

Study Questions—Marthinsen—“Derivative Scandals and Disasters”

1. What four interrelated factors does Marthinsen identify behind derivatives disasters?
2. What are four assumptions behind VaR and how did these play a role in the derivatives disasters?
3. According to Marthinsen, which firms did a poor job of measuring the risks that their firms faced?
4. What does Marthinsen mean by “cauterizing losses” and how does this contrast with a “doubling strategy”?
5. Which disasters involved poor management of traders and what was the problem in each?
6. How is the compensation plan of individual traders like a call option?
7. How did principal agent problems, adverse selection, and moral hazard play a role at Barings Bank and Société Générale?