



## FIN 397.6 – SPECIAL TOPICS IN INVESTMENTS

FALL 2012

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### Course Objectives

This course has several objectives. It is my hope that this class will help you to:

- (1) become more informed about long-term issues that will affect our markets and economy;
- (2) learn key numbers that are crucial to understanding the same issues;
- (3) understand and respect opposing views about these issues; and
- (4) encourage you to consistently read academic research and to continue this habit after graduation.

### Required Materials

*Public Finance and Public Policy, 3e* by Jonathan Gruber (Worth Publishers, 2011)

### Grades

You will have two exams that will account for 80% of your grade. The project will account for 20% of your grade. Your grade will be lowered significantly if you don't attend class. (There is a waiting list for this class and I want this class filled with people who will attend and contribute.)

## Important Notice

You will (hopefully) recognize very quickly that I love what I do. I really enjoy the subject matter and I really enjoy the students. What we're doing in the Business School is very important to me. The "downside" of all this is that I will hold you to a high standard. In reality, it's been my experience that this is what you want. I will hold myself to a higher standard.

The purpose of this syllabus is not just to give you a list of readings and dates. The most important reason for this syllabus is to let you know about my expectations for class. That way, you can make an informed decision about whether this is the right class for you. For me, the most important idea to express is that I believe we can (and should) have an extremely professional setting while also having fun.

## Attendance

I believe that testing is imperfect and that learning occurs in all different ways. One way that you will hopefully learn is by attending class. I also believe that a class has a culture (and a culture of professionalism is important). This means that you must attend class.

Attendance will be taken each day. You can miss two classes without any penalty. If you miss two (or fewer) classes, your grade will not be negatively impacted by attendance. In fact, your grade will be positively impacted – in that I will not give low grades to people who regularly attend class. This policy will be discussed in class.

If you miss more than two classes, each absence (after your second) will lower your final course grade by a "half" letter grade. Here's an example. Imagine that your test scores would have qualified you for an A-, but you missed five classes. That means that you will have your grade lowered three notches (because you missed three classes more than you were allowed). An A- would become a B-. (In other words, one notch below and A- is a B+, one notch lower is a B and the final notch is a B-.) I will discuss the reason for my grading policy during the first class.

In addition to your two allowed absences, I will also excuse two absences due to interviews. **But, you must email me at least 5 days in advance of your absence.** If you are interviewing a lot, you should use these two excused absences and the other two remaining absences. Realize that this allows you to miss four of 28 classes (14%) of the semester without penalty. If you plan to miss more than that, this may not be the class for you.

## Description of Requirements

### Exams

Both exams will be mostly qualitative. It is my expectation that they will be primarily multiple choice, true/false and short answer. It is my hope that the exams will be challenging. I prefer to ask questions that are objective so that grading is fair. There is not a particularly great way to test the material that we will be discussing.

On the exams, you will be responsible for the material that is discussed in class as well as the assigned readings.

There are no make-up exams (unless you have a University-approved reason) and **I will not be giving the final exam early**. You should mark your calendar. If this schedule does not work with your calendar, please do not take this class.

**Let me reiterate...**I will not give the exam early. Every fall, I am asked to do this. I understand that plane tickets are cheaper if you fly earlier in December. Regardless, I cannot give the exam early. I write one exam. I have a duty to ensure fairness in testing and that means that I don't give exams early. It is not possible for me to make exceptions for one person and not make exceptions for others.

### Project

You will write a ten-page outline of one of the following books (listed below). Read the reviews of the books and study the authors. I've included both "liberal" and "conservative" choices. My hope is that you will pick a book that is **contrary** to your natural leaning. In other words, don't just look for something that confirms how you already think. Pick something that is different. Read it with an open mind. Don't read it with the goal of picking it apart. Read it with the desire of understanding the view of others. (Reaffirming your existing beliefs is not really learning.)

