

## FINANCIAL RISK MANAGEMENT SCHEDULE

**IMP: The Trading Game project report is due three calendar days AFTER the final exam by 5:00 pm. (unless the University says I need to post grades early).**

**Tradestation or B+ project: See the sheet on the project concerning due dates. The TradeStation project is for a team of two people.**

A “**Web**” under the second column means it will be wholly covered by you via the slides and voice discussion on the Web using Blackboard.

<u>Class</u>	<u>Web</u>	<u>Topic with (Book Chapter No.)</u>	<u>Part of Text</u>
1		Questions about syllabi, trading game (at beginning of the first class)	
<b>FUTURES MARKETS:</b>			
1	<b>Web</b>	Introduction to Derivatives (1)	all
1		Stock Index Futures (2)	Stock Index section only
1	<b>Web</b>	Metal, Energy and Ag (App 2B)	all
1		Interest Rate Futures (2)	Interest Rate section only
1	<b>Web</b>	Foreign Exchange (2A)	all
2		Futures Concepts and Terminology (3)	Up to “Strategies”
2		Strategies, Concepts, and Commodity Funds (3)	Rest of Chapter
2		The "Pits" and Trading (4)	all
2		Futures Pricing and Arbitrage (5)	all: Theories of Futures Pricing not so imp
2-3		Stock Index Futures Pricing (6)	all
3	<b>Web</b>	Interest Rate concepts	See notes
3		T-bond Futures Pricing and Arbitrage (7)	all
4	<b>Web</b>	Futures Hedging Concepts (8)	all
4		Portfolio/Regression Hedging (9)	all
<b>5 Mid-term Exam</b>			
<b>OPTIONS MARKETS:</b>			
4		Stock Option Quotes and Characteristics (11)	all
4		Principles of Option Pricing (12)	all
5		Strategies: Speculation and Spreading (13)	all (but equations are not so imp)
5		Hedging with Options (14)	all (quickly ... some sections less imp)
6		Introductory Pricing Issues (15)	all
6		Pricing Stock Options (Black-Scholes) (16)	up to volatility
6		Black Scholes: Assumptions and Volatility (16)	Rest of chapter
7	<b>Web</b>	The Trading Floor, Inputs, and Evidence (17)	all (but inputs and <u>details</u> of trading floor and evidence less imp than other chapters)
7		Option Pricing Sensitivities (18)	all
7	<b>Web</b>	Options on Futures (19)	Concentrate on what is covered in class
7		OTC/Exotic Options (20)	all
<b>RISK MANAGEMENT:</b>			
7	<b>Web</b>	Risk and Control	See notes
7		Weather Derivatives, VaR, Financial Engineering	See notes
8		<b>Final Exam</b>	

**FIN 6487: FINANCIAL RISK MANAGEMENT  
FUTURES, OPTIONS, AND FINANCIAL ENGINEERING**

**PART II: GRADING AND ASSIGNMENTS**

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*General and content questions go on the Blackboard Bulletin Board; ask personal questions via e-mail!*

**Guide to Part II**

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**PART II: THE GRADING SYSTEM**

There are different choices for a maximum grade of A/A-, B+, B, and B- (and below). See below

<b><u>Grades are Based on:</u></b>	<b><u>Base Points</u></b>	<b><u>Bonus Points Possible</u></b>
Mid-term exam	100 points	at least 30
Final exam	100 points	at least 30
Trading Game	60-100 points	0-25 points

**See below for how many appendices in the report you need to do (the number is tied to the maximum semester grade you are attempting; one appendix is using the WSJ)**

Quizzes on the Web	50 points	5 points
Miscellaneous: Class Discussion, etc.	50 points	
Consistency & Exam Passing Adjust.	50 points	
Corrections Book/Notes/Real Life Ex.	0 points	35 points

**PLUS** Depending on SEMESTER grade goal pick ONE of the following choices:

**For an A or A-** (also counts for a B+ and below):

(NOTE: a **team of TWO individuals: SEE project instructions for how teams are selected!**)

**Evaluate a Trading Model in Tradestation** (60 points plus a possible 15 point bonus)

OR **For a B+** (choose this project **ONLY** if you do **NOT** choose the A project **AND** your goal is a **B+** for the semester); **NOTE: see the project instructions concerning how you can obtain an A by completing this project!** This project is completed individually (based on 50 points plus possible 10 point bonus)

OR **For a B or below:** You do **NOT** need to do a project for a maximum semester grade of a B.

