Financial Risk Management

Module Code: ECO00021M    Credits: 10    Term: 2
Contact Hours: 13 contact hours and 2 hours review class
Module Organiser: Dr. P. Zerilli

Overview:

To provide a broad theoretical and practical grasp of the latest portfolio and business risk management and security valuation techniques, suitable for those progressing to financial industry, corporate treasury or to academic research in finance. Although the core content is mathematical in nature, the non-technical student should be able to understand the mathematics through the applications given in the lectures and seminars. This module will be of practical interest to students who are likely to find themselves (or talking to clients in) in the corporate treasury in their future career, but is of wider interest to finance practitioners and certainly of academic interest.

Aims:

To give students an understanding of the instruments used for financial risk management in practice, based on the theory of continuous time finance and derivative pricing. Risk-neutral and forward neutral valuation. Martingales Applications: portfolio insurance; hedging basic business exposures. Departures from log normality: fat tailed distributions; behaviour in extremis. Applications: management of interest and exchange rate risk; the volatility 'smile'; VaR.

Assessment:

There will be a two-hour unseen examination scheduled in the Summer Term.

Pre-requisites:

You are expected to register for Theory of Finance (ECO00040M) alongside this module, with the exception of students on MSc Financial Engineering where Continuous-Time Finance (ECO00007M) must be taken.

Main References:

The basis of this module is provided by:

Hull, J.C., Options, Futures and other Derivatives,, any recent edition.

Supplementary reading: