

University of Pennsylvania - The Wharton School
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Fall 2020 Syllabus - Draft

FNCE 202/BEPP 202: Consumer Financial Decision Making

Research shows that many individuals are profoundly underinformed about important financial facts and financial products, which frequently leads them to make mistakes and lose money. Existing gaps in financial literacy and sophistication contribute to the persistent and growing wealth inequality. Consumer finance comprises an enormous and growing sector of the economy, including products like credit cards, student loans, mortgages, retail banking, insurance, and a wide variety of retirement savings vehicles and investment alternatives. Though virtually all people use these products, many find financial decisions to be confusing and complex, rendering them susceptible to fraud and deception. As a result, government regulation plays a major role in these markets. Additionally, recent breakthroughs in the FinTech arena are integrating innovative approaches to help consumers.

This course, intended for Penn undergraduates, considers economic models of household decisions and examines evidence on how consumers are managing (and mismanaging) their finances. Although academic research has historically placed more attention on corporate finance, household finance is receiving a brighter spotlight now—partly due to its role in the recent financial crisis. Thus the course is geared toward those seeking to take charge of their own financial futures, anyone interested in policy debates over consumer financial decisionmaking, and future FinTech entrepreneurs.

The course includes assigned readings, class discussion, and homework assignments. Many of the homeworks will require empirical analysis, and we will also spend some class time discussing statistical tools and data sources. During the semester, each student will choose a research topic to explore in a short term paper. A draft of the research report will be due October 29, which we will promptly return with comments, giving students time to revise their work; class presentations will be in early December.

Course Structure and Requirements. This cross-listed course is co-taught by Professors Mitchell and Roussanov. There are two online midterm exams and no final exam. There are also weekly online assignments which must be submitted on time; each student must submit individual answers to assignments via Canvas. Final grades are determined by the two midterm exams (50%), assignments (30%), and team projects/class presentations (20%). We will drop the two lowest assignment grades in computing the final assignment points.

Prerequisites. There are no formal prerequisites for the class but students are assumed to have an introductory knowledge of economics and statistics. Prep work on excel, statistics, and economics will be available online for those needing help with introductory concepts. Those completely unfamiliar with these background concepts may wish to take the course Pass/Fail.

TAs:

The regularly scheduled office hours for TAs are as follows:

Anna-Theresa Helmke, ahelmke@wharton.upenn.edu : First half of course Friday 9-11 am

Jing Xian Ng, xianng@wharton.upenn.edu: Second half of course Friday 9-11 am

Carlo Chiesa, chiesac@wharton.upenn.edu: Tuesday 3-4:30 pm

Faculty:

You may contact the professors via email.

Prof. Olivia S. Mitchell: mitchelo@wharton.upenn.edu

Professor Nick Roussanov: nroussan@wharton.upenn.edu

Add/Drop Deadline. As per Wharton policy, you may drop the course until the official drop date (see <https://almanac.upenn.edu/penn-academic-calendar#row-115>). After the drop deadline, you need written permission from an instructor to drop the course. It is the policy of the course instructors that we do not sign petitions to drop the course after the official drop date. Please refer to the following link for more information: <https://undergrad-inside.wharton.upenn.edu/withdrawing/>

Withdrawal Deadline. As per UPenn policy, the formal withdrawal deadline will be announced at <https://almanac.upenn.edu/penn-academic-calendar#row-115>. Also as per UPenn policy, after the 10th week of the semester, withdrawals are not normally permitted.

Expectations. Students must become familiar with and adhere to the Penn Code of Academic Integrity and Code of Student Conduct (<https://catalog.upenn.edu/pennbook/code-of-academic-integrity/>) Class attendance and punctuality are expected.

Missing an Exam. Students may miss scheduled examinations only with a University-approved excuse. Examples of such valid excuses include direct conflicts with another course offered at Penn that cannot be rescheduled as well as a varsity (but not club) sport competition (but not training). In particular, *job interviews and vacations are not a legitimate reason to miss an exam*. Missing an exam without a University-approved excuse will result in a zero for the exam. Arriving late to an exam will be treated as missing an exam.

Exam Regrades. To submit a regrade request for an exam, you must submit your original test answers, a signed regrade affidavit (see the course Canvas for the template), and a written memorandum to the professor via Canvas, explaining why you think that the exam should be regraded. This request must be submitted online within 5 business days after the graded examination papers are available for pickup. *Your entire exam will then be reviewed, and your grade may go down, go up, or remain unchanged at the prerogative of the professor for the module*. You may not mark, make notes on, or alter the exam papers for which you seek a regrade; any such alteration will be seen as a violation of the Code of Academic Integrity and you will receive an automatic failing grade for the course.

Credit: This is a 1 CU course, which must be taken for credit (i.e., the course cannot be audited).

