

**33:136:405 Risk Modeling**

Spring 2026

BRR-4073 [Livingston]

Wednesday 10:20—1:20

Office hours: Mon 1-3 PM or by appt.

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## COURSE DESCRIPTION

The course will introduce main concepts and models of decision-making under uncertainty when risk aversion plays a major role. First, we shall discuss the use of linear and nonlinear optimization models to decision problems under uncertainty. Then, we will discuss expected utility models, their economic background and business applications. Next, mean—risk models will be presented, with their applications to finance. After that, we shall discuss the concepts of value at risk and average value at risk, and their applications. This will serve as a foundation for models involving measures of risk. The next group of models will be based on the concepts of stochastic dominance. Finally, we shall present most fundamental dynamic models, with applications to insurance, finance, and inventory management.

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## COURSE MATERIALS

The course notes will be posted on Canvas ([canvas.rutgers.edu](https://canvas.rutgers.edu)).

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## LEARNING GOALS AND OBJECTIVES

- This course is designed to help students develop skills and knowledge in the following area(s):

1. Modeling decision problems under uncertainty, where risk aversion of the decision-maker is an essential factor
2. Analysis of risk factors and choice of appropriate mathematical risk representation
3. Use of optimization methods and software to solve the resulting decision problem
4. Analysis of the probabilistic properties of the solutions obtained

- Students who complete this course will demonstrate the following:

1. The ability to recognize risk and model it in a mathematical way
2. The ability to formulate and solve an appropriate decision problem.

- Students develop these skills and knowledge through the following course activities and assignments:

1. Modeling assignments
2. Optimization assignments
3. Probabilistic analysis and simulation assignments

The examples and assignments will use Excel and Python.

## **PREQUISITES**

There are no formal prerequisites, but good preparation in calculus and the theory of probability is required.

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## **ACADEMIC INTEGRITY**

*I do NOT tolerate cheating.* Students are responsible for understanding the RU Academic Integrity Policy. I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must sign the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” [I will screen all written assignments through *SafeAssign* or *Turnitin*, plagiarism detection services that compare the work against a large database of past work.] Don’t let cheating destroy your hard-earned opportunity to learn. See [business.rutgers.edu/ai](http://business.rutgers.edu/ai) for more details.

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## **ATTENDANCE AND PREPARATION POLICY**

- Expect me to attend all class sessions. I expect the same of you. If I am to be absent, my department chair or I will send you notice via email and Canvas as far in advance as possible. If you are to be absent, report your absence in advance. If your absence is due to religious observance, a Rutgers-approved activity, illness, or family emergency/death and you seek makeup work, also send me an email with full details and supporting documentation [within 3 days of your first absence]. [Explain other aspects of your absence policy in detail; it will save you trouble later.]
- For weather emergencies, consult the campus home page. If the campus is open, class will be held.
- Expect me to arrive on time for each class session. I expect the same of you.
- Expect me to remain for the entirety of each class session. I expect the same of you.
- Expect me to prepare properly for each class session. I expect the same of you. Complete all background reading and assignments. You cannot learn if you are not prepared. The minimum expectation is that for each 3-hour class session, you have prepared by studying for at least twice as many hours.
- Expect me to participate fully in each class session. I expect the same of you. Stay focused and involved. You cannot learn if you are not paying attention.

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## **CLASSROOM CONDUCT**

The use of cell phones is forbidden. Please, refrain from eating and drinking. Do not sleep.

## **EXAM DATES AND POLICIES**

There are 2 exams in this course:

Midterm Exam: March 4, 2026. Open book exam.

Final Exam: TBD. Open book exam, comprehensive.

During exams, the following rules apply:

- If you have a disability that influences testing procedures, provide me with an official letter from the Office of Disability Services at the start of the semester.
- No cell phones or other communication devices are allowed in the testing room.
- You must show a valid Rutgers photo ID to enter the room and to turn in the exam.
- Alternate seating; do not sit next to another student or in your usual seat.
- Use the bathroom prior to the exam start; bathroom breaks, if essential, will be escorted.
- Your exam will not be accepted unless you sign the Honor Pledge.

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## **GRADING POLICY**

Course grades will be determined by weighted average of the following components:

Homework assignments (30%), Midterm exam (30%), and Final exam (40%). A score above 90% will be graded as A, above 80% as B+, above 70% as B, above 60% as C+, and above 50% as C. Scores below 50% are failing grades.

In the event of an excellent score on the final exam I may raise the grade above the level provided in the table above.

Your final grade is not subject to negotiation. If you feel I have made an error, submit your written argument to me within one week of receiving your final grade. Clarify the precise error I made and provide all due supporting documentation. If I have made an error, I will gladly correct it. But I will adjust grades only if I have made an error. I cannot and will not adjust grades based on consequences, such as hurt pride, lost scholarships, lost tuition reimbursement, lost job opportunities, or dismissals. Do not ask me to do so. It is dishonest to attempt to influence faculty in an effort to obtain a grade that you did not earn, and it will not work.

## COURSE SCHEDULE

<u>Date</u>	<u>Topic</u>	<u>Items Due</u>
Jan. 21	Introduction to risk modeling	
Jan. 28	Review of linear programming	
Feb. 4	Duality in linear programming	Assignment 1
Feb. 11	Applications of duality	Assignment 2
Feb. 18	Nonlinear optimization	Assignment 3
Feb. 25	Applications of nonlinear optimization	Assignment 4
Mar. 4	Midterm exam	
Mar. 11	Utility theory	
Mar. 25	Mean—variance models	Assignment 5
Apr. 1	One-fund theorem. Value at risk.	Assignment 6
Apr. 8	Average value at risk.	Assignment 7
Apr. 15	Risk measures	Assignment 8
Apr. 22	Stochastic dominance	Assignment 9
Apr. 29	Dynamic risk models	Assignment 10
TBD	Final exam	

## SUPPORT SERVICES

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. <https://ods.rutgers.edu>

If you are a military *veteran* or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of *mental health* services, please use our readily available services.

[Select for inclusion in syllabus based on course location]

[Rutgers University-Newark Counseling Center: <http://counseling.newark.rutgers.edu/>]

[Rutgers Counseling and Psychological Services – New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of *physical health* services, please use our readily available services.

[Select for inclusion in syllabus based on course location]

[Rutgers Health Services – Newark: <http://health.newark.rutgers.edu/>]

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of *legal* services, please use our readily available services: <http://rusls.rutgers.edu/>

If you are in need of additional *academic assistance*, please use our readily available services.

[Select for inclusion in syllabus based on course location; undergraduate only]

[Rutgers University-Newark Learning Center: <http://www.ncas.rutgers.edu/rlc>]

Rutgers University-Newark Writing Center: <http://www.ncas.rutgers.edu/writingcenter>]

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]