

# Finance 4335: Business Risk Management

## Scope and Objectives of Course

This course offers an integrated approach to risk management by combining concepts, tools, and techniques from finance and related disciplines such as economics and the decision sciences. The course focuses attention on the identification, evaluation, pricing, and management of risk from both personal and corporate perspectives. Topics covered include how to characterize and measure risk attitudes, compare and price risk, evaluate the effects that risk has upon stakeholder incentives and firm value, etc.

## Specific Learning Objectives for Finance 4335:

1. Understand the various measures of risk.
2. Be able to calculate various measures of risk for individual risk exposures and portfolios of risk exposures.
3. Understand the steps of the risk management process; i.e.,
  - (a) Identify risks;
  - (b) Measure risks;
  - (c) Evaluate different methods for managing risk (e.g., risk avoidance, assumption, transfer, mitigation, etc.); and
  - (d) Implement an appropriate risk management strategy.
4. Understand the methods that businesses use to manage risk; e.g., risk modeling, risk financing (insurance and hedging), choice of contract mechanisms (e.g., executive compensation contract design, security design, organizational design, etc.).
5. Understand the factors (e.g., moral hazard, adverse selection, and transaction costs) which limit the extent to which risk can be diversified or traded from one counterparty to another.
6. Understand the types of insurance and derivative contracts and how they can be used to reduce the cost of risk.
7. Understand basic financial valuation models and how risk is incorporated in these models.
8. Understand the reasons why diversifiable risk can affect firm value.
9. Evaluate circumstances under which risk management will enhance firm value.
10. Understand why “non-traditional” types of risk transfer contracts (e.g., act of God bonds as an alternative to catastrophe reinsurance) are used.
11. Understand the costs and benefits of using an enterprise risk management approach.