

School of Economics and Finance

**FINM 472 FINANCIAL ENGINEERING
AND RISK MANAGEMENT**

Trimester 2, 2008

COURSE OUTLINE

Coordinator/Lecturer	Leigh Roberts, RH 323, phone 463-5937 email: leigh.roberts@vuw.ac.nz
Administrator	Suzanne Freear, RH 327, phone 463-5380 email: suzanne.freear@vuw.ac.nz
Lecture times	Thursday 9.30 - 11.20, RWW 126
Tutorial times	TBA

Course Objectives

To study the mathematics of fixed interest securities and markets.

To study the institutional framework for financial risk management in general, and financial engineering and credit risk in particular.

To develop skills in financial mathematics and apply those skills to credit risk analysis and modelling. To develop more advanced quantitative skills in order to explore the current financial engineering and credit risk literature.

To realise the potential of, as well as the limitations of, quantitative models and methodologies in dealing with credit risk.

Course Content

The course is divided into three main parts, viz.:

- Fixed interest models (6 weeks);
- Credit risk (3 weeks); and
- Firm time to default (3 weeks)

The teaching sequence does not necessarily follow this order; and the timing shown is only approximate.

Expected Workload

It is expected that the course will require approximately 150 hours of work, including class time.

Readings

Notes and readings will be made available, generally on Blackboard although sometimes in class.

It is *not* recommended that you purchase any text books for this course. Books which may be useful for parts of the course, however, include:

- L. Martellini (2001), *Fixed-Income Securities*. Wiley.
- A. G. J. Cairns (2004), *Interest rate models: an introduction*. Princeton University Press.
- J. C. Hull (2006), *Options, futures and other derivatives*. Prentice Hall.
- A. J. McNeil, R. Frey and P. Embrechts (2005), *Quantitative Risk Management*. Princeton University Press.
- P. J. Schönbucher (2003), *Credit derivatives pricing models*. Wiley.
- C. L. Culp (2002), *The ART of Risk Management*. Wiley.

You can find Blackboard at <http://www.blackboard.vuw.ac.nz/>

The VUW library has a web page that contains detailed information about available library resources and has links to several other sites. Its URL is <http://www.vuw.ac.nz/library>

Assessment

EITHER

- 70% Three hour final examination, in the period 17 October - 8 November 2008
- 15% One test, to be held in class time
- 15% Average assignment mark

OR

- 50% Three hour final examination, in the period 17 October - 8 November 2008
- 25% One test, to be held in class time
- 25% Average assignment mark

whichever is to the student's advantage.

It is intended to hold the test a little after halfway through the course. Subject to sufficient speed in progressing through the course material the test will be held in class time, on a date to be fixed in consultation with the class.

Provided the student has good reason (for instance a medical certificate), and obtains permission *before* the due date from the course coordinator, there will be no penalty for handing in an assignment late. In other cases the assignment will first be graded on a basis comparable with those assignments handed in on time, and then have 5% of that grade subtracted for each day or part-day for which the assignment is late.

An assignment is expected to be written *entirely* by the student. In cases where there is any doubt in the marker's mind as to whether the assignment is entirely the student's own work, the coordinator reserves the right to withhold the mark until the situation has been clarified.

Due dates for assignments are normally two weeks after being set.

Mandatory course requirements

Attendance at the test is compulsory; and in order to pass the course, it is necessary to obtain at least 40% in the final examination.

Communication

Additional information or information on changes will be posted on Blackboard. Some information may be emailed to you via your SCS address, so check this regularly.

SUPPLEMENTARY INFORMATION

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building on the ground floor (EA 005). This counter is the first point of contact for:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to <http://www.vuw.ac.nz/policy>.

For information on the following topics, go to the Faculty's website <http://www.vuw.ac.nz/fca>

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended

or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website at:
<http://www.vuw.ac.nz/home/studying/plagiarism.html>.

Manaaki Pihipihinga Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 4636015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.