The objective of this course is to explore managing under conditions of risk and uncertainty. Risk presents both threat and opportunity. Thus, the course will focus on how a business handles various categories of risks and uncertainties, how these risks interact and interrelate with each other, and how managers make decisions based on various tradeoffs.

Risk management has been blamed at least in part, for the recent financial crisis and both pre-crisis and new and emerging views of risk management will be addressed. Not only is risk management a relatively new and developing strategic approach to value creation, its execution also calls for a deep and thorough understanding of a firm’s business and its environment as well as a capacity to identify, analyze, measure, manage, and monitor a variety of complex and interacting existing and emerging risks.

The course is intended to address risk management issues in both financial and non-financial firms. While a background in mathematical methods will be useful, especially an understanding of probabilities, it is not a prerequisite. The focus will be primarily on issues and assumptions that various quantitative and qualitative methodologies raise when applied to risk management.

While some commonalities exist, risk management requires an approach tailored to the particular businesses that a firm engages in. Thus, risk management is more about practice and less about theory. With some notable exceptions such as financial risks, it is as much about experience, judgment, talent and qualitative analysis as it is about rigorous quantitative analysis.

Classes will take the format of discussions among us largely based on the readings, case studies, and events as they occur. The expectation will be that you are thoroughly familiar with the various cases and readings and that you are prepared to participate fully when called upon. Students, as well as the instructor, are also expected to comply with the University’s honors policy, more about which can be found at http://sc.edu/academicintegrity.

TEXTBOOKS:


Various supplemental readings and cases accessible via the internet or available electronically through Harvard Business Publishing (HBP) are also assigned. Some of these readings may have to be purchased online before they can be accessed. Daily reading of the Wall Street Journal and/or The Financial Times is also recommended. The instructor reserves the right to add readings or cases as they may become available.

GRADES:

- **A final paper on a topic of your choice covered in the syllabus**: 40%. The paper is to be no longer than 20 double-spaced pages. You must obtain the approval of the instructor regarding your choice of topic.
- **A final exam**: 60%.
- **SPECIAL PROJECTS**: If anyone is interested in pursuing a special project of interest on a topic related to risk management, I am prepared to evaluate that project for an agreed upon percentage of your final grade.

SCHEDULE:

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>JANUARY 13</td>
<td>THE BASIC OF UNCERTAINTY, RISK AND RISK MANAGEMENT</td>
</tr>
<tr>
<td>JANUARY 20</td>
<td>MLK DAY – NO CLASSES</td>
</tr>
<tr>
<td>JANUARY 27</td>
<td>CONTRACTS AND INSURANCE</td>
</tr>
<tr>
<td>FEBRUARY 3</td>
<td>FINANCIAL INSTRUMENTS</td>
</tr>
<tr>
<td>FEBRUARY 10</td>
<td>RISK MANAGEMENT: CRISIS AND RESPONSE</td>
</tr>
<tr>
<td>FEBRUARY 17</td>
<td>OPERATIONAL RISKS</td>
</tr>
<tr>
<td>FEBRUARY 24</td>
<td>STRATEGIC RISKS</td>
</tr>
<tr>
<td>MARCH 3</td>
<td>THE CHALLENGES AHEAD</td>
</tr>
</tbody>
</table>

ABBREVIATIONS:

- **JEP** = Journal of Economic Perspectives, available free online;
- **SIGMA** = a journal published quarterly by Swiss Re Corporation, available free online;
- **ARTICLES** marked “available online” can be found free of charge;
- **HBS** = Harvard Business School cases are available for purchase online.

READINGS AND CASE STUDIES:

**1) THE BASICS OF UNCERTAINTY, RISK AND RISK MANAGEMENT**

**READINGS:**

- Bernstein text
- Hampton text


### (2) CONTRACTS AND INSURANCE

**READINGS:**

- *Insurability and its limits*. Swiss Re, Sigma 4/2005
- *Non-life claims reserving*. Swiss Re, Sigma 2/2008
- *Commercial liability*. Swiss Re, Sigma 5/2009
- *Life insurance*. Swiss Re, Sigma 1/2012
- *Credit insurance and surety*. Swiss Re, Sigma 6/2006
- *An introduction to reinsurance*. Swiss Re booklet.
- *The role of indices...* Swiss Re, Sigma 04/2009
- *Insuring commercial risks...* Swiss Re, Sigma 05/2012
- *Securitization*. Swiss Re, Sigma 7, 2006

**CASE STUDIES:**


### (3) FINANCIAL INSTRUMENTS

**READINGS**


**CASE STUDIES:**

- *The Barings collapse A and B.* Two HBS cases purchase.

(4) **RISK MANAGEMENT: CRISIS AND RESPONSE**

**READINGS:**


**CASE STUDIES:**

- *Lehman Brothers and Repo 105.* HBS 9-112-050 purchase.
- *AIG: Blame for the bailout.* HBS case purchase.

(5) **OPERATIONAL RISKS**

**READINGS**


**CASE STUDIES:**

(6) STRATEGIC RISKS

CASE STUDIES:

- Random House: Shifting to e-books in a globalized world. HBS purchase.
- McKesson. HBS 9-312-022 purchase.
- What happened at Citigroup (A) and (B). HBS 9-310-004 and 9-312-018 purchase.
- AOL Time Warner (B): Recognition of good will impairment. HBS purchase.

(7) THE CHALLENGES AHEAD

READINGS:


CASE STUDIES: