

TO: Augustine McCaffery
Senior Academic Program Specialist
University of Washington Graduate School

FROM: Doug Martin and Eric Zivot
Co-Directors of Computational Finance Program
Departments of Statistics and Economics

SUBJECT: Response to Computational Finance Program Five-Year Review

DATE: September 20, 2010

First we wish to extend our appreciation and thanks to the Review Committee members cc'd on this memo for their commitment of time and effort in carrying out a careful in-depth review of the University of Washington's Computational Finance Program (the "Program") and in producing a very useful *Computational Finance Program Review* document (the "Report").

The Report pointed to the success achieved to date by the program and recommended continuing the program but at the same time addressing critical sustainability issues. The latter include the following. First: the program depends critically on the continued participation and leadership of the two of us, which is only assured for on the order of five more years for one of us (Martin) and by no means assured indefinitely for the other (Zivot). Second: the program has existed to date with the Graduate School as its "home", and is in need of a home department that has an intellectual interest in computational finance and that will nourish and support the program. Consequently during their site visit the Committee devoted substantial time to interviewing chairs of a number of departments, including Economics and Statistics, which logically seemed like potential homes for the Program.

We summarize the key findings of the Committee's Report with respect to sustainability:

- 1) None of the departments whose chairs were interviewed had any interest in being a home for the Program, and the Dean of the College of Engineering stated a similar position with respect to Engineering Departments.
- 2) It will be necessary for the Program to obtain a source of revenue, e.g., through a Professional MS Degree in Computational Finance. Such revenue could be used to support an enlarged group of faculty members who have an intellectual interest in developing and teaching a needed broader range of course offerings, thereby reducing the key player risk currently associated with the two of us.
- 3) The Applied Mathematics Department turned out to be interested in being the home for the Program. As was mentioned in the Report, this is a possibility that the two of us had initiated discussion on with the Applied Mathematics Chair Nathan Kutz during spring quarter 2010.

Needless to say, we were more than a little disappointed that our home departments of many years had no interest in the Program. At the same time we were quite pleased to see the interest on the part of Applied Mathematics, including: (a) the intellectual interest on the part of some Applied Mathematics faculty (two of whom are committed to teaching courses in the program) and (b) Applied Mathematics recent experience and

success in running a new MS Degree in Applied Mathematics with both online and resident matriculated students components.

The current positive outcomes of the Review are as follows:

- 1) With Applied Mathematics as the home department we are launching an Online Computational Finance Certificate program in fall quarter 2010 that consists of three courses offered during fall, winter and spring quarters, respectively. See www.amath.washington.edu/studies/compfin for details. Current potential for success is very good.
- 2) We are planning a new self-sustaining MS Degree in Computational Finance and Risk Management proposal for presentation to the Graduate School in early fall quarter, with planned launch in fall 2011. This is contingent on review and approval by the Applied Math faculty at the end of this month.

We look forward to the Graduate School's response to the Five-Year Review and our comments herein.

Sincerely,

Doug Martin, Professor of Statistics
Eric Zivot, Robert Richards Chaired Professor of Economics

Cc: Nathan Kutz (Review Committee Chair), Applied Mathematics Chair
Mark Damborg, Electrical Engineering
Les Atlas, Electrical Engineering
John Lehoczky, Carnegie Mellon University
George Zinn, Microsoft Treasury
Werner Stuetzle, Divisional Dean of Natural Sciences
Jon Wakefield, Statistics Chair
Robert Halverson, Economics Chair