"The Price of Civilization" by Jeffrey D. Sachs

"The Spirit Level: Why Greater Equality Makes Society Stronger" by Kate Pickett and Richard Wilkinson

"Applied Economics: Thinking Beyond Stage One" by Thomas Sowell

**Your paper must be in outline form and cannot be longer than ten pages plus a cover page.** Ten pages is the total (other than the cover) regardless of whether you call something an appendix or anything else. You will receive some outlines (of class material) during the

semester and that should be used as an example (of how to do an outline).

The goal of your outline should be to allow someone who has not read this book to fully understand what it is about. A good outline clearly distinguishes thoughts. It is not simply sentences with a letter in front of it. It eliminates unnecessary words and groups ideas together.

The project is usually not a grade differentiator. The reality is that the exams will result in grade differentiation. The project is a learning exercise and the grading scale is normally pretty tight (usually 85 - 92). With that said, every so often someone turns in something that results in a significantly lower grade. The fact that the grade range is normally tight is not intended to diminish the importance of this assignment. Normally, I grade your exams (because they have the largest impact on your final grade) and I have my TA grade your outlines. This assignment is to be done alone.

In other courses that I've taught, students have received low grades on this assignment for various reasons. Examples include students who have clearly not read the entire book, students who did this in sentence form and students who collaborated (which is an act of academic dishonesty). The highest grade that you can get if you do this in paragraph form is 80 (which means that you will be in the 60s or 70s because I don't give perfect scores on this assignment). If you have not read the entire book, the highest grade you can receive is 50 (and again, that score isn't likely). But, if you read the book and outline it and you feel like you have made a good-faith effort, you should not worry. You will know if you fall into one of the "troubled" categories.

The project is due on the last day of class (at the beginning of class).

### **How Will You Learn? How Will We Conduct Class?**

Class will be a combination of discussion and lecture. But, to be clear – there will be significantly more lecture than class discussion (although I hope to have some discussion every day).

Prior to class, you will have assigned readings. (It is also possible that I will email you with a current newspaper article the night before class or we might read an article in class.) In class, you will be given a series of questions that we will answer in order to review the material. The idea is that questions help you to think about why issues are important (rather than simply lecturing without the questions) – but ultimately, this is just a slightly different form of lectures. After class, I will give you detailed notes of the readings. (The detailed notes will not be in question and answer form, but they will allow you to answer all of the questions.) You should use those notes to review the questions that we discussed in class. Usually, I will not give you the notes ahead of time because I want you to be listening and thinking (rather than just reading along).

This means that you will have three opportunities to learn this material:

1. Reading the material ahead of class
2. Listening to the lecture
3. Reviewing all of the detailed notes after class

Of course, it is always possible that we will change the format of the lectures.

**Important Issues Particular to This Class (and this teacher)**

1. You must attend class.
2. Please be on time for class. This is part of the professionalism policy. I understand things happen (the bus is late, a meeting runs late, etc.). But, if you are late more than twice, you should expect that your final course grade will be lowered significantly (just like the attendance policy).
3. You should not take this class if you will be leaving town before the final exam.
4. Please do not use notes from a prior semester or share notes with future classes. In effect, this is like passing on solutions from a case class. It ruins the lecture.
5. Please keep all laptops closed during class.
6. Please only sign your name on the attendance sheet. Do not sign anyone else's name or ask anyone else to sign your name.
7. Please understand that the topics we discuss could change during the semester.

## Course Outline and Reading List

Below, I have listed the topics and material that we will try to cover. While we have 28 classes, we will never stick to this schedule. In fact, **our plans are likely to change later this week.** Each year, the Fed has a meeting in Jackson Hole. During this meeting they discuss several influential papers. These are hot topics, but we don't know what papers they're discussing at this point (they have not been released yet). **Hopefully, we will incorporate one or two of these papers into our class. The point is that I need to ask you to be flexible.** We'll use our time wisely. I want to cover important topics – even if we don't know what those are today. I have only included 25 classes because I'm sure that we'll run over and that we'll add material. If we don't use all of our time, I've listed some other possible topics that we may discuss. But, a greater likelihood is that we will not be able to cover all of the subjects listed below.

