



## Aspen Institute Finance Roundtable

October 15-17, 2010

Aspen Meadows | Aspen, Colorado

*Summary—January 7, 2011*

### Context/Introduction

On October 15-17, The Aspen Institute Business and Society Program convened 17 academics, primarily senior finance and economics professors, to consider if and how the teaching of finance should change, particularly in the aftermath of the financial crisis. (See final page for participant list). Though there was plenty of discord, we ended with clear enthusiasm for collaboration in multiple corners, a strong interest in reconvening, and an inventory of initial ideas of changes to financial education.

This summary captures what we learned at the October Roundtable and shares our initial view of the most promising areas for future work and collaborations.

### Inventory of Immediate Changes

Faculty members hold divergent perspectives about their contribution to the financial crisis and about how they might respond as teachers. At a minimum, faculty share a view that “crises happen”—multiple historical examples were cited—and that students need to be better prepared to act in the midst of these disruptions. Faculty largely agree that there is a set of “more immediate” issues that are getting short shrift right now in finance education. (That said, there are plenty of knotty questions about emphasis, ordering, and whether these issues belong in the core or elective finance curriculum.) These “more immediate” issues include:

- **Risk**—Helping students understand risk more fully—particularly tail risk and systemic risk—is a “gateway” issue that can be used to introduce a host of issues about “context”
- **Limits to efficient markets and arbitrage**—Helping students understand mispricing, bubbles, etc.
- **Political economy**—Putting financial theory into a broader context which would include exploration of the role of government and the role of regulation
- **Systemic structure**—Including the role and history of institutions (i.e., commercial banks, credit markets)
- **Incentives and governance**—Understanding the influence of incentives and governance practice—within firms and government—on financial decision making
- **Reputational effects**—According higher priority to the reputational impacts institutions face when financial decision making goes awry

### Open Questions

#### *What is the appropriate role of models in the classroom?*

Faculty hold starkly different views on this issue: some argue that we spend too much time on models and tools and too little on ambiguities, context, and exceptions—and others advocate that students need better training on models and tools (especially in the core) even to understand the fundamentals. Even amidst the disagreement, we heard several provocative ideas about the use of models in the classroom:

- One participant compared how he previously taught capital budgeting (with emphasis on getting the right weighted average cost of capital, for example) to how he teaches now (with emphasis on difficulties, in real world, of “getting good data from self-interested people”). The model thus becomes a jumping off point for discussion about how theory plays out in practice.
- Another faculty member shared his experiences in using a simulation at the outset of the curriculum to model market frictions and disruptions. What happens if you start with these realities and then come back to the model of efficient markets, rather than the reverse? Does this better arm students to put the models in “context”?
- A third participant gave a specific example of a classroom discussion that could highlight for students potential frictions between theory and practice: a discussion of how a bond is priced in theory versus how a bond is priced in practice.

***What do we teach our students about situations where there are misalignments between private incentives and social welfare? (Or, how much do we take our constraints as given?)***

To a substantial degree, key actors in the crisis acted rationally in light of the incentive systems in which they operated. The immense loss of value was driven by these (mostly) rational decisions.

So if MBA graduates will merely respond to the incentives in the firms they join after graduation, why try to change the teaching of finance at all? Faculty think about this issue in different ways, but the framing of a misalignment between private incentives and social welfare resonates with many. As one participant put it in October, isn’t part of the role of an educator to prompt students to think critically about structures that exist (public policy, institutional incentives) and question if those structures should be changed? (An example is a classroom discussion around tax subsidies associated with leverage). Many faculty are enthusiastic about wrestling with this question, further defining the instances where this type of misalignment is apparent, and developing approaches to address such issues in the classroom.

***What is the appropriate role of values in the classroom?***

Faculty have strong opinions about including values in classroom discussions. Most faculty begin with an expressed discomfort with communicating—or imposing—their own values in the classroom. But others question if finance professors, as a community, don’t already communicate to students an ethos and set of values—i.e., that “making money is good,” as is “the rational choice,” even if that choice is socially sub-optimal. This tension raises several provocations:

- One participant questioned if business schools, like corporations, could define a “minimum set of values” that could guide teaching. As a provocation, he raised the example of a high profile corporate restructuring that had deleterious effects on bondholders—and asked if the room would have a collective opinion.
- Another faculty member shared a “values-free approach” to teaching values—an approach that emphasizes personal integrity, authenticity, and being committed to something bigger than one’s self. Many participants expressed interest in learning more about this approach.
- Several participants distinguished imposing a set of values versus simply introducing questions in the classroom around values. For example, one participant asked, do we teach *why* we think shareholder value maximization is the right model? Do we raise the issue of externalities? Another talked about teaching a case on payday loans—which gave him the opportunity to lead a discussion around the appropriate interest rate, and whether or not that rate should fluctuate according to how customers spend the funds.