**The choices you have for the Trading Game Report at the end of the term:**

<u>Goal for Semester Grade</u>	<u>Minimum* No. of Appendices to do</u>	<u>Points</u>
A or A-	3	100 points plus up to 25 bonus points
B+	2	85 points plus up to 20 bonus points
B	1	70 points plus up to 10 bonus points
B- or lower	0	60 points

\* **“Minimum”** number ... you could complete more than the minimum number of appendices for your grade choice (**HOWEVER**, in most cases people choosing to complete “extra appendices” end up doing a mediocre “sensitivity” appendix, which hurts their grade; thus, I suggest selecting **WISELY**, only completing the number of appendices needed to achieve your desired semester grade. **A more complete explanation plus an example is given on choosing how many appendices to complete in the “Trading Game Instructions.”**)

**Total number of base points for the semester for a given grade (points in the denominator):**

A or A-: 510 points

B+: 485 to 510 points depending on the number of appendices for the trading game report and the project completed

B: 420 to 510 points depending on the number of appendices for the trading game report and if (which) project is completed (if any project is completed)

B- and below: 410 to 510 points depending on the number of appendices for the trading game report (if any) and if (which) project is completed (if any project is completed)

“Base points” are the number of points in the denominator. Your percentage grade is the points you earn divided by the number of base points.

Bonus points are additional points available to those who do an outstanding job. Bonus points are included with the other points obtained and put in the numerator; they can benefit you significantly in terms of increasing your grade.

**Grades:**

A (4.0)	95% and above	C+ (2.3)	70 to 75%
A- (3.7)	90 to 95%	C (2.0)	65 to 70%
B+ (3.3)	85 to 90%	C- (1.7)	60 to 65%
B (3.0)	80 to 85%	D	Below 60%
B- (2.7)	75 to 80%		

“90 to 95%” means all grades from 90% to 94.99%, etc.

**IN ADDITION:**

\* **Term Grades may be adjusted by 1/3 of 1 letter grade (either plus or minus, say from B to B+),** for borderline or near borderline grades, based on the performance of individual components of your grade compared to the your overall average (especially how well you did on the exams) and how your grades compare to others with similar grades.

\* **Term Grades will be adjusted down 2/3 of a grade (e.g. B+ to B-) if you miss 2 classes.**

\* **Adjustments for unprofessional behavior/attitude or cheating can also be made,** including plagiarism on papers/projects or for “working together” when this is expressly inappropriate. Severe cases may also result in suspension.

Objectives of grade adjustments:

(1) to assure that individuals with similar grades on individual components obtain the same term grade.

(2) to make sure that individuals do not miss an excessive number of classes.

(3) to develop a professional business approach; to avoid situations that would get you fired or a poor evaluation in the workplace.

(4) to assure an attitude of honesty in the classroom.

**PART III: EXAMS AND ASSIGNMENTS**

**Exams:** There will be a mid-term and a final exam. The exams typically will be some combination of multiple choice (about 40-50%), fill-ins, matching, graphs, and some numerical problems; typically I also have a “short answer/essay” question. “Many” of the multiple choice questions are more challenging than the average multiple choice question on the quizzes; fill-ins require knowledge of important concepts in order to fill-in words or phrases. You should be familiar with how all instruments covered in the course are typically quoted (e.g. in the Wall Street Journal) and the meaning of the quotations.

**Makeup Exams:** Absences from exams must be verified by documented excuses, and you must attempt to reach me before the exam is given to the class, unless it is an emergency (leave a message if you can not reach me). The exam you need can either be taken the next time the course is offered or, depending on the circumstances, a make-up can be taken that is mostly essay in nature. Those who miss exams who do not have a “reasonable problem” may not be excused from the exam. Note: leaving early for vacation typically is not a good reason! Note: there are situations when a student has a family problem keeps him/her from studying or concentrating. I consider this a reasonable excuse. If it is the midterm then you may continue the course and take the midterm the next time the course is offered; while you could take the essay makeup note most people find this type of test more difficult to study for.