### Daily Topics (This Schedule Will Change) and the Number of Classes We Will Spend

1. Introduction to Class; Getting Up to Speed With the Economy (1)
2. Debt-to-GDP (2)
3. Budget / Fiscal Cliff (1)
4. Methods of Taxation (2)
5. Tax Expenditures (1)
6. Introduction to Social Insurance (1)
7. Social Security (2)
8. Disability (1)
9. Health Care (3)
10. Midterm Exam (1)
11. Housing Market (1)
12. Strategic Default (1)
13. Government Pensions (1)
14. Labor Markets (1)
15. Unemployment Insurance (1)
16. EU (2)
17. Income Inequality (1)
18. Student Debt (1)
19. Gold (1)
20. Running Behind or New Material (3)

**Additional Topics (Not Likely, But Possible)**

1. Investing for Retirement (Behavioral Finance Issues)
2. Political Partisanship
3. Monetary Policy
4. Demographics
5. Financial Sector Compensation
6. Too Big-to-Fail
7. Long-Term After Care

**Reading Assignments****1. Introduction**

Policy Analysis With Incredible Certitude, by Charles F. Manski (2010)

Leeds outline of “Policy Analysis With Incredible Certitude”

“Some Thoughts on Global Risk and Monetary Policy,” speech by Charles Evans (Aug. 27, 2012)

“The Federal Reserve and Monetary Policy,” speech by Sandra Pianalto (Aug. 27, 2012)

**2. The Debt-to-GDP Ratio**

The Future of Public Debt: Prospects and Implications, by Stephen G Cecchetti, M S Mohanty and Fabrizio Zampolli (2010)

The Real Effects of Debt, by Stephen G Cecchetti, M S Mohanty and Fabrizio Zampolli (2011)

Growth in a Time of Debt, by Carmen M. Reinhart and Kenneth S. Rogoff (2010)

Working Out of Debt, by Karen Croxson, Susan Lund and Charles Roxburgh (2012)

### **3. Budget / Fiscal Cliff**

Citizen's Guide To The 2011 Financial Report of the United States Government, pages i – viii, x – xiii, 3 – 4, 7 – 13, 18 – 23

Between a Mountain of Debt and a Fiscal Cliff, The Committee for a Responsible Federal Budget (2012)

### **4. Methods of Taxation**

Chapters 18, 19 and 24 (Gruber)

How Progressive is the U.S. Federal Tax System? A Historical and International Perspective, by Thomas Piketty and Emmanuel Saez (2007)

### **5. Tax Expenditures**

Tax Expenditures, The Size and Efficiency of Government, And Implications for Budget Reform, by Leonard E. Burman and Marvin Phaup (2011)

### **6. Introduction to Social Insurance**

Chapter 12 (Gruber)

### **7. Social Security**

Chapter 13 (Gruber)

The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, pp. 1 - 21

Social Security Policy Options, Congressional Budget Office (2010)

The Social Security Fix-It Book (2009)



## **8. Disability**

Chapter 14 (Gruber)

The Unsustainable Rise of the Disability Rolls in the United States: Causes, Consequences, and Policy Options, by David H. Autor (2011)

Policy Options for the Social Security Disability Insurance Program, Congressional Budget Office (2012)

## **9. Health Insurance**

Chapter 15 (Gruber)

Chapter 16 (Gruber)

Asprin, Angioplasty, and Proton Beam Therapy: The Economics of Smarter Health Care Spending, by Katherine Baicker and Amitabh Chandra (2011)

Toward True Health Care Reform: More Care, Less Insurance, by Marshall Auerback and L. Randall Wray (2010)

The Impacts of the Affordable Care Act: How Reasonable are the Projections?, by Jonathan Gruber (2011)

Employer Health Benefits 2011 Annual Survey, Kaiser Family Foundation and Health Research & Educational Trust

Federal Health Care Law Promises Coverage for All, But at a Price, by Jason Saving (2011)

## **10. Midterm Exam**

## **11. Housing Market**

The U.S. Housing Market: Current Conditions and Policy Considerations, Fed White Paper (2012)

Testimony of Laurie S. Goodman -- New Ideas to Address the Glut of Foreclosed Properties (2011)

