University of Wisconsin – Madison  
School of Business  
Department of Actuarial Science, Risk Management and Insurance  
Spring 2009  
RMI 300 – Principles of Risk Management

Professor  
Dr. Martin Halek  
Office: 5279 Grainger  
Phone: 262-1848  
Email: mhalek@bus.wisc.edu  
Office Hours: W 2p.m. – 5p.m. and by appointment

Class Hours: TR 11a.m. – 12:15 p.m.  
Class Location: Grainger, Room 1100

Teaching Assistants  
Cuncun Luan (Sections 301 – 304)  
Office: 1290 Grainger  
Email: luan@wisc.edu  
Office Hours: Monday 9a.m. – 11a.m.

Yi (Kitty) Yao (Sections 305 – 308)  
Office: 1290 Grainger  
Email: yao4@wisc.edu  
Office Hours: Thursday 1p.m. – 3p.m.

Course Description  
This course provides an introduction to the different types of risks faced by businesses and individuals along with alternative methods of treating such risks. We will examine applications of these methods with regards to life, health, property, casualty and liability exposures. First, we will gain a clear understanding of risk, the risk management process and risk analysis. Next, we will investigate noninsurance risk management techniques followed by a discussion of insurance. We will also examine contemporary issues and challenges in risk management and insurance. Time permitting, the ultimate section of the course will cover individual and corporate risk management decision making. This course is designed for non-majors as well as a foundation for more advanced risk management and insurance courses. The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

Course Objectives
- Teach the principles and terminology of risk management and insurance.
- Explain how corporations and individuals use the risk management process to control or finance their exposure to accidental loss.
- Describe the job opportunities available in the insurance and financial services industry.
- Illustrate the principles and theories of insurance law with a focus on a standard insurance policy.
- Discuss both ethical and global business issues as they relate to the insurance transaction.
- Explain how life insurance, annuities and health insurance form an integral part of the tripod of economic security.
- Describe the economic problems presented by the insurance transaction, and how the government regulates this transaction.
- Build a foundation of understanding so that some of our society’s most important economic problems can be viewed intelligently.
- Encourage students to present their own analysis in a confident, organized and coherent manner.

Course Materials
- Required: Supplemental readings and documents available from the class web page (CW)
**Academic Integrity**

You are responsible for maintaining the highest standards of honesty and integrity in every phase of your academic career. The penalties for academic dishonesty are severe and ignorance is not an acceptable defense. All students must abide by the code of academic honesty of the University of Wisconsin – Madison which is available from the Office of the Dean of Students or the following website: [http://www.wisc.edu/students/saja/misconduct/academic_misconduct.html](http://www.wisc.edu/students/saja/misconduct/academic_misconduct.html). You are responsible for informing yourself about these standards before performing any academic work. It is my responsibility to uphold the University’s academic honest policy and report my suspicions of dishonesty to the Office of the Dean of Students.

**Attendance**

Lecture attendance is strongly advised. Exams will be based primarily on material covered in class. Should you miss class for any reason, it is your responsibility to obtain lecture notes from another student.

Class attendance is mandatory when guest speakers are scheduled. Guest speakers will be announced in advance. Failure to attend any guest speaker class session will result in a discretionary reduction of your course grade. Further, you are expected to be courteous and respectful to guest speakers. This includes arriving on time, being attentive, and demonstrating interest by participating and asking appropriate questions.

**Exam Policy**

There will be three exams during the semester, two midterms and one final exam. The final exam will be comprehensive. Exams will consist of multiple choice questions, quantitative problems and short answer questions. Exam material will come from lectures, text, and any material distributed in class or through the course web page (see below).

Please do not miss an exam. Conflicts with any scheduled exam (including the final) must be communicated by **February 5, 2009** on the attached sheet. No other mechanism for make-up exams is available. If you should miss a midterm exam because of a University approved excuse (e.g. written medical excuse), your final exam score will be used as the score for the missed exam.

**Discussion Sections and Grade Composition**

Since lectures are scheduled for 75 minutes each, discussions may appear redundant; therefore, you have the option to include discussion in your grade or not. The decision to include discussion in your grade, however, must be communicated by **February 5, 2009** on the attached sheet. The default option is not to include discussion in your grade. If you choose not to include discussion as part of your grade, your grade composition will be as follows:

<table>
<thead>
<tr>
<th>Exam</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exam #1</td>
<td>30%</td>
</tr>
<tr>
<td>Exam #2</td>
<td>30%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>40%</td>
</tr>
</tbody>
</table>

If you choose to include discussion in your grade, your grade composition will be as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussion</td>
<td>15%</td>
</tr>
<tr>
<td>Exam #1</td>
<td>25%</td>
</tr>
<tr>
<td>Exam #2</td>
<td>25%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>35%</td>
</tr>
</tbody>
</table>

You cannot change your mind after **February 5, 2009**. The intention of discussion is to offer more individual attention, an opportunity to ask and answer questions, and to practice the material through quizzes and assignments. You are not assured a high grade in discussion; however, you may find exams to be easier by using the discussion option.
**Grade Scale**

Lower bounds for A, B, C, and D final grades will be no higher than 90, 80, 70, and 60 percent of the total available points, respectively. All other grades (A, B and F) will be determined at the end of the semester based upon the performance of the class. Grades will be curved if necessary.

