

MBA 622: Managing Risks in Global Financial Markets

Syllabus: Summer 2021 (Subject to Revision)

Course Information

MBA622-6274 (CLS number 50914)

Meeting Times: Detailed below

Location (in person): Hilton McLean Tysons Corner (none this term) Location (online): Zoom through Canvas

Instructor Information

Instructors:

Dr. Andre Neveu (“On-dray Neh-view”) and Dr. Vipul Bhatt (“Vih-pull Bah-t”)

Office Hours: One of us will be available on Tuesday evenings before Wednesday classes by appointment. All online meetings will be conducted via Zoom.

Contact Information

Neveu: Phone: 202-556-0389, Website: aneveu.com, Email: neveuax@jmu.edu, Twitter: @aneveu, Personal Zoom Room: <https://jmu-edu.zoom.us/j/7208130629?pwd=RjAyeklKc20zdWFJNTR5SU9kL2FJdz09>

Bhatt: Phone: (571) 418-3783, Website: <https://sites.jmu.edu/bhatt/>, Email: bhattvx@jmu.edu, Personal Zoom Room: <https://jmu-edu.zoom.us/j/4615826875?pwd=bXRRbmtSU0x5VS9ESDFmQ2tNbUxvdz09>

Contact the Instructor

Office Hours: All questions should be posted to both instructors at (neveuax@jmu.edu) and (bhattvx@jmu.edu). Video chats will be conducted via Zoom. Dr. Neveu can be reached by phone at (202)556-0389 or by Zoom. Dr. Bhatt can be reached by phone at (571)418-3783 or Zoom.

We will periodically send messages to your JMU email address regarding the class. Please make sure you check this account regularly.

Course Description

This course examines global financial markets and how firms adapt their strategy to capitalize on the opportunities to manage risks. Course analyzes international financial management issues and risks faced by businesses operating in global markets and evaluates various instruments and approaches used to address them. Students develop an understanding of how firms can take advantage of the opportunities presented by different countries, institutions, financial systems and macroeconomic trends.

Course Objectives

At the conclusion of the course, students will:

1. **recall** the basic definitions, terms, taxonomy and concepts, related to risk and risk management.
2. **describe** in your own words various risk management strategies and solutions.
3. **apply/use** different tools for risk measurement commonly applied in the industry.
4. **explain** how to effectively implement aforementioned tools to real world data and situations.
5. **discover and explain** various types of risks faced by businesses in a global economy.

6. **connect** risk management and control plans for various situations, businesses, organizations, agencies, or industries by applying the key principles of risk management.

Prerequisites

Class Topics and Tentative Schedule

Unit 1: Introduction to quantitative risk measures (Risk Measurement) and qualitative risk measures (Risk Management)

- **Readings:** Skipper, Harold D. and Kwon, W. Jean Ch 2 (Canvas)
- 1.1 Review of Probability and Statistics (Instructor: Canvas Videos)
 - Recommended Readings: Luehrman, Timothy A. (Finance Reading: Risk and Return 1: Stock Returns and Diversification) (Coursepack)”
- 1.2 Introduction to Decision-making under risk (Instructor: VB)
- 1.3 Taxonomy of Risk (Instructor: AN)
- 1.4 Enterprise Risk Management (Instructor: AN)
 - Recommended Readings: Crouhy Ch. 1 (Risk Management: A Helicopter View) & Ch. 2 (Corporate Risk Management: A Primer)

Unit 2: Expected Utility Theory and MPT (Instructor: VB)

- **Readings:** Skipper, Harold D. and Kwon, W. Jean Ch 2 (Canvas)
- 2.1 Risk preference
- 2.2 Modern Portfolio Theory
 - Recommended Readings: Crouhy Ch. 5 (A User-Friendly Guide to the Theory of Risk and Return)

Unit 3: CAPM and Value at risk–VaR (Instructor: VB)

- Readings: Mullins Jr., David W. (Does the Capital Asset Pricing Model Work?) (Coursepack)
- Readings: Hendricks, Darryll (Evaluation of Value-at-Risk Models Using Historical Data) (Canvas)
- Readings: Taleb et al. (The Six Mistakes Executives Make in Risk Management) (Coursepack)
- Readings [Recommended]: Crouhy Ch. 7 (Measuring Market Risk: Value-at-Risk, Expected Shortfall, and Similar Metrics)
- 3.1 Measuring systematic risk: CAPM
- 3.2 Measuring tail risk: VaR

Unit 4: Introduction to Behavioral Finance (Instructor: VB)

