FIN 5316: Risk Management & Derivatives — (16965) Fall 2005, Tuesday 6:00-8:50pm, CBA 304

I. Instructor: Dr. Anthony F. Herbst

BUSN 248. Telephone: 747-5245 E-mail: aherbst@utep.edu
Office Hours: 4:00-5:50pm Tuesday, and by appointment.

II. Required Texts:


(3) Harvard Business School Cases:
   9-294-076 “Enron Gas Services”,
   9-296-004 “Futures on the Mexican Peso”,
University of Western Ontario Cases:
   990B050 “American Barrick Resources Corp.”
   995B032 “Citibank Canada Ltd.—Monetization of Future Oil Production”

(4) The Wall Street Journal  Student discounted subscriptions will be available the first day of class.

NOTE: The cases will be ordered by the bookstore after the class role has stabilized. It is illegal as well as unethical to make photo copies of these or textbooks. Orders for the cases will be taken by your professor and submitted to the bookstore for fulfilment. Anyone found to have an unauthorized photocopy (Xerox) of any of the above cases or book will be referred to the Dean of Students for possible sanctions.

Also required:

(1) Simulation game in trading futures and options. This is StockTrak™ which costs about $25 for the semester. This may be shared with one or (at most) two others.

(2) An e-mail account. This can be obtained free at UTEP in the CALC Lab in the College of Business. This should be obtained immediately if you do not already have an account.
Recommended Library Reading & Reference:
The Journal of Futures Markets; The Journal of Financial Engineering; The Journal of Derivatives; Derivatives Quarterly; Risk; The Review of Futures Markets; Futures Magazine (formerly Commodities Magazine); Commodity Yearbook (One is published each year.); Technical Analysis of Stocks and Commodities

III. Course Objectives: This course covers the futures, options, and swaps markets. These markets are crucially important to competitive management under uncertainty about raw materials prices, interest rates, and currency exchange values continue at a high level. It is also very important to understand the dangers in misusing these financial instruments. The basic nature, and many uses of futures, options, and swaps by speculators, investors, and business managers will be covered. Attention is focused on both the managerial, risk reduction applications of futures and options, and on understanding investment/speculation. There are two reasons for this. First, without speculators, the futures markets would be unlikely to function efficiently because of lessened liquidity. A second and equally important reason is that the same analytical and judgmental skills that make for effective speculation may also enable more effective hedging to be performed; one who understands speculation in these markets is more likely to be better equipped to use them for risk reduction purposes. The highly leveraged nature of futures contracts and options provides for large gains and losses to speculators; for those who will try their skills at speculation, it is important that they understand both the risks and the money management techniques that help to preserve capital.

IV. Special Assignments:
This semester we will examine the question of whether El Paso public utilities may legally hedge their costs and, if they may, whether it is economically justified to do so in order to provide their services to El Paso customers at the lowest cost. The class will be organized into teams of no more than four persons, each team doing a separate analysis and writing a separate report.

Guest speakers will be invited who have special expertise to share on this matter.

V. Computer Requirements: The use of computers for analysis, record keeping, and report generation is expected and required. It is your responsibility to protect and remember your password after obtaining your account. If you do not have an e-mail account you should get one in the first week of the semester. You can expect to be provided during the semester with course materials via e-mail, and there is a wealth of information related to the course available over the Internet that requires you to have an account. Even if you have an account outside UTEP you should have a UTEP account; you can have e-mail automatically forwarded to your other account from UTEP if you like.

VI. Instructional Methodology: Lecture, discussion and presentation.
VII. BASIS FOR COURSE GRADE:
Cases and Exams . . . . . . 55%
Team Report . . . . . . . . . 25
Other* . . . . . . . . . . . . 10
Trading Performance . . . . 10
100%

*"Other" includes being prepared for class, regular, voluntary class participation in the daily discussions of the assigned readings, and the analysis of cases, for which the quality as well as quantity of participation is important. Computer usage is encouraged and required. The instructor may drop a student who has two consecutive unexcused absences.

VIII. The University’s scholastic integrity policy (page 59-60 of the undergraduate catalog) is required to be included on Spring 2005 syllabi:

Scholastic Integrity

“The University of Texas at El Paso prides itself on its standards of academic excellence. In all matters of intellectual pursuit, UTEP faculty and students must strive to achieve excellence based on the quality of work produced by the individual. In the classroom and in all other academic activities, students are expected to uphold the highest standards of academic integrity. Any form of scholastic dishonesty is an affront to the pursuit of knowledge and jeopardizes the quality of the degree awarded to all graduates of UTEP. It is imperative, therefore, that the members of this academic community understand the regulations pertaining to academic integrity and that all faculty insist on adherence to these standards.

“Any student who commits an act of scholastic dishonesty is subject to discipline. Scholastic dishonesty includes, but is not limited to, cheating, plagiarism, collusion, the submission for credit of any work or materials that are attributable in whole or in part to another person, taking an examination for another person, any act designed to give unfair advantage to a student or the attempt to commit such acts. Proven violations of the detailed regulations, as printed in the Handbook of Operating Procedures (HOP), and available in the Office of the Dean of Students, and the homepage of The Dean of Students (DOS) at www.utep.edu. may result in sanctions ranging from disciplinary probation, to failing grade on the work in question, to a failing grade in the course, to suspension or dismissal, among others.”

IX. IMPORTANT NOTICES

It is the responsibility of each student to determine from the course bulletin (Spring 2005 Schedule of Classes) the official withdrawal date and other administrative detail.

“If you feel you may have a disability that requires accommodations, contact the Disabled Student Services Office at 747-5148, go to the Union Bldg, East, Room 106, or e-mail dss@utep.edu”