Course Material. Lecture notes, readings, case studies, problem sets, and other material will be posted on the course Canvas. Students are responsible for checking this site regularly for updates. Go to <https://canvas.upenn.edu/>.

Classrooms:

The entire class is to be offered online. To facilitate access for all class members, these sessions, including your participation, are being recorded and the recordings will be made available to the class, for the duration of this course. These recordings, as well as previously recorded lectures and other course materials, are made available solely for your personal, educational use and may not be shared, copied or redistributed without the permission of Penn and the instructor. You are also not allowed to record class sessions yourselves. Unauthorized sharing or recording is a violation of the Code of Academic Integrity.

Deliverables: Put these on your calendar now! (*rooms TBA*)

Midterm #1:

Review Session: Tuesday 10/13/20

Exam: Midterm #1: Thursday 10/15/20

Midterm #2:

Review Session: Thursday 12/3/20

Exam: Tuesday 12/8/20

Class Presentations on Projects: Proposals due **October 8 before class**. See syllabus and instructions for team projects in Files.

Tentative Outline and Readings:¹

Note:

Required Books/Sections of Books:

*Kapoor, Dlabay, Hughes, and Hart, *Personal Finance*, 13th Edition, McGraw Hill (portions). We will assign chapters, homework, and problems linked to this material and you will be marked via the online portal.

*Bodie, Kane, and Marcus, *Essentials of Investments*, 11th Edition, McGraw Hill (portions). We will assign chapters, homework, and problems linked to this material and you will be marked via the online portal.

The following paperback book is also required:

*Olen & Pollack, 2017, *The Index Card: Why Personal Finance Doesn't Have to Be Complicated*, Penguin. (not in Canvas)

See below for how to order books via the bookstore.

Starred readings and assignments (*) are required; others are optional

Pre-Work Assignments for those seeking more background:

→Econ, Stats, and Excel lessons on Canvas

- ✓ Xian Ng will present on Econ Friday September 4 at 12 noon ET
- ✓ Carlo Chiesa will present on Excel Monday 14 September at 4 pm ET
- ✓ Anne-Theresa Helmke will present on Finance Friday September 18 at 12 noon ET

*FINRA National Financial Capability Study financial literacy quiz,

<http://www.usfinancialcapability.org/quiz.php> (Do this outside Canvas & report scores in class)

Classes 1 & 2: Intro/Overview of Financial & Economic Concepts

- Preferences, tastes
- Intertemporal decisions: saving and borrowing

Assignments:

*<http://www.usfinancialcapability.org/quiz.php> (Do this outside Canvas & report scores in class)

*Olen/Pollack. Introduction.

*Reading #1. Kapoor et al., Ch. 1.

*Ch 1. Probs 1-2, 1-3, 1-5, 1-6, 1-9, 1-11

*Continuing Case 3. Personal Financial Goals (Jamie Lee Jackson, age 24, has recently decided...)

*Continuing Case 5. Time Value of Money (Jamie Lee needs to save a total of \$9,000 ...)

*[7 Reasons Why Financial Education is your Best Investment](#)

Lusardi, Annamaria and Olivia S. Mitchell. (2008). "[Planning and Financial Literacy: How Do Women Fare?](#)" *American Economic Review P&P* 98:2, 413–417

Yakoboski, Paul, Annamaria Lusardi and Andrea Hasler. (2019). [Financial Literacy and Wellness among African-Americans](#). TIAA Institute.

¹ Note that readings may be added or substituted at the instructors' behest.

Classes 3 & 4: Overview of Life Cycle Economic Decision Making

- Budgeting
- Constraints: income, wealth, cost of living, access to financial markets, taxes
- Asset classes
- Behavioral biases, misconceptions, and mistakes

Assignments:

- *Olen/Pollack. Rules #1, 6.
- *Readings #2 and #3. Kapoor et al., Ch 3 and 4
- *Ch. 4 probs. 4-5, 4-7, 4-9, 4-12, 4-13, 4-14, 4-15
- *Reading #4. Bodie et. al. Ch. 2 (*Note this is on Study.Net, not in Canvas*)
- *Continuing Case 15. Personal Balance Sheet (Jamie Lee Jackson, age 24, now a busy full-time college student...)
- *Continuing Case 20. Income Tax Estimation (Jamie Lee Jackson, age 26, is in her last semester of college)
- *Rothman, Julia and Shaina Feinberg. (2020). [The Balancing Act](#), *The New York Times*

Bieber, Christy. (2018). [Budgeting 101](#): How to Start Budgeting for the First Time. The Motley Fool.
Stango and Zinman, 2009, "[Exponential Growth Bias and Household Finance](#)," *Journal of Finance* 64, 2807–49.

