

Study Questions: Nocco and Stulz–“Enterprise Risk Management: Theory and Practice”

1. How does ERM create value at the macro and micro levels?
2. What is the “underinvestment problem” and how does ERM help combat it? How could this help create shareholder value?
3. What does Nocco identify as the main function of corporate risk management?
4. Explain the relationship between “comparative advantage in risk bearing” and “strategic risk.”
5. Explain the two main components of decentralizing the risk-return tradeoff in a given enterprise.
6. Within an enterprise, what is it for a risk to be “owned?”
7. Nocco says that risk management can be viewed as substitute for equity capital. Explain.
8. How does Nocco define “financial distress?”
9. According to Nocco, should management aim at minimizing financial distress? What do you think?
10. What is “VaR?” (Note: This is a central concept we will be exploring throughout the course.)
11. Name five different types of risk that Nocco discusses.
12. Compare and contrast the loss distributions typical of market, credit, and operational risks.
13. Do correlations among these different types of risk matter? Are they constant? Explain.
14. What does Nocco identify as the main problem with VaR?
15. Distinguish between economic and regulatory capital. Which matters according to Nocco? Explain.
16. How should one estimate the capital charge for a new risky project?