

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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- In real life: going bust is messy!
- Regulators: prevent from taking risk

RISK MANAGEMENT

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 - ▶ Do nothing!
- Risk is often **necessary** to make profits
- Risk management is about trading off these profits with 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?

credit risk
liquidity risk
political risk
operational 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!

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