**Trading Game:** See the instructions on playing the trading game AND handing in the associated report at the end of the term. Information located on Blackboard is also helpful.

**It is crucial for your grade that you follow the instructions concerning when to start trading (now), what to trade, how often, what information to use, and what to hand in at the end of the term.** The grade will be based on reasonable trading activity, promptness in starting the game, trading all of the relevant instruments, and the Report. Note that how many appendices you complete (WSJ articles, profit/loss calculations and graphs, and sensitivities) depends on the semester grade level you choose to attempt. **IF you choose the WSJ article appendix then see the instructions about selecting them during the semester. IF you choose the profits and graphs appendix then MAKE SURE to keep track TWICE a week of the value of your portfolio so you can graph it for the report! You may discuss possible trades, mechanics of trading, and how to do the report with other students. BUT you can NOT share WSJ articles or have an almost identical set of trades.**

**Projects:** See the separate handout for the projects.

**Quizzes:** Multiple choice quizzes for each topic area will be given on the Blackboard.

The objective of these quizzes is to provide feedback on your understanding of the material and to “force” you to keep up to date with the material. Caveat: the typical quiz questions are often easier than the exam multiple choice questions and the quiz questions may not cover all important points in a particular topic area. But the quizzes do provide an indication of your initial understanding of a given topic, as well as “encouraging” you to study.

**A specific day/time period will be given for you to take each quiz. MAKE SURE you know how to get to Blackboard and the quiz and what to do** before the first quiz starts (there is a practice quiz to try out) - there will be **NO upward adjustment to the quiz grade** for missing a quiz or not knowing how to take the quiz! IMPORTANT INFORMATION concerning quizzes:

- ▶ There will be a **time limit** for each quiz - Blackboard shuts you out of answering more questions after the time limit (but you should still be able to save the quiz) so be careful!!
- ▶ There will be **NO MAKEUPS AND I WILL NOT RESET QUIZZES!**: you have sufficient time to take each quiz AND it is very difficult and time consuming for me to reset the quiz for individuals. **Therefore, you will LOSE POINTS if you ask me to reset quizzes! Note that you do NOT need to take all of the quizzes or answer all of the questions correctly to receive an A for the quizzes.** (I often hear “I know you said not to ask you, BUT ...”; not helpful.) The quiz points are set up so that you can easily miss four quizzes (or more if you do well on the rest) and still obtain an A. There is a maximum of 30 points for the futures quizzes and 30 points for the options/FE quizzes and 55 points overall. If you know you can not take the quizzes consistently due to a conflict then contact me at the beginning of the term.
- ▶ There are several ways to “cheat” on the quizzes - but it is in your best interest not to do so: if you cheat then you will not be receiving needed feedback on your understanding of the material, which means you will not do well on the exam! While technically I do not “forbid” the use of book/notes during your quizzes (as if I could check), you will NOT have these materials for the exam, hence you are “cheating yourself” if you use book/notes during quizzes. Also, an objective

of the quizzes is to keep you up to date - if you cheat in order to avoid keeping up to date then you also will do poorly on the exams. In order to deter people from maximizing their quiz grades by obtaining the answers in an inappropriate manner: if there is a major difference between the exam grade(s) and the quiz grades (the latter being a much higher percentage) then the quiz grades will be adjusted downward. IN ADDITION, I often find out who “cheats” on quizzes (defined as knowing the questions ahead of time or any way of obtaining questions or answers with other people). And when I find out .... and I typically find out .... you lose points! Sometimes many points. **SEE THE COPYRIGHT** notice at the top of the quiz page listing in Blackboard.

- ▶ Quizzes are graded after the time span for the quiz ends (by midnight the day of the quiz). You may see the questions and answers to the quizzes on Blackboard by going to: Assessments then click on the down arrow next to the Quiz you want and select “View Submission”. The mark on the left of the choices is your answer, while the correct answer shows in green under the “correct answer” column.

