

MFE 409 OVERVIEW

Valentin Haddad

Spring 2025



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:

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

■ Teaching

- ▶ ESG, Statistical Arbitrage, Derivatives, Money and Banking, Asset Pricing

CONTACTS

Do not hesitate to reach out!

- Me:

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- TA:

- ▶ Yingru Pan, yingru.pan.phd@anderson.ucla.edu

- ▶ Eva Jie Yu, jie.yu.phd@anderson.ucla.edu

COURSE ORGANIZATION

- Lectures

- ▶ Tuesday LEC2: 1:00 - 3:50pm, LEC1: 4:10-7:00pm
- ▶ A301

- Textbook (not mandatory): John C. Hull, "Risk Management and Financial Institutions"
Wiley

- Other readings: class website + case package

COURSE REQUIREMENTS

- Homework (25%):
 - ▶ Almost each week
 - ▶ Handed out on Tuesday due following Monday at midnight
 - ▶ 2 free passes in case of personal issue (turn in by Wednesday midnight) then 0 → *email TAs before using it*
 - ▶ You can discuss in groups, but **write individually**
- Exams:
 - ▶ Midterm (25%): Week 6
 - ▶ Final (40%): Week 11
- Participation (10%)

PARTICIPATION

- I view myself as a “coach” helping you out on your learning journey
- *You* will solve problems in class, *you* will lead the discussions, *you* will get jobs →
PLEASE SPEAK UP!
- No matter what, feel free to ask questions at any point during the lecture.

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?

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- 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 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?

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