- Readings: Ricciardi, Victor (The Psychology of Risk: The Behavioral Finance Perspective Volume II. Investment Management and Finance Management) (Canvas)
- 4.1 Biases and emotions in decisionmaking
- 4.2 Prospect theory

Unit 5: Enterprise Risk Management (Instructor: AN)

- Readings: Gigerenzer Ch 6 (Canvas)
- Readings: Skipper & Kwon Ch. 12 (Enterprise Risk Management) (Canvas)
- Readings: Taleb et al. (The Six Mistakes) (Coursepack)

Unit 6: Operational Risk & Business Risk (Instructor: AN)

- Readings: Roberto et al. (*Facing Ambiguous Threats*) (Coursepack)
- Readings: Tang & Tomlin (*The Power of Flexibility for Mitigating Supply-Chain Risks*) (Canvas)
- Readings: Parent, Murray, & Beatty (*Act, Don't React: Cybersecurity*) (Coursepack)
- Readings [Recommended]: Crouhy Ch. 14 (Operational Risk)

Unit 7: Strategic Risk (Instructor: AN)

- Readings: Mitroff & Alpaslan (*Preparing for Evil*) (Coursepack)
- Readings: Surowiecki Ch. 10 (The Company: Meet the New Boss, Same as the Old Boss?) (Canvas)
- Readings: Gavetti (*The New Psychology of Strategic Leadership*) (Coursepack)
- Readings (CASE): Gundling (*Disruption in Detroit*) (Coursepack)

Unit 8: Risk Management in Complex Environments (Instructor: AN)

- Readings: Hess and Cottrell Jr. (*Fraud Risk Management: A Small Business Perspective*) (Coursepack)
- Readings: Bonabeau (*Understanding and Managing Complexity Risk*) (Coursepack)

Calendar & Deadlines

6/26	Saturday	Bhatt and Neveu (Online 9:30AM)
6/30	Wednesday	Bhatt (Online 7:15PM)
7/7	Wednesday	Bhatt (Online 7:15PM)
7/14	Wednesday	Bhatt (Online 7:15PM)
7/21	Wednesday	Bhatt and Neveu (Online 7:15PM)
7/28	Wednesday	Neveu (Online 7:15PM)
8/4	Wednesday	Neveu (Online 7:15PM)
8/11	Wednesday	Neveu and Bhatt (Online 7:15PM) + Guest Speaker
8/18	Wednesday	Project/Presentation Submission

Requirements and Policies

Required Texts

Article: Hendricks, Darryll. "Evaluation of Value-at-Risk Models Using Historical Data." Federal Reserve Bank of New York Economic Policy Review, April 1996.

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.205.1931&rep=rep1&type=pdf>

Article: Tang, Christopher, and Tomlin, Brian. 2008. "The Power of Flexibility for Mitigating Supply Chain Risks." *International Journal of Production Economics*, Vol. 116, pp. 12-27.

Article: Ricciardi, Victor. 2008. "The Psychology of Risk: The Behavioral Finance Perspective." *Investment Management and Finance Management*, Vol. II., pp. 85-111.

Article: Soll, Jack B., Katherine L. Milkman, and John W. Payne. 2015. "Outsmart Your Own Biases." *Harvard Business Review*, May, pp. 65-71.

HBR Coursepack

Core Curriculum Reading: Luehrman, Timothy A. "Finance Reading: Risk and Return 1: Stock Returns and Diversification." Product Number 5220-HTM-ENG. 2017.

Article: Mullins Jr., David W. "Does the Capital Asset Pricing Model Work?" *Harvard Business Review*, Reprint Number 82106, January-February 1982.

Case: Stephen Sapp. “F & S Investments: Understanding Value at Risk.” *Ivey Publishing: The Western University of Ontario*, Reprint Number 908N09, April 2008.

Article: Roberto, Michael A., and Richard M.J. Bohmer. & Edmonson, Amy C. “Facing ambiguous threats.” *Harvard Business Review*, Reprint Number R0611F. November 2006.

Article: Mitroff, Ian I. and Murat C. Alpaslan. Preparing for evil. *Harvard Business Review: OnPoint*, Product Number 3388. April 2003.

Article: Bonabeau, Eric. Understanding and managing complexity risk. *MIT Sloan Management Review*, Reprint Number 48416. 48 (4), 2007.

Article: Taleb, Nassim N., Daniel G. Goldstein, & Mark W. Spitznagel. “The Six Mistakes Executive Make in Risk Management”. *Harvard Business Review*, Reprint Number R0910G, October 2009.