**Considerations when taking the Quizzes: PLEASE read ALL of the following:** (1) If you get thrown off the system then do NOT contact me (the first time) - look at the remedies discussed here (such as AOL); if that does not help then contact [CBALearn@FIU.EDU](mailto:CBALearn@FIU.EDU) or call them with all the **specific** information about your browser, internet provider and modem speed, whether you are using a network connection, info on your computer, etc. so they can figure out the problem. The phone number is on the first page. (2) Make sure to **look at the FAQ and Information icon in Blackboard** for any other problems before sending an e-mail. (3) Before taking the QUIZZES IN THE LIBRARY: check to see if their system is compatible! In the past the library used a version of Netscape that is not compatible with Blackboard! (4) The quiz uses javascript, **therefore the AOL browser can cause problems** when you do quizzes (it is not consistent). What you should do is use AOL to connect to the internet but then use Internet Explorer as your browser; but make sure that AOL does not kick you off for being “inactive.”

From CBAlearn: “Attention students: It is very important that you take the practice quiz from each computer you will be using to take your graded quizzes and exams. The Technical Support Team will be checking to see if you have taken the practice quiz when you contact them with technical difficulties. It is your responsibility to make sure your computer is compatible with Blackboard. For more requirement information please go to [http://cbalearn.fiu.edu/online\\_learning\\_requirements.htm](http://cbalearn.fiu.edu/online_learning_requirements.htm).”

### **Miscellaneous Grade: Class Discussion/Other Factors:**

Class Participation: max = 30

“Class discussion” consists of adding to the class via participation and/or providing additional relevant knowledge associated with the topic area (this typically includes asking relevant questions).

Note that my “note taking” during class relates to class participation.

Blackboard Participation: max = 20

Your activity on Blackboard (bulletin board, etc., a type of class participation); quizzes do NOT count in this category. Do NOT litter the BB with messages such as “Thanks,” “Good Job” or “Mike, let’s meet at 7 pm.” There is the MAIL function for those messages! Click on postings individually rather than using the “compile” function.

Attendance/Late: range = 30 to -10

Being on-time for the class and after the break; attending class; not leaving early. Do NOT let others sign your name on the attendance sheet. **It is particularly important to be back in class in time after the break ends.** Being late disrupts the class as well as the instructor. [If you have a consistent problem with arriving on time then write me a note.]

NOTE: do NOT contact me if you have to miss one class. However, if you will be out for several classes due to a health or another problem then make sure to contact me.

Special Writeups: max = 10

In or out-of-class short assignments.

Professionalism and In-Class Conduct: range = 10 to -30

Including “don’t piss off the Professor”; Behavior in class (and out); paying attention; staying awake; not consistently talking; respecting the Professor and the class; following the instructions on this syllabi on what NOT to do, for example: turn off cell phones in class, do NOT ask to reset the quizzes for you; do not wait until the fourth class to come to say “how do I take the quizzes?” or “How do I make a trade?”

Special Positive: max = 15

Aiding the class/Professor in a way not covered by the syllabus

Special Negative: range = 0 to -25

Examples: very late arrival/departure on important days, such as the first day; delaying the start of trading for weeks.

### **Consistency and Exam Passing Grade**

Objectives: 1) to “encourage” each person to study in order to pass at least one exam. To avoid past situations where a student does not have a minimal understanding of the material (neither exam is passed).

2) to “encourage” consistency in exam grades (to study for both exams). To avoid past situations where a student obtains a high midterm exam grade and then does poorly or fails (sometimes badly) the final. Hence to make sure everyone studies for both exams.