One participant urged the group to “recall that Adam Smith was a moral philosopher” and another summed up by stating: “we must teach questions.”

### ***What content belongs in core?***

Faculty are conscious that there is “no free lunch” when changing syllabi. If new content goes into the core finance course, for example, what comes out? Fundamental questions are unresolved about the minimum set of ideas that students need to understand—i.e., what do students who take only the required finance course need to understand? One faculty member, as a provocation, weighed in that he would drop the real options approach to valuation if he were designing his ideal 10-week core finance class. Other faculty argued that this was a terrible example of a topic to be dropped from the core—and the ensuing discussion highlighted the difficulties in weighing changes.

And if new content, that takes a broader set of questions into account, goes into finance electives—or even goes into coursework in other areas (Organizational Behavior, or Business and Government departments)—how will students draw connections? Some faculty believe that we cannot expect students to “connect the dots” and point to the overall MBA program design as an important intervention point.

### ***How could we measure whether changes to curriculum even make a difference?***

Faculty lament the lack of a “feedback loop” (beyond student enrollment in a particular course) that would provide real data about the impacts of financial education on students’ understanding and attitudes about financial markets and theory. Several faculty are interested in pursuing this question further.

### ***How can faculty be “trained”?***

Almost all faculty agree that faculty are not trained to raise issues that their models cannot explain. (And many faculty voice a perspective that faculty are not trained to teach—full stop). Institutional pressures on teaching—pressures to “give students their money’s worth,” to “focus on elegance” and to be narrow instead of broad—are additional countervailing forces to change.

## **Moving Forward: Revisiting Changes to the Teaching of Finance**

We invite you to become involved as we chart and launch initiatives stemming from our October conversation. We see substantial opportunity, particularly in the following areas:

- **Articulation and dissemination of a compelling case for change**—Several participants are interested in authoring pieces that could outline new directions for finance education, or are interested in organizing members of the group (and potentially a wider group) in writing short opinion pieces that could be collected into a volume of essays.
- **Development of new curriculum and materials**—The list above, of more immediate changes to the teaching of finance, provides us a jumping off point for the development of new classroom materials and new curriculum that could help faculty bring these issues more fully into the classroom. Several participants called for Aspen to provide incentives for course development, and/or to provide awards or “a stamp of approval” for finance courses that address, perhaps, the questions of misalignment between private and social incentives.
- **Investigation of student outcomes**—Several participants raised questions about the impacts of financial education on student understanding and on the values they bring with them into their careers. Some faculty are also interested in questions about values that faculty may already communicate in the classroom and whether a minimum set of values could be articulated.

We welcome your leadership and ideas.

## **Participants**

**Franklin Allen**, The Wharton School, University of Pennsylvania

**Jonathan Berk**, Graduate School of Business, Stanford University

**Antonio Bernardo**, Anderson School of Management, UCLA

**Richard Bliss**, Babson College

**David Blood**, Generation Investment Management

**Robert F. Bruner**, The Darden School of Business, University of Virginia

**Peter DeMarzo**, Graduate School of Business, Stanford University

**Alexander Dyck**, Rotman School of Management, University of Toronto

**Mary C. Gentile**, Babson College

**Jarrad Harford**, Foster School of Business, University of Washington

**Diana Harrington**, Distinguished Professor of Finance, Babson College

**Roger Huang**, Mendoza College of Business, University of Notre Dame

**Michael C. Jensen**, Harvard Business School

**Deborah Lucas**, Congressional Budget Office and Sloan School of Management, MIT (on leave)

**Clayton Rose**, Harvard Business School

**Debra Schwartz**, John D. and Catherine T. MacArthur Foundation

**Robert Whitelaw**, Stern School of Business, New York University

**Daniel Wolfenzon**, Columbia Business School

**Luigi Zingales**, Booth School of Business, University of Chicago