

RISK AND FINANCIAL INSTITUTIONS
ECONOMICS EC2191A-001
Department of Economics
Western University

September 2020

Instructor: Desmond McKeon

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Registration:

You are responsible for ensuring you are registered in the correct courses. If you are not registered in this course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://student.uwo.ca>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

Prerequisite Note:

The prerequisite(s) for this course is (are) one of **Economics 2122A/B, 2150A/B, 2152A/B, or 2154A/B**

Prerequisite(s) for your course can be found in the Western Calendar at:

<http://westerncalendar.uwo.ca/Courses.cfm?Subject=ECONOMIC&SelectedCalendar=Live&ArchiveID>

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken any anti-requisite courses. Lack of prerequisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

Course Objectives:

This course will investigate the nature of risks that financial institutions incur, the methods used to measure risk and the techniques designed to mitigate risk.

The course will cover the main sources of risk: interest rate risk, credit risk, liquidity risk and market risk as well capital adequacy issues.

We will also examine the instruments used to hedge risk: forwards, futures and options.

We will also briefly cover securitization of assets.

Course Learning Outcomes:

At the end of this course students will be able to:

- Recognize the various types of risk involved with the operation of banks and other financial institutions.
- Appraise the level of risk exposure in specific areas of an institution's operations (e.g. loans, trading book).
- Propose basic strategies to mitigate (hedge) risk.

Textbook(s):

The main textbook used in the course will be; Saunders, Anthony, Marcia Cornett and Patricia McGraw *Financial Institutions Management a Risk Management Approach* 10th edition McGraw Hill Ryerson 2021 (FI).

For more technical topics, I will use material from: Hull, John *Fundamentals of Futures and Options Markets* Prentice Hall 2011 (FOM) and Hull, John. *Risk Management and Financial Institutions* 3rd edition Wiley 2012 (RM).

Virtual Attendance

The course is taught entirely online. All lectures will appear on a weekly basis just as if we were in a classroom. You are expected to **“attend”** every lecture **in its entirety** by watching the recorded lectures. Questions on quizzes or tests may be based on topics covered in the lectures. Not all topics are covered in the textbook.

Assessment

Dates and weights:

Test I	TBA	25%
TEST II.....	TBA	30%
Quizzes/participation reports (3)	TBA...	10%
Final exam	TBA	35%

NB. Students MUST keep abreast of course developments on an ongoing basis. This means checking the **announcements** section of the OWL site every day (24 hour period). All communication regarding changes of dates, course structure, course topics a synchronous office hour or anything else will be posted on **announcements**.

PLEASE check your UWO email !! DO NOT link your UWO email to other email servers (e.g. gmail). If I need to contact you I will use your UWO mail .

Failure to keep up with course changes or date deadlines will not be considered for grade accommodations.

No makeup tests will be given. Students who are officially excused to miss a test will have the weight of the missed test reallocated to the final exam. This is **the only method** of accommodation for missed tests that will be used in this course.

NB. Students MUST keep abreast of course developments on an ongoing basis. This means checking the **announcements** section of the OWL site. All communication regarding changes of dates, course structure, course topics or anything else will be posted on **announcements**.

Participation assignments and quizzes must be **completed on the date announced**. There are no makeups for missed participation assessments. There will be no makeup assignments given. To repeat. The purpose of participation is **student engagement**. There will be **NO MAKEUPS** for missed participation assessments, quizzes or assignments.

Course Outline

Introduction to Risks	chapter 7 (FI)
Interest Rate Risk	chapter 8, 9 (FI)
Value at Risk.....	chapter 20 (FOM), chapter 8 (RM)
Credit Risk.....	chapter 10,11(FI) and chapter 14, 15 (RM)
Liquidity risk	chapter 12, (FI) and Chapter 19 (RM)
Market Risk.....	chapter 15 ,16 (FI) and Chapter 20 (RM)
Capital Adequacy.....	chapter 21 (FI)
Futures and Forwards.....	chapter 23 (FI) and Ch3, 6 (FOM)
Options	chapter 24 (FI) and Chapter 13 (FOM)
The Greeks.....	chapter 17 (FOM).
Risk management Mistakes to avoid (if time allows).....	chapter 22 (RM)

Topics may be added or deleted as the course progresses. All changes to the outline, including any change to the order of topics taken up, will be announced in class. Absence from class cannot be used as an excuse for not knowing about changes

Please Note
Department & University Policies for 2020-2021

The University expects all students to take responsibility for their own Academic Programs. Students should check their registration to ensure they are enrolled in the correct courses.

Academic Rights and Responsibilities: Students should be familiar with their “Academic Rights and Responsibilities” as outlined [here](#) in the Western Academic Calendar. Claiming that “you didn’t know what to do” is not an acceptable excuse for not following the stated procedures.