Article: Hess, Megan F. and James H. Cottrell Jr. “Fraud Risk Management: A Small Business Perspective.” *Business Horizons*, 59, 13-18, 2016.

Article: Parent, Michael, Greg Murray, & David Beatty. “Act, Don’t React: A Leader’s Guide to Cybersecurity.” *Rotman Management*, 399, Fall 2019.

Article: Gavetti, Giovanni. “The New Psychology of Strategic Leadership.” *Harvard Business Review*, Reprint Number R1107K. July-August 2011.

Case (Part 1): Gundling, Ernest. “Disruption in Detroit: Ford, Silicon Valley, and Beyond (A)” *Berkeley Haas Case Series*, Reprint Number B5875. January 2018.

Case (Part 2): Gundling, Ernest. “Disruption in Detroit: Ford, Silicon Valley, and Beyond (B)” *Berkeley Haas Case Series*, Reprint Number B5905. January 2018.

Recommended Texts (in order of relevance)

Skipper, Harold D., Kwon, W. Jean. “Risk Management and Insurance: Perspectives in a Global Economy.” Malden, MA: Blackwell Publishing. 2007.

Crouhy, Michel, Galai, Dan, & Robert, Mark. “The Essentials of Risk Management.” New York: McGraw-Hill Education. 2014. (ISBN 978-0-07-18151-3)

Methods of Evaluation

- Asynchronous Participation: 6% (1.5% per two weeks)
- Synchronous Participation: 6% (1.5% per two weeks)
- Structured group discussion (1): 5%
- Case Studies (2): 24% (12% each-includes writeups, group work)
- Assignments (4): 36% (9% each)
- Final Research Project/Case Study/Presentation (group work): 23%

A	>90	Excellent	4.0
A-	85-90		3.7
B+	80-85	Very Good	3.3
B	70-80	Good	3.0
B-	60-70		2.7
C	50-60	Poor	2.0
F	<50	Failure	0.0

Grading

Participation & Attendance

Given this is a summer course, you must contact us about any work commitments or other obligations that will prevent you from attending class. You can make up the synchronous portion of your grade as described below, but only if we know of your situation in advance.

Synchronous (live) participation will occur by participating in our synchronous sessions using *both* video and audio. If you operate in a low-bandwidth area, and/or struggle to connect synchronously you can submit reflections for each day on the synchronous (but recorded) videos using FlipGrid (See Canvas for detail). Each two unit period (about two weeks), we will award you points based on your questions, contributions, and quality of your interactions. Chat responses to my questions, yes/no, reactions/emoji, and other quick responses are not “high quality” but are expected as the minimum of being a contributor. You are graded four times, thus you cannot delay participation to the end of the semester.

For asynchronous participation, we will use the Canvas discussion board. Contributions here can be asking questions, answering questions, or offering material for discussion. The bar is not particularly high here, but I just need you to be engaged. You can set yourself up for synchronous participation by posting thoughtful questions or answers on the discussion board to help guide our meetings.

With eight units, this means participating each grading period is worth 1.5 points for both synchronous and asynchronous participation. Individually this is not much, but altogether it adds up to quite a bit (12% of your grade). In our current environment it is just important to communicate.

Case Studies

You will be required to do two case study analyses, with individual submissions. Your written case study analyses must describe the situation, pose major questions, identify weakness or issues in the case, and provide a risk analysis of the facts and data (where appropriate). You should each describe; analyze; and make recommendations on mitigating these risks. Incorporate course discussions or materials to support your analysis. We will provide detailed instructions prior to the assigned case studies. Proofread your analyses, and submit them on Canvas in PDF format.

Assignments

There will be four assignments given. Details on submitting these assignments will be handed out during class, or when the assignment is posted. All assignments should be proofread. All directions should be followed, and submitted on Canvas in PDF format.

Final Research Project or Case Study

Your final research project or case study can be done as a self-selected group of up to three students. Project proposals will be due on 7/27. Your research can be on a particular incident or entity as listed in the HBSP coursepack we will provide to you. You should apply the principles and methods discussed in class. You should provide a plan for mitigating or funding risks that you discuss. We will provide detailed instructions prior to the start of the final project/study. Proofread your papers/analyses, and submit them on Canvas in PDF format.

Academic Honesty

Cheating is a deplorable act and will not be tolerated. Be satisfied with what you are able to accomplish, and respect yourself. For official documentation on this policy, see <http://www.jmu.edu/syllabus/#honesty>

Adding/Dropping Courses Policy and University Deadlines

The JMU add/drop, W, and WF policies are available at <http://www.jmu.edu/syllabus/#adding>