Financial Insurance

Required Text

Topics and Readings
This is a course on financial risk management that addresses how firms and individuals can use financial instruments to insure against risk factors. The course starts out describing some of the main risk factors that corporations are faced with such as fluctuations in exchange rates, interest rates and oil prices. It then introduces financial assets such as credit, weather, energy and insurance derivatives that can be used to hedge against these types of risk. After an in-depth introduction to futures/forwards markets, we discuss which types of risk the firm should and shouldn’t hedge against in relation to bankruptcy risk, taxes and managerial incentive effects. Finally, the course covers the pricing of options contracts and their use in investment and financial insurance strategies.

I. Introduction - Basic Concepts

II. Futures/Forward and Swap Markets
4. Interest Rate Management. Orange County Bankruptcy case study. Hull ch.5.

III. Measurement and Management of Risk

IV. Options Markets
1. Introduction to Options Markets. Hull ch.7.
5. Pricing Stock Options. II: Black-Scholes. Hull ch.11.
**Course Resources**
Announcements regarding the course will be made on the course web page at
http://econ.ucsd.edu/~atimmerm/174
You can find course assignments, data and a copy of the course syllabus on this homepage.

**Office Hours**
Tuesdays, 2:-4pm in Econ 318. You can also reach me by e-mail at atimmerm@ucsd.edu or by setting up
a personal appointment.

**Grading**
Course requirements and grading weights are as follows:
- Problem sets: 25%
- Midterm Exam: 25% (scheduled for Thursday October 30)
- Final Exam: 50%