



## **Grado en Administración y Dirección de Empresas 27328 - Financial risk management**

**Course 2015 - 2016**

**Curso: 3, Semestre: 2, Créditos: 6.0**

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### **Basic information**

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#### **Teachers**

- **Eduardo Hilario Ortas Fredes** edortas@unizar.es
- **María Pilar Portillo Tarragona** portillo@unizar.es
- **Miguel Angel Suñen Mené** masm@unizar.es
- **Beatriz Cuéllar Fernández** bcuellar@unizar.es
- **Maria Sagrario Vargas Magallón** mvargas@unizar.es
- **Mercedes Alda García** malda@unizar.es
- **Raúl León Soriano** rleon@unizar.es

#### **Recommendations to attend this course**

Financial Risk Management takes a mainly practical approach. Attendance to sessions and continuous work by the student are recommended in order to pass, which means attending both the theoretical and practical sessions, resolving the cases proposed by the teacher and working in teams.

#### **Course Schedule and Deadlines**

Key activities and dates will be announced through the appropriate channels at the beginning of the academic period of the subject. The partial exam dates will be communicated in class and on the e-learning platform. The dates of the P6 practices and the final exams are available on the different faculty websites.

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### **Home**

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#### **Learning outcomes that define this course**

**The student, in order to pass the course, will have to show her/his competence in the following skills:**

- 1:** To be capable of using tools to identify, measure and manage the diverse financial risks to which businesses are exposed and to be aware of the conceptual and theoretical framework to properly assess market and credit risks.
- 2:** Identify, define and classify different types of financial risks and their positions.
- 3:** Quantify the results of using different financial instruments in risk management and their limitations.
- 4:** Select and interpret information to manage the interest rate risk by analyzing expectations and assessing the exposure level.
- 5:** Identify, at a basic level, useful information for decision-making in currency risk management, performing basic operations for its management.
- 6:** Quantify the credit risk effect on an operation's value and return and interpret information used by members of financial markets.
- 7:** Identify models and tools in integrated risk management.

## **Introduction**

### **Brief presentation of the course**

Financial Risk Management is a compulsory subject taught in the second semester of the third year of the degree in Business Administration and Management.

Its basic purpose is to provide students the necessary theoretical and practical framework for a proper understanding of the main financial risks to which the company is exposed in its usual activity and their proper management, enabling students to assume leadership and management responsibilities in competitive, global and dynamic environments.

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## **Competences**

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### **General aims of the course**

#### **The expected results of the course respond to the following general aims**

The subject and the expected results reflect the following approaches and aims:

To introduce the concept of risk and to identify the factors that cause it, including financial risk factors, market factors and financial risk situations.

To measure, in monetary terms, the possible impact of the risk factors analysed in the company results, as well as to examine the sensitivity of company results, and the value of the company in the presence of potential variations of the risk factors studied.

To characterize and understand the operation of the main financial instruments traded in markets for financial risk management.

To manage the different financial risks, designing hedging strategies, taking positions in the financial derivatives analysed, or through other mechanisms, both independently and through integrated management.

## **Context/Importance of the course for the master degree**

Financial Risk Management is one of the subjects of Finance, included in the Accounting and Finance module defined within the curriculum. It is established as part of the mandatory training of the degree. It is a third year subject and taught in the second semester when the students have already had some training in financial assessment and in the financial decision-making processes.

The contents of the subject complement those of Financial Management, providing basic knowledge about decision making in risk management and financial instruments. Furthermore,

Financial Risk Management introduces students to some basic aspects of risk that are addressed more deeply in optional courses in the fourth year, such as International Financial Management or Financial Markets. Finally, it should be noted that risk management is an essential part of the strategic planning and of the decision-making process in company management.

