



Level 6 Advanced Diploma in Finance (531) 151 Credits



Unit: Financial Risk Management Exam Paper No.: 2	Guided Learning Hours: 200 Number of Credits: 20
Prerequisites: Knowledge of Finance.	Corequisites: A pass or higher in Diploma in Finance or equivalence.
Aim: This unit aims to explore the concept of financial risk, ways of investigating managing risk open to traders and portfolio managers. The unit offers an in-depth analysis of the measurement and management of risk in financial markets. Other topics include: assessing overall market risk, credit risk, liquidity risk, settlement risk, volatility risk, measuring portfolio risk, and extreme value risk.	
Required Materials: Recommended Learning Resources.	Supplementary Materials: Lecture notes and tutor extra reading recommendations.
Special Requirements: The unit requires a combination of lectures, demonstrations and discussions.	
Intended Learning Outcomes:	Assessment Criteria:
1 The concepts of risk management, the process of evaluating, managing current, possible financial risk or decreasing the firm's exposure to the risk.	1.1 Define risk 1.2 Describe conditional and unconditional notions of risk 1.3 Analyse risk and uncertainty 1.4 Describe how people deal with risk 1.5 Define arbitrage 1.6 Compare and contrast risk vs the law 1.7 Analyse risk, government, and politics 1.8 Describe how to illustrate what managing risks means for businesses and non-profits
2 Analysing sources of market risk, the analysis and management of market risk and the different institutions that operate in the risk management environment	2.1 Analyse the meaning of managing risk 2.2 Explain the principal sources of risk 2.3 Analyse market risk; credit risk and business risk vs. financial risk 2.4 Explain how organisations deal with risk 2.5 Define derivative tools for managing risk 2.6 Describe advantages and disadvantages of derivative tools 2.7 Explain the overview of the risk management process 2.8 Analyse the exchange-listed derivative markets 2.9 Describe over-the-counter derivatives markets 2.10 Define accounting and disclosure of risk management activities 2.11 Describe derivatives accounting
3 The value of risk management, risk management, effective risk management and the importance of alignment among corporate strategy strategic planning and risk management.	3.1 Analyse and outline if risk management create shareholder value 3.2 Explain market imperfections as justification for managing risk 3.3 Analyse characteristics of companies that manage risk 3.4 Describe if hedging is a form of risk taking 3.5 Outline the key considerations for implementing risk management program
4 The basic concepts in measuring risk, the problems related to the hedging of derivative contracts.	4.1 Define the concept of value-at-risk 4.2 Demonstrate how to calculate VaR 4.3 Describe advantages and disadvantages of VaR 4.4 Analyse the concepts of cash flow risk 4.5 Analyse the concepts of interest rate risk
5 Forward and futures contracting	5.1 Explain global futures markets 5.2 Define a forward contract 5.3 Demonstrate how to price foreign currency forward contracts

<p>Be able to construct a comparison chart between Forward Contract and Futures Contract.</p> <p>6 Swap Contract, the classes of swaps associated with their underlying instrument; interest rate, equity, currency, and commodity.</p> <p>7 Understand option contracting, option specifications and the classification option types</p> <p>8 Credit risk, credit risk models, valuation, current practices and applications and measurement resource for corporate debt.</p> <p>9 The steps to avoid loss resulting from failure to comply with laws as well as prudent ethical standards, contractual obligations, and exposure to litigation from all aspects of an institution's activities.</p> <p>10 Corporate governance processes and structures and risk management identification, assessment, and prioritization of risks.</p>	<p>5.4 Define forward rate agreement</p> <p>5.5 Define futures contracts</p> <p>6.1 Explain swap contracting</p> <p>6.2 Describe characteristics of swaps</p> <p>6.3 Describe characteristics of interest rate swaps</p> <p>6.4 Describe characteristics of currency swaps</p> <p>7.1 Describe characteristics of options</p> <p>7.2 Describe the basic principles of option valuation</p> <p>7.3 Analyse binomial option valuation</p> <p>7.4 Analyse black-scholes-merton option valuation</p> <p>7.5 Describe the interest rate options</p> <p>7.6 Describe how to measure the risk of options</p> <p>7.7 Demonstrate how to managing option risk</p> <p>8.1 Describe credit risk as an option</p> <p>8.2 Describe how to measure and manage credit risk</p> <p>8.3 Describe how credit risk models promote diversification</p> <p>9.1 Describe operational risk</p> <p>9.2 Explain how to manage operational risk</p> <p>9.3 Describe liquidity risk</p> <p>9.4 Describe model risk</p> <p>9.5 Describe settlement risk</p> <p>9.6 Describe regulatory risk</p> <p>9.7 Describe accounting risk</p> <p>9.8 Describe tax risk</p> <p>10.1 Describe the role of risk management in corporate governance</p> <p>10.2 Describe the elements of an effective risk management system</p> <p>10.3 Describe centralised and decentralised risk management</p> <p>10.4 Explain the balance between risk-taking and risk avoidance</p> <p>10.5 Analyse the balance between remuneration and ethical behaviours</p> <p>10.6 Describe how corporate governance can prevent risks and analyse how effective corporate governance can reduce catastrophic impacts for global and national economies</p>
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Methods of Evaluation: A 3-hour written examination paper with five essay questions, each carrying 20 marks. Candidates are required to answer all questions. Candidates also undertake project/coursework in Financial Risk Management with a weighting of 100%.

Recommended Learning Resources: Financial Risk Management

<p>Text Books</p>	<ul style="list-style-type: none"> The Essentials of Risk Management: The Definitive Guide for the Non-risk Professional by Michel Crouhy, Dan Galai and Robert Mark. ISBN-10: 0071429662 Risk Management and Financial Institutions by JOHN C HULL. ISBN-10: 0136134270 Corporate Risk Management by Tony Merna, Faisal F. Dr. AlThani. ISBN-10: 0470518332
<p>Study Manuals</p> 	<p>BCE produced study packs</p>
<p>CD ROM</p> 	<p>Power-point slides</p>
<p>Software</p> 	<p>None</p>