

Indian Institute of Technology Kanpur
New Course Proposal

1. **Course Number:** ECO7XX
2. **Course Title:** Foundations of Financial Risk
3. **Per Week Lectures:** 3 (L), Tutorial: --(T), Laboratory: --(P), Additional Hours [0-2]: --(A), Credits (3*L+0*T+0*P+0*A): 09 Credits
4. **Duration of the Course:** Full Semester
5. **Proposing Department/IDP:** Economic Sciences
Other Department/IDPs which may be interested in the proposed course: -- Other faculty members interested in teaching the proposed course: --
6. **Proposing Instructor(s):** Dr Sanjiv Kumar
7. **Lecture duration:** 75 Minutes
8. **Course Description:**
 - A) Objectives: The course aims to provide adequate exposure to the foundational concepts of financial risk in an economy. It also highlights the role of financial markets in financial stability and recent developments in policy thinking.
 - B) Course Contents:

No	Broad Title	Topics	No. of Lectures
1	Nature of Risk	Risk and basic risk management framework, systematic, unsystematic, credit risk, credit risk management framework, operational risk and integrated risk management.	2
2	Financial Institutions & regulations	Central bank regulation, capital market regulations, stock market regulations, Role of SEBI, IRDA and its role in financial markets, management of liquidity and risk; bank safety and prudential regulations, government guarantees, deposit insurance.	3
3	Market risk measurement	Concept of volatility, portfolio volatility, concept of Value at Risk (VaR), type of VaR measures, methodologies for measurement of VaR, measuring risk using VaR, Stress testing and back-testing VaR, conditional Value at Risk (Co-VaR),	4
4	Bank balance-sheet risk	Risks in Banking Business, Risk identification in Banking Business, Off-Balance Sheet Exposures, Risk Regulations in Banking Industry, Basel I, II and III, Market Risk, Bank balance sheet risk, bank crisis, leverage risk, balance sheet recession.	5
5	Financial Stability	Defining Financial stability, assets, information problems, role of finance in propagating shocks, bank behaviour, financial cycles and crises, asset price bubbles, the financial accelerator,	5

		the housing feedback process, bank leverage-centred feedback process.	
6	Financial Instability	Defining financial instability, experience from Global Financial Crisis (GFC), pre-crisis financial system, the upswing of the financial cycle, subprime Crisis, Mortgage-Backed Securities.	4
7	Recent Developments in policy thinking	Post crisis reforms of financial regulation failure, introduction of macroprudential policy (MaPP), need, objectives, instruments of MaPP, how does MaPP assist in maintaining the financial stability, adverse effects of new regulations.	3
Total number of lectures			26

C) **Pre-requisites:** Familiarity with macroeconomics (Instructor’s consent)

9. Summary: The critical role of financial institutions in driving economic growth and development is well documented in the literature. However, rapid financial development can also introduce significant challenges and risks to the system. Therefore, understanding various aspects of financial risk, policy applications, and recent developments is essential. This course explores the following topics: nature of risk, financial institutions and regulations, banking balance sheet risk, market risk measurement, financial stability, financial instability, and recent developments in policy thinking.

10. Text Books:

Wendy, C., & Soskice, D. (2015). *Macroeconomics, Institutions, Instability and the Financial system*. Oxford University Press

11. References Books:

Advanced Financial Risk Management: Tools and Techniques for Integrated Credit Risk and Interest Rate Risk Management (Wiley Finance) by Donald R. Van Deventer, Kenji Imai & Mark Mesler

Chandra, Prasanna: *Investment Analysis and Portfolio Management*. McGraw Hill Education.

Financial Risk Management: A Practitioner’s Guide to Managing Market and Credit Risk by Steve L. Allen

Gup, Benton E. Kolari, James W., *Commercial Banking: Management of Risk*, Wiley; 3 edition (2004)

Machiraju, H. R., *Modern Commercial Banking*, New Age International, (2008)

Mishkin, Frederic (2007), *The Economics of Money, Banking and Financial Markets*, 8th ed., Addison Wesley Longman Publishers.

Wendy, C., & Soskice, D. (2006). *Macroeconomics: Imperfections, Institutions & Policies*. Oxford University Press

12. Research Articles and Reports

Bank for International Settlement (BIS), Financial Stability Board (FSB), RBI

13. Any other remarks:

Dated: 19/01/2024

Proposer: Dr Sanjiv Kumar

Dated: _____ DUGC/DPGC Convener: _____

The course is approved / not approved

Chairman, SUGC/SPGC

Dated: _____