## **After completing the course, the student will be competent in the following skills:**

- 1:** Assess the situation and future evolution of companies and organizations, make decisions and access the relevant knowledge
- 2:** Issue advisory reports on specific situations of markets, sectors, organizations, companies and their functional areas
- 3:** Understand and apply professional standards and scientific rigour to solve economic, business and organizational problems.
- 4:** Solve problems.
- 5:** Analyze and seek information from several sources.
- 6:** Adapt to new situations
- 7:** Apply knowledge in practice

## **Relevance of the skills acquired in the course**

The learning outcomes of this course are important because risk is inherent in the development of any business activity. The increasing complexity of the business environment and financial markets requires greater management control of the positions taken by companies, requiring appropriate risk control procedures adapted to current regulations. This considerably increases the risk level, so companies must be prepared to anticipate the risks borne, measure their impact, analyse the implications of acting adequately to manage their positions, according to their purposes.

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## **Evaluation**

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### **Assessment tasks**

**The student will prove that he/she has achieved the expected learning results by means of the following assessment tasks:**

- 1:** In the first sitting, there are two evaluation systems:

a) Continuous assessment, consisting of two theoretical and practical exams. The first exam will take place between March 14 and April 8, and the second exam in May, during the last week of classes. The exams will be carried out within the class schedule, at the times published by the centre, and depending on the enrolment group.

The assessment of team work exercises will be included.

The exams will be written and will consist of theoretical and practical questions. The theoretical questions may be open or multiple choice. The practical questions will be in line with the practical cases proposed in class during the course. Each exam will include the contents taught up to the test date.

The team work will consist of solving problems and practical situations that are close to reality, in which students must apply the knowledge acquired in the lectures. The teacher will propose the cases and the students will present their suggestions for the solution.

This will be done during the practice sessions P6 on the dates assigned by the centre, which will be confirmed by the teachers. If the P6 practice sessions are not assigned in the schedule of the centre, the work group will be held in two sessions, within the schedule of the subject. The first practice will take place between March 1 and March 11, and the second practice will take place between April 25 and May 6.

The weight distribution of the different assessment activities is as follows:

- First written exam: 40%
- Second written exam: 40%
- Team work and presentations: 20%

To pass the subject through the continuous assessment option, the result of the prior weighting should be equal to or more than 5 points out of 10.

**2:**

b) Global assessment: the student who does not opt for continuous assessment, does not pass the subject through continuous assessment or wants to improve his/her mark, will be entitled to sit the global exam; and the best of the two scores obtained will prevail.

The global exam consists of a theoretical and practical exam to be held on the date and time established. It will include the solving of practical exercises about course topics and theoretical questions, which may be open or multiple choice. To pass the course, the student must obtain a score equal to or greater than 5 points out of 10.

In addition, students who had chosen the continuous assessment system but did not pass or those who want to sit the global assessment can keep the score of the team work, representing 20% of the final score, and the remaining 80% will correspond to the score obtained in the global assessment exam. To pass the course in this case, the weighted sum of the scores achieved in each part must be equal to or higher than 5 out of 10.

In the second sitting, the assessment will only be carried out through a final exam with theoretical and practical content. This exam will consist of solving practical exercises on aspects of the course and theoretical questions that may be open or multiple choice.

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## Activities and resources

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## Course methodology

**The learning process that has been designed for this course is based on the following activities:**

The subject will be taught through theoretical and practical sessions. Given the operational nature of the subject, the theoretical sessions will also include practical examples, discussion of news related to the subject or debates on these issues.

The sessions are intended to be participatory. The practical classes will consist of practical cases which the students will study and solve with teacher supervision.

Finally, the complementary activities of the subject will consist of voluntary group work. The students who wish to do them will form groups and the teacher will indicate the specific content. At different stages, the different groups and the teacher will discuss their decisions, tools used, and conclusions drawn. These meetings will be held in the non-periodic practice sessions (P6).

## **Outline of the Programme**

**The programme offered to the students to help them achieve the learning results includes the following activities :**

- 1:**  
Lectures
- 2:**  
Practical sessions in which the teacher will propose cases to be solved.
- 3:**  
Non-periodic practices (P6) for tutoring and for group work.
- 4:**  
Tutorials: the students will have individualized office hours with the teachers of their group
- 5:**  
The use of ICTs as tools for studying and learning: the teaching platforms available on the "Anillo Digital Docente" of the Zaragoza University will be used to provide information about the subject for students.
- 6:**  
Exams: the students will follow what is established in the "Evaluation" section
- 7:**  
UNIT 1: RISK FACTORS AT THE COMPANY  
  
Risk definition. External and internal risk factors. Risk positions and classification.  
  
UNIT 2: INTEREST RATE RISK.  
  
Interest rate concept. Classification of interest rates. Term structure of interest rates. Forward interest rate and forward interest curve.  
  
UNIT 3: INTEREST RATE RISK MEASUREMENT.  
  
Identification of risk positions from unexpected changes in interest rates. Tools for interest rate risk measurement. Measurement techniques of interest risk in companies.  
  
UNIT 4: FINANCIAL INSTRUMENTS FOR RISK MANAGEMENT  
  
Forward rate agreements. Interest rate swaps (IRS). Futures contracts and options. Risk of their use.  
  
UNIT 5: CURRENCY RISK MANAGEMENT.  
  
Features and basic operations of currency markets. The exchange rate. The currency risk exposure. Financial instruments to manage currency risk. Forward contracts or exchange risk insurance.  
  
UNIT 6: CREDIT RISK  
  
Definition of credit risk and importance. Determinants of the yield spread. Methodologies to quantify the credit risk of a company.  
  
UNIT 7: CREDIT RISK MANAGEMENT.  
  
Credit risk rating and determinants. Credit risk management through credit derivatives. Integrated management of interest rate risk and credit risk.

## UNIT 8. VALUE AT RISK MODELS.

Concept and utility of risk value models. Effects of incorporating risks into models. Future perspectives for risk management.

### Course planning

#### Calendar of actual sessions and presentation of works

The schedule of sessions will be made public on the websites of the different faculties, and the dates of the work presentations and other activities will be notified by the teacher responsible through the appropriate channels.

### Bibliographic references of the recommended readings

#### Facultad de Economía y Empresa

- ADE-i - Brealey, Richard A. : Principles of corporate finance / Richard A. Brealey, Stewart C. Myers, Franklin Allen . - 11th global ed. Berkshire : McGraw-Hill Education, cop. 2014
- ADE-i - Jorion, Philippe : Financial risk manager handbook plus test bank : FRM Part I-Part II / Philippe Jorion ; GARP . - 6th ed. Hoboken, USA : John Wiley & Sons, cop. 2011
- Brealey, Richard A. : Principios de finanzas corporativas / Richard A. Brealey, Stewart C. Myers, Franklin Allen ; revisión técnica, Mario González Valdés, Juliana Gudiño Antillón, Francisco López Herrera . - 11ª ed. México [etc.] : McGraw-Hill, 2015
- Portillo Tarragona, María Pilar. Dirección financiera del riesgo de interés / Luis Ferruz Agudo (dir. y coord.) ; María Pilar Portillo Tarragona, José Luis Sarto Marzal . 3ª ed. Madrid : Pirámide, 2015

#### Facultad de Ciencias Sociales y Humanas

- Brealey, Richard A. : Principios de finanzas corporativas / Richard A. Brealey, Stewart C. Myers, Franklin Allen ; revisión técnica, Mario González Valdés, Juliana Gudiño Antillón, Francisco López Herrera . - 11ª ed. México [etc.] : McGraw-Hill, 2015
- Portillo Tarragona, María Pilar. Dirección financiera del riesgo de interés / Luis Ferruz Agudo (dir. y coord.), María Pilar Portillo Tarragona, José Luis Sarto Marzal . 2ª ed. Madrid : Pirámide, 2009

#### Facultad de Empresa y Gestión Pública

- Brealey, Richard A. : Principios de finanzas corporativas / Richard A. Brealey, Stewart C. Myers, Franklin Allen ; revisión técnica, Mario González Valdés, Juliana Gudiño Antillón, Francisco López Herrera . - 11ª ed. México [etc.] : McGraw-Hill, 2015
- Portillo Tarragona, María Pilar. Dirección financiera del riesgo de interés / Luis Ferruz Agudo (dir. y coord.) ; María Pilar Portillo Tarragona, José Luis Sarto Marzal . 3ª ed. Madrid : Pirámide, 2015