

BAYLOR UNIVERSITY
HANKAMER SCHOOL OF BUSINESS
DEPARTMENT OF FINANCE, INSURANCE & REAL ESTATE

Finance 4335: Business Risk Management
Tuesday and Thursday, 11 a.m. - 12:15 p.m., Foster 402

Fall 2017

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1 Texts and Materials

- **Integrated Risk Management: Techniques and Strategies for Managing Corporate Risk** (required), Neil A. Doherty, McGraw-Hill Professional Publishing, 2000. You may purchase this book from [Amazon.com](#) or [various other online booksellers](#). Alternatively, you may also [download and print assigned chapters](#) from the course website.
- Readings (assigned from sources other than the textbook) distributed from [the course website](#) (required).
- *Wall Street Journal* (required). Your *WSJ* subscription includes access to print, online, tablet and mobile editions. It only costs \$15 for the entire semester and can be purchased from the following webpage: <http://wsj.com/studentoffer>.

2 Prerequisites

The only course prerequisite for Finance 4335 is Finance 3310. However, since Finance 4335 is rather quantitative in nature, you should also be “up to speed” in mathematics and statistics. The mathematics and statistics topics used in Finance 4335 are listed in the blog posting entitled “[Calculus and Probability & Statistics recommendations](#)” where links to Khan Academy tutorials for each of these topics are provided. [Section 1](#) of Professor Martin Osborne’s [math tutorial](#) is also a highly recommended resource for topics in mathematics which are applicable for Finance 4335.

3 Course Description

This course offers an integrated approach to risk management by combining concepts, tools, and techniques from finance and related disciplines such as economics and the decision sciences. The course focuses attention on the identification, evaluation, pricing, and management of risk from personal as well as corporate perspectives. Topics covered include how to characterize and measure risk attitudes, compare and price risk, evaluate the effects that risk has upon stakeholder incentives and firm value, etc.

4 Learning Objectives

After completing this course, students should:

- Understand the various measures of risk.
- Be able to calculate various measures of risk for individual risk exposures and portfolios of risk exposures.
- Understand the steps of the risk management process; i.e.,
 - Identify risks;
 - Measure risks;
 - Evaluate different methods for managing risk; and
 - Implement an appropriate risk management strategy.
- Understand methods that businesses use to allocate and manage risk; e.g., risk modeling, risk financing (insurance and hedging), choice of contract mechanisms (e.g., deductibles, coinsurance, and upper limits in insurance markets; compensation contract design and security design in corporate finance, etc.).
- Understand the factors (e.g., moral hazard, adverse selection, and transaction costs) which limit the extent to which risk can be diversified or traded from one counterparty to another.
- Understand the types of insurance and derivative contracts and how they can be used to reduce the cost of risk.
- Understand basic financial valuation models and how risk is incorporated in these models.
- Understand the reasons why diversifiable risk can affect firm value.
- Be able to determine circumstances under which risk management will enhance firm value.

5 Grade Determination

The final course numeric grade is based upon the following equation:

$$\text{Final Course Numeric Grade} = .10(\text{Class Participation}) + .15(\text{Quizzes}) + .15(\text{Problem Sets}) + \text{Max} \{ .20(\text{Midterm Exam 1}) + .20(\text{Midterm Exam 2}) + .20(\text{Final Exam}), .20(\text{Midterm Exam 1}) + .40(\text{Final Exam}), .20(\text{Midterm Exam 2}) + .40(\text{Final Exam}) \}$$

Since the final exam is comprehensive, this grading scheme allows students to redeem themselves on the final should they perform poorly on either of the midterms.

There will be two midterm exams given in class. The date for the first midterm exam is September 26 (in class), and the date for the second midterm exam is November 2 (also in class). The dates for the two midterm exams are subject to change at the discretion of the instructor. However, the final exam is scheduled according to the official university schedule.

Final Course Letter Grade. The final course letter grade will be based upon the following schedule of final course numeric grades:

A	93 – 100%	C	73 – 77%
A-	90 – 93%	C-	70 – 73%
B+	87 – 90%	D+	67 – 70%
B	83 – 87%	D	63 – 67%
B-	80 – 83%	D-	60 – 63%
C+	77 – 80%	F	<60%

6 Office and Contact Information

My office is located at Foster 320.39 and my telephone number is (254) 710-6207. I can also be reached by email at the address James.Garven@baylor.edu and by text at 254-307-1317.

