessions: Monday 10:00am - 11:00am, location D310
- ▶ Office hours: Friday 10:15am - 11:15am, location C310

COURSE REQUIREMENTS

■ Lectures

- ▶ Tuesday 8:30-11:20 (#1), 1:00-3:50 (#2): please show up for your cohort time
- ▶ B301
- ▶ Bring a name tag

■ Textbook (not mandatory): John C. Hull, “Risk Management and Financial Institutions” Wiley

■ Other readings: class website + case package

COURSE REQUIREMENTS

■ Homework (20%):

- ▶ Each week
- ▶ Handed out on Tuesday due following Monday at midnight
- ▶ 2 free passes in case of personal issue (turn in Wednesday) then 0
- ▶ Prepare in groups, but **write individually**
- ▶ Exception: case studies to be written in group and no free pass

■ Exams:

- ▶ Midterm (25%): Week 5 during class time, 2h
- ▶ Final (45%): June 11, 11:30pm - 2:30pm, B301 (#1) C315 (#2)

■ **Participation (10%)**

OUTLINE

1 RISK MANAGEMENT OVERVIEW

2 TAKEAWAYS

WHAT IS THIS CLASS ABOUT?

Financial Risk Management

- What are the risks taken by engaging in financial activities?
- How to measure these risks?
- How to *limit* these risks?

WHY SHOULD YOU CARE?

- Explosion in the importance of risk management since the 2008 financial crisis → jobs!
- Be cognizant of risk in any finance position
- No choice: regulation

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- Regulators: prevent from taking risk

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 - ▶ Regulatory arbitrage
- You work for the private institutions
 - ▶ You can also be ethical

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TAKEAWAYS

- Risk is an inherent part of the business of finance
- Important to be aware of it and control it
- Regulators further impose limits

Next: How to measure market risk?

THREE OBJECTIVES FOR THE CLASS

My goal is to get you ready for interviews and jobs in risk management

- ① Learn **tools** to measure and manage risk
- ② Get comfortable with the **language** to communicate about risk management
- ③ Learn to **think critically** about risk management methods

HOW WILL WE ACHIEVE THIS?

- Show you the techniques
- Work out some examples together in class
- More challenging problems in the homework
- Communicate, communicate, communicate!

TELL ME ABOUT YOU

- Name
- What is your background?
- What do you want to do after the MFE?
- What do you expect from this class?
- Something about you