**WEB Resources**

A course page has been established as a means for me to efficiently administer this class. The web page allows you to obtain a copy of the syllabus, obtain lecture notes, link to other important web pages, etc. You are responsible for accessing the course web page on a regular basis. You may log on to the web page through the following address: [http://courses.bus.wisc.edu](http://courses.bus.wisc.edu).

**Email**

Announcements regarding the class may be sent from me to you via email. Any announcement sent via email is assumed to be communicated to the entire class. Thus, it is imperative you check your email regularly.

The teaching assistants and I will answer simple, factual questions via email; however, more thoughtful questions need to be asked during class, office hours, or review sessions. Email is useful for simple communication but is limited in the ability to develop firm understanding of material. Should you need to email me or a teaching assistant, please type RMI 300 in the subject line. Otherwise, your email may be filtered into junk mail. We will respond to individual emails in a reasonable amount of time.

**Actuarial Science, Risk Management and Insurance (ASRMI) Homepage**

The address for the ASRMI homepage is [http://www.bus.wisc.edu/asrmi/](http://www.bus.wisc.edu/asrmi/). For those interested in the major, you should familiarize yourself with this site. Important dates, events, and announcements related to the ASRMI program appear here, as well as information regarding Career Opportunities, Scholarships, Career Fair, and other important topics.

**Special Needs**

Any student who feels that he or she may need an accommodation for a disability of any sort should consult with me as soon as possible so that appropriate arrangements may be made.
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RMI 300 – Principles of Risk Management  
Schedule of Topics*  

All material, such as handouts, notes, announcements, etc., should be retrieved from the course web page *prior* to class. Please come prepared.  
*The schedule is subject to change. Actual depth of coverage will depend on available time.

### Risk and Risk Management Problems

<table>
<thead>
<tr>
<th>Topic</th>
<th>Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction to Risk</td>
<td>Chapter 1, 2 (HN)</td>
</tr>
<tr>
<td>Risk Identification and Evaluation</td>
<td>Chapter 3, 26.1-26.3 (HN)</td>
</tr>
<tr>
<td>Property and Liability Loss Exposures</td>
<td>Chapter 12 (HN)</td>
</tr>
</tbody>
</table>

### Risk Management Techniques: Noninsurance and Insurance Methods

<table>
<thead>
<tr>
<th>Topic</th>
<th>Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management Techniques: Noninsurance Methods</td>
<td>Chapter 11, 22.1, 25.4 (HN)</td>
</tr>
<tr>
<td>Risk Pooling</td>
<td>Chapter 4 (HN)</td>
</tr>
<tr>
<td>Insurance as a Risk Management Technique</td>
<td>Chapter 10 (HN)</td>
</tr>
<tr>
<td>Functions and Organization of Insurers</td>
<td>Chapter 5 (HN)</td>
</tr>
</tbody>
</table>

### Individual and Corporate Risk Management Decision Making

<table>
<thead>
<tr>
<th>Topic</th>
<th>Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Aversion and Risk Management by Individuals and Corporations</td>
<td>Chapter 9, Appendix 9A (HN)</td>
</tr>
<tr>
<td>Adverse Selection and Asymmetric Information</td>
<td>Akerloff, 1970 (CW), Lemons Market</td>
</tr>
<tr>
<td>Hedging with Derivative Contracts</td>
<td>Chapter 24 (HN)</td>
</tr>
</tbody>
</table>

### Important Dates

<table>
<thead>
<tr>
<th>Event</th>
<th>Date and Time</th>
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<tbody>
<tr>
<td>RMIS Club Kick-Off Event:</td>
<td>Tues, January 27 (5pm, Grainger)</td>
</tr>
<tr>
<td>Submit Discussion Option Choice &amp; Exam Conflict Forms:</td>
<td>Thurs, February 5</td>
</tr>
<tr>
<td>Exam #1:</td>
<td>Tues, February 24 (in class)</td>
</tr>
<tr>
<td>No Class (Spring Recess):</td>
<td>Tues, March 17 &amp; Thurs, March 19</td>
</tr>
<tr>
<td>Exam #2:</td>
<td>Thurs, April 9 (in class)</td>
</tr>
<tr>
<td>Guest Speaker:</td>
<td>Tues, April 21 (in class)</td>
</tr>
<tr>
<td>Last Day of Class:</td>
<td>Thurs, May 7</td>
</tr>
<tr>
<td>Final Exam:</td>
<td>Friday, May 15, 12:25pm–2:25pm</td>
</tr>
</tbody>
</table>
BY FEBRUARY 5, 2009, SUBMIT THIS FORM TO YOUR RMI 300 TEACHING ASSISTANT

Name: ________________________________

Discussion section for which you have registered: ____________________________

Discussion time and day you attend: ________________________________

I select the following grading scheme:  
(1) to include discussion in my grade ________

(2) not to include discussion in my grade ______

Signature: ________________________________

***Note: The default option will be to not include discussion in your grade.
BY FEBRUARY 5, 2009, SUBMIT THIS FORM TO YOUR RMI 300 TEACHING ASSISTANT

If you have a conflict with any exam (including the final), complete the following. No other option for alternate exams is available.

With which exam do you have a conflict (1st, 2nd, final)? ____________________________

What is the nature of the conflict? Please provide supporting information:

_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________

For purposes of scheduling an alternative time, please provide your schedule for the week of and following the exam. We must have this information for rescheduling.

_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________

Your Name and e-mail: ________________________________

Your discussion section: ________________________________