

Centre: Barcelona

Course: **Financial Risk Management**

Programme: Business, Design and Innovation

Semester: 2 (Spring)

ECTS credits: 6

Duration: 45 hours

Language of instruction: English

Instructor: Igor Razdorskii

### **Course description**

The recent financial crisis and its impact in today's world underscore the importance of financial risk management. This course introduces financial risk management with a focus on practical implementation and application. Thus, the course provides the concepts and tools used to measure and mitigate risk for firms.

### **Prerequisites**

None

### **Attendance policy**

Attendance is mandatory for all classes, including fieldwork. Any exams, tests, presentations or other work missed due to student absences can only be rescheduled in cases of certified medical or family emergencies. If a student misses more than three classes in any course, half a letter grade will be deducted from the final grade for each additional absence. Seven absences during any course will result in a Fail grade.

### **Objectives**

- Help students understand the principles of financial risk management.
- Provide students with the knowledge and skills to the practice of risk management .
- Provide students with the necessary tools and methods of financial risks assessment and mitigation.
- Develop an awareness of risk and create a culture of risk awareness.

## **Learning outcomes**

By the end of the course, students will be able to:

- Understand the principles of financial risk management
- Understand the concept of risk and the different types of risk
- Know basic functions of financial risk management
- Calculate cost of credit risk and currency risk
- Develop skills to take decisions in complex and changing environments

## **Methodology**

Experiential learning will be mostly used during the course although some theoretical background will be provided to learn and understand concepts. Lectures with appropriate visual support will provide the theoretical content of the sessions which will be followed with practical sessions in which real problems will be presented and solved.

Class discussions will facilitate the students' ability to connect lectures with practical cases. Students are expected to actively participate in class activities (discussions and debates, problem-solving exercises, etc.).

It is recommended that students dedicate a few hours of personal work each week to consolidate the knowledge acquired in class.

Professional and academic articles on financial risk management will be provided and evaluated.

Some active professionals will also be invited in class so that students may learn from them and be able to ask questions.

Field trip: Students will visit the Stock Exchange in Barcelona.

## **Required work and assessment methods**

- Attendance and participation: 20% of the final mark.

Class attendance is compulsory. Students are required to attend 80% of the classes.

Individual active participation in discussions, oral presentations and team work. The positive and proactive attitude of the student will be encouraged and valued by the instructor throughout the course.

- 1 Final Project (groups of 3 people): 40% of the final mark
- 2 Tests: 40% of the final mark

In order to pass the course successfully, the average mark for the course must be 5.0.

## **Contents**

### **1. Fundamentals of financial risk management**

- 1.1. Financial Assets
- 1.2. Definition of Risk
- 1.3. Foreign Direct investment
- 1.4. Typology of risk exposures
- 1.4. Risk versus Return
- 1.5. Components of interest rate – Return vs. Risk
- 1.6. CAPM model
- 1.7. Bid/Ask
- 1.8. Market Risks

### **3. Valuation of Financial Risk**

- 3.1. Standard variant under Price Lag Models
- 3.2. VaR.

### **4. Foreign Exchange Market**

- 4.1. Functions and Structure
- 4.2. Market Players
- 4.3. The Spot Market
- 4.4 The Forward Market
- 4.5 Model to forecast financial risk management

### **5. Hedging and Risk Management**

- 5.1. Risk Management and Hedging Strategies
- 5.2. Market Players
- 5.3. The Spot Market
- 5.4 The Forward Market
- 5.5 Model to forecast financial risk management

### **6. Hedging Capital Markets: Stocks**

- 6.1. Options Market and their concepts
- 6.2. Daily Settlement of Positions and Posting Margins
- 6.3. Building Strategies using Derivatives to Hedge: Protective Put, Covered Call, Put Bear Spread, Straddle, etc.

### **7. Interest Rate Risk**

- 7.1. Using Swap Contracts: Plain Vanilla Swaps
- 7.2 Swap options

### **8. Credit Risk Management**

- 8.1. Use of financial reports – D&B Reports
- 8.2. Use of SAP to manage risks in Multinational Companies

### **9. Financial Crisis**

## **Bibliography**

- Malz, A. M. (2011) Financial risk management: models, history, and institutions. John Wiley & Sons, Hoboken, NJ.
- Crouhy, M., Galai, D., & Mark, R. (2008) . The Essentials of Risk Management. New York: McGraw-Hill Professional.
- Luk, K. W. (2011) International Trade Finance: A Practical Guide. 2nd ed. Kowloon, Hong Kong: City University of Hong Kong Press, 2011.
- Población García, F. J. (2018). Financial Risk Management : Identification, Measurement and Management. Cham: Palgrave Macmillan.