

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

**FIN/RMI 5335: SEMINAR IN BUSINESS RISK MANAGEMENT**  
Tuesday and Thursday, 3:30-4:50 pm

**Spring 2003**

**Instructor:** Dr. James R. Garven  
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**Home page:** <http://garven.baylor.edu/>  
**Class website:**  
<http://finance.baylor.edu/fin5335>

**Office:** HSB 336  
**Office Hours:** 2-3:30 TTh  
or by appointment

### **I. TEXTS AND MATERIALS**

1. Integrated Risk Management: Techniques and Strategies for Managing Corporate Risk (required), Neil A. Doherty, McGraw-Hill Professional Publishing, 2000.
2. Readings (assigned from sources other than the textbook) distributed from the following webpage: <http://finance.baylor.edu/fin5335/readings.asp>.
3. *Wall Street Journal* (recommended but not required).

### **II. SCOPE AND OBJECTIVES OF COURSE**

This course focuses on financial decision making about the management of risk by corporations, recognizing the relationship between risk management and the overall goals of the firm. Emphasis is placed upon the identification, evaluation and management of corporate risks. Here, corporate risks are rather broadly defined, encompassing operating as well as financial risks. The course offers an integrated approach to corporate risk management by combining concepts and tools from the insurance and financial risk management disciplines. Besides examining traditional hedging strategies, techniques such as leveraging, post-loss financing, contingent financing, and diversification are also considered.

### **III. GRADE DETERMINATION**

The overall course grade is based upon the following formula:

Final Grade = .15(Class Attendance/Participation) + .20(Problem Sets) + Max{ .20(Midterm Exam 1) + .20(Midterm Exam 2) + .25(Final Exam), .20(Midterm Exam 1) + .45(Final Exam), .20(Midterm Exam 2) + .45(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.

The first midterm will occur in class on Tuesday, February 18. The second midterm will also be given in class on Tuesday, April 8. The final exam will be given according to the official university schedule.

#### IV. OFFICE

My office is located at HSB 336 and my telephone number is 710-6207. My office hours for the spring semester are Tuesday and Thursday 2-3:30 p.m. or by appointment. During my office hours, I can also be reached via AOL instant messenger (my screen name is "drgarven").

I also can be reached by email at the address [James\\_Garven@baylor.edu](mailto:James_Garven@baylor.edu). I encourage you to make frequent use of email since this is a particularly easy and convenient way to communicate outside of class. I will use an email list for this class to facilitate getting important messages to you between classes.

#### V. ATTENDANCE AND PARTICIPATION

**This class will be conducted on an informal seminar basis.** Students are expected to attend class regularly and participate in class discussions. Failure to do so will result in a poor class participation grade.

Depending upon availability, we may have some guest speakers make presentations in class. Attendance will be taken at guest speaker presentations and count as problem sets. Furthermore, students can expect to see exam questions related to presentations by guest speakers.

#### VI. MAILING LIST

A mailing list has been established for FIN/RMI 5335. This will provide a means for me to distribute important announcements to you between class periods. Unless you provide an alternative email address, I plan to use everyone's "official" baylor.edu email addresses.

#### VII. COURSE OUTLINE

My plan is to cover selected chapters from the textbook. I will also occasionally assign other readings that will be available from the class website.

The course is essentially comprised of two parts. Part 1 is based upon chapters 1-6 from the textbook, and it provides a "primer" on basic economic, statistical and financial principles. Part 2 builds upon the principles outlined in Part 1, and is based upon chapters 7-16. Please note that the following course outline is tentative; depending upon various factors we may have to deviate (perhaps substantially) at times from this outline.

1. Overview of the book (Doherty, Chapter 1)
2. Basic Economics: How Individuals Deal with Risk (Doherty, Chapter 2)
3. More Economics: Moral Hazard and Adverse Selection (Doherty, Chapter 3)
4. Basic Statistics: Diversification of Risk - How Insurance Works (Doherty, Chapter 4)
5. Basic Finance I: How Risk is Priced and Managed in Capital Markets (Doherty, Chapter 5)
6. Basic Finance II: Options, Futures and other Derivative Contracts (Doherty, Chapter 6)
7. Why is Risk a Problem to Firms? (Doherty, Chapter 7-8)
8. How Should We Manage Risk? (Doherty, Chapter 9)
9. Adding Value by Post-Loss Financing (Doherty, Chapters 10-11)
10. Adding Value by Contingent Financing (Doherty, Chapter 12)
11. Leverage and Contingent Leverage Strategies (Doherty, Chapter 13)
12. Hedging and Insurance Strategies (Doherty, Chapter 14)
13. Using Limited Liability to Manage Risk (Doherty, Chapter 15)
14. A Case: Innovation in the Management of Catastrophe Risk (Doherty, Chapter 16)