Guidelines and Policies for Students are posted online in the current Western Academic Calendar at <http://westerncalendar.uwo.ca>. Undergraduate information for the Faculty of Social Science can be found at: <https://www.ssc.uwo.ca/undergraduate/index.html> and for the Department of Economics at: <https://economics.uwo.ca/undergraduate/index.html>.

Rules of Conduct for Examinations: Students are expected to know the university’s Rules of Conduct for Examinations, available [here](#).

Cheating and Academic Offences: Students are responsible for understanding what it means to “cheat.” The Department of Economics treats cheating and other academic offences very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in Economics courses or programs. The University may impose further penalties such as suspension or expulsion.

Plagiarism: Plagiarism is an academic offence. Students must write their essays and assignments in their own words. Ideas/passages taken from another author must be referenced with footnotes or citations and acknowledged with quotation marks where appropriate. Western University uses software to check for plagiarism and students may be required to electronically submit their work. Those found guilty will be penalized as noted in point 3. See Scholastic Discipline for Undergraduate Students [here](#) in the Western Academic Calendar.

Academic Appeals: Students should refer to the Student Academic Appeals section [here](#) in the Western Academic Calendar. Please note the relevant deadlines.

Department Appeals Procedures: The Department will not consider an appeal unless an attempt has been made to settle the matter with the instructor first. Students who remain dissatisfied with the outcome may submit a written appeal to the Undergraduate Director in Economics, stating the reasons for their appeal. Information on the Department of Economics’ appeals procedure and the appeals form are available [here](#).

Systematic Adjustments: Systematic adjustments of class grade distributions (either up or down) can occur in Economics courses. The systematic adjustment of a class grade distribution is **not** grounds for an appeal.

Add/drop deadlines:

Deadline to add a first term half course:

Thursday September 17, 2020

Deadline to drop a first term half course:

Thursday November 12, 2020

Oversleeping or Misreading the Exam Schedule: Faculty of Social Science policy states that oversleeping or misreading the exam schedule is NOT grounds for a makeup. This rule applies to all exams in the Department of Economics.

End of Term Travel: Students must book travel arrangements AFTER final exam dates have been posted; travel is not an acceptable excuse for absence from a final exam.

Rewriting Exams and Retroactive Reweighting are NOT Permitted: Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or retroactive reweighting of marks, is **not** permitted.

Accommodation Policies: Students with disabilities should work with Accessible Education (formerly SSD), which provides recommendations for accommodation based on medical documentation or psychological and cognitive testing. The accommodation policy can be found here: [Academic Accommodation for Students with Disabilities](#).

Academic Consideration for Student Absence: Students will have up to two (2) opportunities during the regular academic year to use an on-line portal to self-report an absence during the term, provided the following conditions are met: the absence is no more than 48 hours in duration, and the assessment for which consideration is being sought is worth 30% or less of the student's final grade. Students are expected to contact their instructors within 24 hours of the end of the period of the self-reported absence, unless noted on the syllabus. Students are not able to use the self-reporting option in the following circumstances:

- for exams scheduled by the Office of the Registrar (e.g., December and April exams)
- absence of a duration greater than 48 hours
- assessments worth more than 30% of the student's final grade
- if a student has already used the self-reporting portal twice during the academic year

If the conditions for a Self-Reported Absence are *not* met, students will need to provide a Student Medical Certificate if the absence is medical or provide appropriate documentation if there are compassionate grounds for the absence in question. Students are encouraged to contact their Faculty academic counselling office for more information about the relevant documentation. It is strongly recommended that students notify the instructor as soon as possible, ideally before the assessment, when they become aware of an absence. University policy is that students must communicate with their instructors no later than 24 hours after the end of the period covered by the SMC or immediately upon their return from their documented absence. Failure to follow University policy and procedures may result in denial of academic accommodation and a grade of zero.

Individual instructors are not permitted to receive documentation directly from a student, whether in support of an application for consideration on medical grounds or for other reasons. **All required documentation for absences that are not covered by the Self-Reported Absence Policy must be submitted to the Academic Counselling office of a student's Home Faculty.**

For Western University policy on Consideration for Student Absence, see:
[Policy on Academic Consideration for Student Absences - Undergraduate Students in First Entry Programs.](#)

For the Student Medical Certificate (SMC), see:
http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf.

Religious Accommodation: Students should consult the University's list of recognized religious holidays and should give reasonable notice in writing, prior to the holiday, to the Instructor and an Academic Counsellor if their course requirements will be affected by a religious observance. Additional information is given in the [Western Multicultural Calendar](#).

Policy Regarding Class Attendance and Engagement: If the instructor deems a student's attendance or engagement in the class to be unsatisfactory, that student may be prohibited from writing the final examination. Examples of unsatisfactory class engagement include frequent absences from an in-person or synchronous online class, lack of assignment submissions, and inadequate use of online course materials. Instructors who intend to make use of this policy will notify the student in advance.

Statement on Mental Health and Support Services: Students under emotional/mental distress should visit http://uwo.ca/health/mental_wellbeing/ for more information and a complete list of resources on how to obtain help.