



FIN 397.6 – SPECIAL TOPICS IN INVESTMENTS

SPRING 2014

Professor	Sandy Leeds
Office	GSB 5.164
Office Hours	Tuesday and Thursday 1:30 – 2:30; Other times by appointment
Phone	471-6830
E-Mail	sandy.leeds@mcombs.utexas.edu
Course Web Page	via Blackboard
Teaching Assistants	N/A

Course Objectives

This class covers two primary topics:

- (1) long-term issues that will affect our markets and economy
- (2) issues that the Fed is thinking about right now – which are the basis of applied economics

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;
- (4) see the value in keeping up with the economy by watching the Fed; and
- (4) see the value in consistently reading academic research and Fed speeches and to continue this habit after graduation.

Required Materials

Public Finance and Public Policy, 4e by Jonathan Gruber (Worth Publishers, 2013)

Grades

Grades will be the result of two exams, a project and attendance. It is important for you to realize that attendance is taken every day and you will not pass this class if you do not attend.

I have set up a unique grading system in this class. The system will be discussed during the first day of class.

Description of Requirements

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 and you must be on time.

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 on the first day of 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.

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).

Project

As we will discuss during the first day of class – the project is optional. The project is to create an outline of The Financial Crisis Inquiry Report (posted on Blackboard). This report is approximately 538 pages. I think that you'll find it very interesting. Your outline should be approximately 50+ pages. In other words, one page of your single-spaced outline should cover approximately 10 pages of the report. If you read and outline 40 pages of the report each week, I would expect this to take you approximately three hours per week.

The goal of your outline should be to allow someone who has not read this report to fully understand what it is about. A good outline clearly distinguishes thoughts.

The project is graded on a satisfactory / unsatisfactory basis. If you put in a good-faith effort, your work should be satisfactory. If the work is sloppy or incomplete, this would be considered unsatisfactory.

The project is due April 21st.

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.

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. We will start class with some questions designed to help you think about why the day's topic is relevant. After a few minutes of discussion, we will have a lecture to cover the material in detail.

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, you will find a non-exhaustive list of the topics and material that we will try to cover. Some topics will require several classes and other topics will require just a few minutes. Our schedule will change as Fed events continue to occur. We'll use our time wisely. I want to cover important topics – even if we don't know what those are today. It is very unlikely that we will be able to cover all of the subjects listed below.

Topics

1. Introduction – Policy Analysis With Incredible Certitude
2. Getting Up to Speed On the Economy
3. Asset Bubbles
4. Ultra Easy Monetary Policy and Unintended Consequences
5. Debt-to-GDP – Why Does it Matter?
6. What if Foreigners Stopped Lending to the U.S.?
7. Why Hasn't Japan's Debt Caused a Crisis?
8. What Liabilities Are Not on the Government's Balance Sheet?
9. Understanding the Federal Budget
10. What is the Long-Term Budget Outlook?
11. A Primer on Lobbying (which affects our budget)
12. Methods of Taxation
13. Tax Expenditures
14. Introduction to Social Insurance
15. Social Security – Background
16. Five Key Issues in Social Security
17. Social Security Solutions
18. Social Security Disability
19. Health Care – Introduction
20. Health Care Reform (Problems and Solutions)
21. The Affordable Care Act
22. Are Healthcare Costs Slowing Down?
23. International Health Care
24. SNAP (Supplemental Nutrition Assistance Program)
25. Government Pensions
26. Labor Markets
27. Unemployment Insurance
28. Income Inequality
29. Student Debt
30. Household Savings

Additional Topics (Not Likely, But Possible if We Have Extra Time)

Investing in Gold; Strategic Default; EU; Investing for Retirement (Behavioral Finance Issues); Long-Term After Care; Financial Literacy

Reading Assignments

NOTE: the reading list does not include Fed speeches that have not yet been delivered.

1. Introduction – Policy Analysis With Incredible Certitude

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

2. Getting Up to Speed on the Economy

We will review a series of Fed speeches that were given between January 3rd and January 10th

3. Asset Bubbles

Asset Price Bubbles: What are the Causes, Consequences and Public Policy Options?