7 Attendance and Participation

This course will be conducted on an informal seminar basis. Students are expected to attend class regularly and punctually, as well as participate meaningfully. Furthermore, I abide by the [Hankamer School of Business Attendance Policy](#), which calls for assigning a grade of “F” to any student who fails to attend at least 75 percent of all class sessions. It is the student’s responsibility to ensure that he or she is in compliance with this policy.

8 Other Course Policies

8.1 Grade Appeals

Graded assignments and exams will be returned to students one week after the assignment deadline or the date of the exam. If you feel that a graded assignment or exam has not been fairly evaluated, then you may submit an appeal for the assignment or exam to be regraded. In order to be considered, your appeal must be submitted no later than two weeks after the date of the exam or due date for the assignment. Any appeals submitted beyond this deadline will not be considered.

If you decide to submit an appeal, email it to risk@garven.com with the following subject header: “Grade Appeal for Finance 4335”. Include a clearly scanned or photographed copy of the question(s) that is (are) to be regraded, a copy of your answer(s), and an explanation as to *why* you think the question(s) merit(s) regrading. I will then take it upon myself to regrade the question(s). Keep in mind that regrading implies three possible outcomes: a higher grade, the same grade, or a lower grade.

The appeal procedure described above constitutes the “Conference with Faculty Member” requirement set forth in [Baylor’s Academic Appeals Policy and Procedure document](#).

8.2 Electronics Policies

The following electronics policies will be strictly enforced:

- Neither laptops nor tablets may be used in class without the express permission of the instructor;
- No audio or visual recording of lectures without the express permission of the instructor; and
- No cell phone use during class, which includes texting, talking, photography, and videography.

8.3 Late Work

[Assigned problem sets](#) are due at the beginning of class. If you expect to absent on a day when a [problem set](#) is due, it must be turned in at or before this time; otherwise you will not receive any credit for the problem set. Furthermore, if you miss class on a day when a required reading is assigned, there will be no make-ups for the quiz that you miss (note: these rules does not apply in cases involving medical or family emergencies).

9 Course Blog

A course blog has been established for Finance 4335. This provides a convenient and timely means for distributing important announcements outside of class. The address for the course blog is <http://risk.garven.com>, and it is linked from the “Course Blog” button on the home page of the course website. I recommend that you regularly follow the course blog via any of the following methods:

- Via Facebook, by “liking” the [Finance 4335 Facebook Page](#).
- Via RSS, By going to <http://risk.garven.com/feed> and using the [Live Bookmarks feature in Firefox](#), the RSS feed subscription feature in Internet Explorer, or an RSS reader.
- Via Twitter, by visiting <http://twitter.com/fin4335>.
- Via email; see <http://wp.me/p20GK0-1OC> for subscription instructions.

10 Course Schedule

This course provides a primer on basic economic, statistical and financial principles and applies these principles to the study of risk management decision-making by individuals and firms. The textbook material is supplemented throughout the course by various outside readings, all of which are available from the [readings section of the course website](#). Although the course schedule is subject to change, the [lecture notes page](#) on the course website effectively serves as a course calendar, since it lists by date the sequencing of course material for the entire semester.

11 Academic Honesty and Integrity

As members of the Baylor academic community, each of us is responsible for participating in research, learning, and discourse in a manner characterized by intellectual honesty and scholarly integrity. Honesty and integrity is expected not only in the classroom, but also in the broader context of relationships and interactions involving faculty, students, and staff. The reputation of Baylor University and the value of the contributions made by its faculty, students, and staff depend on the assurance that every member of the academic community adheres to the very highest standards of ethical behavior.

In the narrower context of this particular course, students are expected to act ethically and take responsibility for their own actions. You should review the [Baylor University Honor Code](#), since this standard will be applied to all of your work in Finance 4335. Specifically, this course has a zero-tolerance policy for honor code violations. Any violation will result in the assignment of a grade of “F” for the course.

12 Title IX Office

[Baylor University’s Office of the Executive Vice President and Provost](#) has recommended that all syllabi include the following information:

If you or someone you know would like help related to an experience of sexual violence including sexual assault, harassment, domestic violence, dating violence, stalking or other type of non-consensual sexual conduct, please contact Kristan Tucker, the Title IX Coordinator at Baylor University, by email (Kristan.Tucker@baylor.edu) or phone (254-710-8454).