

# 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:

- ▶ Email: valentin.haddad@anderson.ucla.edu

- 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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- Risk management is a **constraint**
  - ▶ How to take as much risk as possible while respecting the constraint?
  - ▶ 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