Lower Priced Homes Fared Worse Than Higher Priced Homes...But This Trend Will Turn, Laurie Goodman, Amherst Mortgage Insight (April 4, 2012)

## **12. Strategic Default**

Financial Literacy, Social Perception and Strategic Default, by Jeremy Burke and Kata Mihaly (2012)

## **13. Government Pensions**

State and Local Pension Funding Deficits: A Primer, by Douglas J. Elliott (2010)

Political Economy of Public Sector Retirement Plans, by Sylvester J. Schieber (2010)

The Economics of State and Local Public Pensions, by Jeffrey R. Brown, Robert Clark and Joshua Rauh (2011)

## **14. Labor Markets**

The Employment Situation (we'll review the current employment report), Bureau of Labor Statistics (Department of Labor)

Recent Developments in the Labor Market, Speech by Ben S. Bernanke, March 26, 2012

Recent College Graduates and the Job Market, by Bart Hobijn, Colin Gardiner, Theodore Wiles (2011)

The Increased Role of Flows Between Nonparticipation and Unemployment, by Marianna Kudlyak and David A. Price (2012)

What is the New Normal Unemployment Rate?, by Justin Weidner and John C. Williams (2011)

Is There a Skills Mismatch in the Labor Market?, by R. Jason Faberman and Bhashkar Mazunder (2012)

Structural and Cyclical Economic Factors, by Eric Swanson (2012)

## **15. Unemployment Insurance**

Chapter 14 (Gruber)

Economic Effects of the Unemployment Insurance Benefit, by Shigeru Fujita

Unemployment Insurance Extensions and Reforms in the American Jobs Act, Executive Office of the President

How Did Unemployment Insurance Extensions Affect the Unemployment Rate in 2008 – 2010, Bhashkar Mazunder

## **16. EU**

The Euro Zone Crisis, by Christian Hofmann (2012)

The Euro and European Economic Conditions, by Martin S. Feldstein (2011)

## **17. Income Inequality**

Trends in the Distribution of Household Income Between 1979 and 2007, CBO (2011)

## **18. Student Debt**

Student Loans: Overview and Issues, by Kelly D. Edmiston, Lara Brooks and Steven Shepelwich (2012)

## **19. Gold**

The Golden Dilemma, by Claude B. Erb and Campbell R. Harvey (2012)

All That Glitters, by Howard Marks (2010)

## **Important Dates**

Tuesday, October 23<sup>rd</sup> – Midterm Exam (in class)

Thursday, December 6<sup>th</sup> – Paper Due at start of class

Wednesday, December 12<sup>th</sup> (7 PM – 10 PM) – Final Exam – (subject to final announcement by the University)

## **Policies:**

I expect you to be prepared for class, to attend class and to be on time. I also expect you to be respectful of your peers (and me). Laptops may not be open during class. You should expect me to be respectful of your thoughts, responsive to your questions (and emails) and well prepared for class.

## **McCombs Classroom Professionalism Policy**

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Remember, you are competing for the best faculty McCombs has to offer. Your professionalism and activity in class contributes to your success in attracting the best faculty to this program.

## **Academic Dishonesty**

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. During Orientation, you signed the Honor Code Pledge. In doing so, you agreed to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

## **Students with Disabilities**

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

## **Honor Code Purpose**

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the Graduate School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

## **Faculty Involvement in the Honor System**

The University of Texas at Austin McCombs School of Business Faculty's commitment to the Honor System is critical to its success. It is imperative that faculty make their expectations clear to all students. They must also respond to accusations of cheating or other misconduct by students in a timely, discrete and fair manner. We urge faculty members to promote awareness of the importance of integrity through in-class discussions and assignments throughout the semester.

## **Expectations Under the Honor System**

### **Standards**

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Services Office. Below are some of the specific examples of violations of the Honor System.

### **Lying**

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

### **Stealing**

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

## **Cheating**

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

## **Actions Required for Responding to Suspected and Known Violations**

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the Graduate School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the Graduate School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

## **The Honor Pledge**

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the Graduate School of Business."