

# CEU Business School



## **BUSI 591F** **Corporate Finance and Risk Management** **(1.5 credits)** *elective* AY 2014/15 Fall trimester

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Instructor: Dr Peter Szilagyi (See last page for bio sketch)  
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### **1. PREREQUISITIES**

Finance and statistics are required. You should also be familiar with the basic aspects of derivative securities.

### **2. REQUIRED TEXT AND READINGS**

The module will consist of a combination of lectures and case discussions. Preparation sheets will be posted in advance for each session, outlining the required readings and key learning points. The module webpage will include additional materials such as lecture slides, spreadsheets and optional readings.

There is no required textbook for the course, but I highly recommend purchasing the following books:

Hillier, Grinblatt and Titman, *Financial Markets and Corporate Strategy*, 2<sup>nd</sup> ed., McGraw-Hill, 2011.

Hull, *Options, Futures and Other Derivatives*, 8<sup>th</sup> ed., Pearson Education, 2011.

Myint and Famery, *The Handbook of Corporate Financial Risk Management*, Risk Books, 2012.

Stulz, *Risk Management and Derivatives*, South-Western, 2002.

### 3. COURSE DESCRIPTION AND OBJECTIVES

This module introduces you to financial risk management from the perspective of non-financial corporations. Successful completion of the module should equip you with the right tools and insights to manage risk in a corporate setting. You will learn why firms should or should not manage risk, whether they do manage risk, and how to measure and manage risk. To highlight the practical relevance of the module materials, we will discuss a number of real-world case studies throughout the module.

Understanding the problems covered in the module will be helpful to all risk management professionals and practitioners - treasurers, CFOs, CROs, CEOs, FDs, traders; accountants, consultants; corporate bankers, coverage officers, corporate financiers, private equity investors.

### 4. INTENDED LEARNING OUTCOMES

<i>Core Learning Area</i>	<i>Learning Outcome (or Educational Objective)</i>	<i>Methods used for assessing learning</i>
<i>Interpersonal Communication Skills</i>	Participate in class discussions and problem solving exercises. They will be able to present their arguments or findings, persuade fellow students of the usefulness of their own conclusions and objectively critique findings presented by their fellow students.	Participation in class discussions and case problem solving will be assessed and graded.
<i>Technology Skills</i>	Demonstrate an ability to use MS Excel tools in problem solving.	Class problems and cases will require the use of Excel spreadsheets.
<i>Cultural Sensitivity and Diversity</i>	Work harmoniously with students of various nationalities. They will be capable of harnessing the diversity advantage in viewing issues and problems with a different, if not, international, perspective.	Utilize classroom diversity for projects and discussion requiring teamwork.
<i>Quantitative Reasoning</i>	Apply financial models and formulae to evaluate alternative investment and financing decisions.	Class problems and cases will require the use of extensive quantitative reasoning.
<i>Critical Thinking</i>	Exercise powers of inquiry, logical thinking, and critical analysis of	Lectures will highlight many real world business

	arguments and evidence. Interpret and evaluate theoretical arguments and empirical evidence.	issues and examples that would demand analytical thinking and problem solving skills.
<b>Ethics and Social Responsibility</b>	Evaluate and discuss the challenges of issues relating to social responsibility, corporate governance and ethical and professional behavior arising from the recent financial scandals.	Lectures will emphasize the importance of ethics and social responsibility.
<b>Management Knowledge and Skills</b>	Provide a comprehensive understanding of the principles and techniques of financial decision making. Students are exposed to a number of economic and accounting concepts that practitioners in the field use and apply.	Lectures will involve real world data and scenarios, focusing on how financial managers make investment and financial decisions in a complex interplay of business

## 5. ACADEMIC INTEGRITY

The Business School expects all students to adhere to the fundamental principles of academic integrity in all behavior associated with their course work, as stated in the CEU Honor Code (see Student Handbook). Cheating on the final exam or minute papers will not be tolerated in this class, and will be punished to the maximum extent permitted under CEU rules.

## 6. COURSE OUTLINE AND SESSION ASSIGNMENTS

### Lecture 1: Introduction

- Why manage risk?
- How should firms organize risk management?
- Risk management and the firm's stakeholders

### Lecture 2: Interest rate and inflation risks

- How to develop an interest rate hedging policy
- The impact of interest rate policy on firm valuation
- Asset and liability management

### Lecture 3: Foreign exchange risk

- How to develop a foreign exchange policy
- Transaction risk, translation risk and economic risk
- Managing risk from emerging market currencies

### Lecture 4: Credit risk

- Counterparty risk methodology and protection
- Prehedging credit risk
- Integrated risk management

### Lecture 5: M&A-related risks

- Risk management for M&As
- Hedging uncertain exposures

## **Lecture 6: Commodity risk**

- Managing commodity-linked revenues and currency risk
- Managing commodity-linked costs and currency risk

Please note that the course outline is subject to changes either before or during class at the discretion of the instructor.

## **7. GRADING AND ASSESSMENT**

The assessment for the course comprises four components:

- Individual case write-up (20%)
- Class participation and problem solving (20%).
- Final exam (60%)

Grading will be based on the total score out of 100, in line with standard grading patterns at CEU.

### **Individual case write-up**

Each student is required to submit a report on one of the cases discussed in class. The report should be (i) a four-page memorandum of analysis and recommendations covering each case study question, and (ii) any accompanying exhibits (tables, models, graphs) you wish to include as appendices. Please address the case study questions in separate paragraphs. Please also make sure that you only include exhibits that make a major contribution to the analysis and do not duplicate the discussion in the report. The conclusions should be written as if you were making recommendations to a major decision maker. Please indicate how you have arrived at your conclusions – I care about the thinking process and logic rather than the correctness of the answer.

### **Class participation and problem solving**

Class participation includes attendance, attitude, and volunteered and “cold call” responses. You may be called on regarding discussion questions, readings, and cases. Therefore, all reading assignments should be completed PRIOR to the class we cover them. It is your responsibility to be active in class. Do not simply wait to be called on; raise your hand or speak out.

The case method is often uncomfortable to students given the inherent uncertainty of having to make choices with limited information at hand. Please note that there are often no “right” answers: while I will provide some basic numbers and my analysis, there may be many other valid ones.

Late arrivals, early departures, chatter, ringtones, internet surfing, eating or drinking are disruptive to the quality of the learning environment in the classroom. Any such behavior will be noted and count against your participation grade.

### **Final exam**

There will be ONE closed-book final exam for this module. The test will be a two-hour paper, including open-ended essay questions and /or numerical exercises. The test questions will cover all parts of the syllabus.

## **8. BRIEF BIO OF THE INSTRUCTOR**

Peter Szilagyi is a Visiting Professor of Finance at CEU Business School, and a Lecturer (Assistant Professor) in Finance at Judge Business School, University of Cambridge. Prior to joining CJBS in 2007, he obtained a PhD from Tilburg University and held a research fellowship at Saïd Business School, University of Oxford. He has been an external fixed-income consultant to the World Bank and the Asian Development Bank, and before entering academia worked for the BBC World Service.

Peter's research interests include corporate finance, corporate governance, international finance, and law and economics. He is the corporate finance subject editor of the International Review of Financial Analysis, and holds one of the first research grants awarded by the SWIFT Institute.