Chicago Fed Letter (Nov. 2012)

Bubbles Tomorrow and Bubbles Yesterday, but Never Bubbles Today? Speech by John C. Williams (SF Fed President) (Sep. 9, 2013)

NOTE: this speech was also turned into a FRBSF Economic Letter (Sep. 23, 2013)

4. Ultra Easy Monetary Policy and Unintended Consequences

Ultra Easy Monetary Policy and the Law of Unintended Consequences, by William White (2012)

Is the Fed Monetizing the Debt?, by David Andolfatto and Li Li (2013)

5. 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 Crouxson, Susan Lund and Charles Roxburgh (2012)

The Liquidation of Government Debt, Carmen M. Reinhart and M. Belen Sbrancia (2011)

6. What if Foreigners Stopped Lending to the U.S.?

Rollover Risk: Ideating a U.S. Debt Default, by Steven L. Schwarcz (2013)

What Will Happen When Foreigners Stop Lending to the United States? (Fed'l Reserve Bank of Minnesota) (Timothy J. Kehoe, Kim J. Ruhl, Joseph B. Steinberg) (2013)

7. Why Hasn't Japan's Debt Caused a Crisis?

Why Has Japan's Massive Government Debt Not Wreaked Havoc (Yet)?, by Charles Y. Horioka, Takaaki Nomoto and Akiko Terada-Hagiwara (Oct. 2013)

8. What Liabilities Are Not on the Government's Balance Sheet?

Off-Balance-Sheet Federal Liabilities, by James D. Hamilton (2013)

9. Understanding the Federal Budget

National Priorities Project's website (nationalpriorities.org) or their book (A People's Guide to the Federal Budget)

10. What is the Long-Term Budget Outlook?

The 2013 Long-Term Budget Outlook (Congressional Budget Office 2013)

11. A Primer on Lobbying

Advancing the Empirical Research on Lobbying, by John M. de Figueiredo and Brian Kelleher Richter (Dec. 2013)

12. 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)

13. Tax Expenditures

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

14. Introduction to Social Insurance

Chapter 12 (Gruber)

15. Introduction to Social Security

Chapter 13 (Gruber)

16. Five Key Issues in Social Security

Discussion of "Social Security: The Unfinished Work" by Charles Blahous

17. Social Security Solutions

Social Security Policy Options, Congressional Budget Office (2010)

The Social Security Fix-It Book (2009)

18. Social Security 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)

19. Health Care – Introduction

Chapter 15 (Gruber)

Chapter 16 (Gruber)

20. Health Care Reform (Problems and Solutions)

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)

21. The Affordable Care Act

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

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

22. Are Healthcare Costs Slowing Down

Is This Time Different? The Slowdown in Healthcare Spending, by Amitabh Chandra, Jonathan Holmes and Jonathan Skinner (Dec. 2013)

23. International Healthcare

The Changing Role of Government in Financing Health Care: An International Perspective, by Mark Stabile and Sarah Thomson (Sep. 2013)

24. SNAP

The Decline, Rebound, and Further Rise in SNAP Enrollment: Disentangling Business Cycle Fluctuations and Policy Changes, by Peter Ganong and Jeffrey B. Liebman (Aug. 2013)

25. 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)

26. Labor Markets

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

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)

27. 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, by Bhashkar Mazumder

28. Income Inequality

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

Controversies About the Rise of American Inequality: A Survey, by Robert J. Gordon and Ian Dew-Becker (2008)

Income Inequality, Equality of Opportunity and Intergenerational Mobility, by Miles Corak (2013)

Inequality and Decision Making: Imagining a New Line of Inquiry, by David Moss, Anant Thaker, Howard Rudnick (2013)

Defending the One Percent, by N. Gregory Mankiw (2013)

29. Student Debt

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

30. Household Savings

Are Households Saving Enough for a Secure Retirement?, by LaVaughn Henry (2013)

Household Wealth: Has It Recovered?, by William T. Gavin (2013)

Wealth Recovery Still Not Complete, Remains Uneven Across Families and Locations, by William R. Emmons and Bryan J. Noeth (2013)

Important Dates

Tuesday, February 25th – Midterm Exam (in class)

Monday, April 21st – Project Due

Final Exam -- TBD

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."