

Reading projects in Financial Risk, 2009/2010

1. History of financial risk:

L.P. Bernstein. *Against the gods*. Wiley, New York (1996) *)

A. Steinherr. *Derivatives, the wild beast of finance*. Wiley, New York (1998)

Also look for more recent books

2. LTCM

N. Dunbar. *inventing money*. Wiley, Chicester (2000)*) P. Jorion. Risk management lessons from long-term capital management. *European financial management*, **6**, 277-300 (2000)

3. ENRON:

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4. Financial risks connected with the two Iraq wars:

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5. Should banks be allowed to go into bankruptcy?:

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6. The greeks

C. Borell. *Finansiella derivat och stokastisk analys*. Kompendium, Chalmers (2002)

J.C. Hull. *Options, futures, and other derivatives*. Prentice-Hall, Upper Saddle River, N.J. (1989)

Y.K. Kwok. *Mathematical models of financial derivatives*. Springer, New York (1998)

7. Model Risk

R. Gibson (ed.) *Model risk, concepts, calibration and pricing*. Risk Publications London (2000)*)

8. Liquidity:

H.R. Stoll. Friction. *Journal of finance*, **55**, 1479-1514 (2000)

9. Credit risk:

P.J. Schönbucher. *Credit derivatives pricing models*. Wiley 2003

10. Operational risk:

www.bis.org

H.-U. Doerig. Operational risks in financial services. (2000)*)

E. Medova. Measuring risk by extreme values. *Risk* November 2000*)

M. Crouhy, D. Galahi, and R. Mark. *Risk management*. McGrawHill, New York (2001)*)

11. Legal risks

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12. The Basel Committee and Basel II

www.bis.org

13. Coherent risk measures

P. Arzner, F. Delbaen, J.M. Eber, and D. Heath. Thinking coherently. *RISK*, **10**, 68-71 (1997)

H. Rootzen and C. Klüppelberg. A single number can't hedge against economic catastrophes. *Ambio*, **28**, 550-555 (1999) *)

14. Markowitz portfolio theory

H. Markowitz. Portfolio selection. *Journal of Finance*, **7**, 77-91 (1952)*)

15. Solvency 2

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16. Volumetric risk

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17. The Swedish 1993 banking crisis

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18. The Worldcom bankruptcy

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19. The subprime crisis

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20. Jérôme Kerviel, and the 5 billion euro loss he caused Société Générale

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21. Financial risks in connection with the new Kyoto protocol

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22. Behavioural finance

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23. The trustor fraud

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24. The Madoff fraud

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25. The Lehman brothers bankruptcy

26. Black swans

Nassim Nicholas Taleb. Black Swans. *Penguin Books* (2008)

For almost all of the problems there exists better and more recent literature. Part of the task is to find this literature.

*) Can (probably) be borrowed from the lecturer

Project report: Each group writes a 5-page summary of the project. The aim should be to teach the other participant about the area. The summaries will be an important part of the course literature, and the final version should incorporate any useful comments from the discussion. They should contain *a) some of the main facts, problems and results on the subject, b) a carefully selected, short, list of references, c) a reading guide for those who want to learn more about the subject, and d) the groups personal conclusions about what could be done to make such risks smaller in the future.* The summary should be made available to the course participants at least 3 days before the presentation.

Oral presentation: Each group gives a 20 min oral presentation of their reading project, which will be followed by a 10-20 min discussion. The times for the presentations will be listed at the course homepage.

Discussion: Each group acts as discussants for one other project. However, everyone is encouraged to participate in all the discussions. The main part of the discussion should concern substantive issues. Only brief comments, which are of general interest, about the form of the presentation or the written report should be made. Further such comments are also useful, but should be given in private.

Individual comments: Everyone should hand in individual comments of 1/2 - 1 pages length on 4 of the remaining reading projects (i.e, not ones own project and not the project one has been discussant on, but the other projects). This could contain new facts, questions, criticisms, ... If you are unsure about what to write, you are welcome to show me your first readingproject comment and ask for advice.

Individual Fortunetelling: You should hand in guesses about the values on January 1, 2010 of, say, 5 economic indicators, such as unemployment or stock price indices, in Sweden or in other parts of the world. Each value should be accompanied by an interval which you believe will contain the correct value "with 90% probability".

Grades: Grades are based on the first four parts listed above, i.e. everything counts towards the grade, except the fortunetelling. However it *is* required that you hand in the fortunetelling.

Format for handins: The project report should be sent to me electronically. The file name should include the group number, the names of the group members, and the title of the project, abbreviated as much as possible. The front page of the report should include the full title of the project, full names of the group members, and a brief summary of who has done what. Pdf files are much preferred to other formats. A signed paper copy of the front page should be given to me.

The individual comments and fortunetelling should be sent to me as *one* file (if you send comments in separate files, they will not be graded). The filename should be your name. The front page should also include your name. Again, Pdf files are much preferred to other formats and you should also give me a signed paper copy of the front page.

Prize! At the end of the course each group ranks the quality of the other groups reading projects. The group which comes out on top (probably) wins movie tickets.