This “Consistency” grade is calculated as follows (50 base points):

- 1) Start with 35 or 40 points (depending on “good performance” in midterm and final).
- 2) Not pass either exam: If M (midterm) < 65 and F (final) < 65 then -35.
- 3) Good performance: If M and/or F >75 then + (exam - 75) [note: max 25 midterm, 30 final]
- 4) Poor performance: If M and/or F <65 then - (65 - exam)/2 [note: max -15 each]
- 5) Inconsistency: -.67 (high exam grade - low exam grade) [note: max -25]

Examples:

M = 85, F = 85 then  $35 + 0 + 20 - 0 - 0 = 50$  (100%)

M = 100, F = 80 then  $35 + 0 + 25 - 0 - 13 = 47$  (94%)

M = 90, F = 60 then  $40 + 0 + 15 - 2.5 - 20 = 32$  (64%)

M = 110, F = 50 then  $35 + 0 + 25 - 7.5 - 25 = 28$  (56%)

M = 70, F = 70 then  $40 + 0 + 0 - 0 - 0 = 40$  (80%)

M = 60, F = 60 (both failing) then  $40 - 35 + 0 - 5 - 0 = 10$  (min)

### **Bonus Points for Book/Note Corrections and Real Life Examples**

You can earn up to 35 points for pointing out errors to the notebook/textbook/sound files and/or providing Real Life Examples. The number of points per correction will depend on the importance of the item.

**Corrections (errors) in the notes/book/sound files that will receive points** include: errors in the notes/text regarding content (anything that is not correct), misspellings, and in general anything that needs to be changed before the book revision is published. I know about formatting issues with tables; see my website for “Known Problems.” Important errors in the sound files also will receive points.

In addition you will receive points for useful Examples for the book/notes of Strategies we cover or major topics we cover. So, if you find a futures contract example that explains well a given strategy we cover (or example of any topic in the book) and you provide all necessary information to be used in the book you will be rewarded. Thus, you can find articles in magazines that provide information on an interesting hedging example. Note: these NEED to be important and unusual situations. They may not be that easy to find.

**In order to receive Bonus Points you must be the first person to report the correction via using the “Corrections” Bulletin Board** which is one of the choices in Blackboard under the Discussion Board. **NO CREDIT will be given if** (1) you are not the first person to report it, or (2) **you do not use the “Corrections” bulletin board** or (3) you do not properly identify where the needed correction occurs (see below). See how to identify the correction in the Subject Heading of the discussion board posting ... if you simply put “Correction” then no one knows what it refers to!!

**Identify note/text the correction by: topic area and page number (slide number) on the subject line of Blackboard!!!** In the text also give the paragraph number (a paragraph continuing from the previous page is parag. 0) and line number within the paragraph. State a correction something like the following example: “not in this procedure” should read “in this procedure.”

**For sound files: put the topic name, the name of the sound file, and the approximate time of the error.**

**BEFORE POSTING A CORRECTION:** see the “Known Issues” link on my website!!

## OPTIONAL PROBLEMS FOR FINANCIAL RISK MANAGEMENT

**Numerical Problems:** The structure of the course in previous terms has included required homework involving problems and spreadsheets. However, I am not requiring any such homework in this class. **However, below lists suggested problems located in the book. MANY PEOPLE COMPLETE THESE PROBLEMS IN ORDER TO HELP THEM UNDERSTAND THE MATERIAL AND HENCE INCREASE THEIR EXAM GRADES.** Others only need to look over the answers to understand how to do the problems. There will be a few problems on the exam.

NOTE: I selected the problems to cover the important ideas in the chapter. Some people need to do problems as a means of “studying” and learning the material. But these are NOT required and are suggested only if you need this kind of help. Chapter numbers are from the text.

**Answers to these problems can be downloaded from MY website at [www.fiu.edu/~daigler](http://www.fiu.edu/~daigler) then go to “For my Students.”**

CH. 2&3:

2-4

3-5 put the entire problem in columns (like a table) with each futures contract being a separate column

3-6

3-9 Include a column for the spread size

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CH. 6 6-2

6-3

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Ch. 7 7-1

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Ch. 8 8-3

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### OPTIONS PROBLEMS

Ch. 11&12

11-5

11-6

12-2

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Ch. 13&14

13-5

13-7

14-2

14-7

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Ch. 15 15-1

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Ch. 16 16-6

16-7

Ch. 17 17-1

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Ch. 18 18-2

18-3

18-8