Classes 5 & 6: Household Goals and Financial Vehicles: Saving and Borrowing

- Banking: savings accounts, CDs, etc.
- Consumer credit (credit cards, etc.)
- Credit scores
- Peer-to-peer lending and other emerging forms of credit

Assignments:

- *Olen/Pollack. Rule # 4, 5.
- *Readings #5 and #6. Kapoor et al., Ch 5 and 6
- *Ch. 5 probs: 5-2, 5-3, 5-5, 5-6, 5-9, 5-10
- *Ch. 6 probs: 6-1,6-2, 6-3, 6-8, 6-10,
- *Readings #10, #11, #12, #13. Kapoor et al., Ch. 7, 8, Appendices to Ch. 7 and 8
- *Reading #21. Kapoor et al. Appendix Ch. 3. (*Chapter 3 is in Classes 3 & 4*)
- *Video: Fisher Effect and Bond Valuation

Kivat, Barbara. (2019). [How to Read Your Credit Report](#). Consumer Reports. Feb. 27.
Stegman, Michael. (2007). "[Payday Lending](#)," *Journal of Economic Perspectives* 21(1), 169-190.

Classes 7 & 8: Household Goals and Financial Vehicles: Investing for the Future

- Decisions involving risk: insurance, diversification
- Investing in risky assets: stocks vs. bonds; mutual funds, ETFs, etc.
- Robo-advisors: promises and pitfalls
- "Alternative" investments: gold, crypto, and beyond...

Assignments:

- *Olen/Pollack. Rules # 2, 3, 7.
- *Vanguard Investor Questionnaire. <https://advisors.vanguard.com/iwe/pdf/FASINVQ.pdf> (*Do this outside Canvas & report scores in class*)
- *Reading #7. Bodie et al., Ch 5 (*Note this is on Study.Net, not in Canvas*)
- *Bodie Ch. 5 homework problems: Risk, Return & the Historical Record
- *Reading #19. Bodie Ch. 21 (21.1-21.7) (*Note this is on Study.Net, not in Canvas*)
- *Bodie Homework: Taxes, Inflation & Investment Strategies Probs 21-6, 21-7
- *Kurutz. 2018. [How to Retire in Your 30s with \\$1 Million in the Bank](#): NYT. Sept. 1.

Barber and Odean. 2000. "[Trading is Hazardous to Your Wealth](#): The Common Stock Investment Performance of Individual Investors," *Journal of Finance* 55, 773-806.

Class 9: Household Goals and Financial Vehicles: Education and "Human Wealth"

- Human capital as an investment
- Financing education: 529's, student loans, other
- Workers are "human capitalists:" equity-linked compensation (e.g. stock options), partnership
- Diversifying/hedging the risk in human capital

Assignments:

*Reading #8. Kapoor et al., Ch 2

*Chapter 2 videos and questions

*Reading #9. Bodie et al. Ch. 15 (Options background to discuss employee stock options) (*Note this is on Study.Net, not in Canvas*)

*Bodie Problems 15-5, 15-6, additional problems 15-2, 15-3

*Options video

*Wasik. 2013. [The Biggest Financial Asset in Your Portfolio Is You](#). NYT.com, February 11, 2013

*Simulation exercise to be provided in Class

Dynarski. 2014. [An Economist's Perspective on Student Loans in the United States](#). University of Michigan.

Class 10: Household Goals and Financial Vehicles: Private Business

- Entrepreneurship as an illiquid/undiversified investment
- Financing: bank loans, angels, venture capital, private equity

Assignments:

Moskowitz, Tobias J., and Annette Vissing-Jorgensen, 2002, "[The returns to entrepreneurial investment: A private equity premium puzzle?](#)" *American Economic Review* 92, 745-778.

Hall, Robert E., and Susan E. Woodward, 2010, "[The incentives to start new companies](#): Evidence from venture capital," *American Economic Review*.

Funding a startup: <https://binged.it/3j2Hc01>

Classes 11 & 12: Household Goals and Financial Vehicles: Financing Durables and Housing

- Buying cars and homes and insuring them
- Financing: saving, leasing/borrowing, mortgages, refinancing
- Extracting equity from homes

Assignments:

*Reading #14. Kapoor et al., Chapter 9

*Ch. 9 Probs.

*Continuing Cases 41 and 43

*Olen/Pollack Rule #7.

* Consumer Reports. (2017). [Leasing v Buying a New Car](#). September 19.

Hall, Robert E., and Susan E. Woodward. 2012. "[Diagnosing Consumer Confusion and Sub-Optimal Shopping Effort](#): Theory and Mortgage-Market Evidence." *American Economic Review* 102(7), 3249-3276.

Davidoff, Gerhard, and Post. 2017. "[Reverse Mortgages: What Homeowners \(Don't\) Know](#) and How It Matters," *Journal of Economic Behavior and Organization* 133, 151-171.

ALSO: Class 12 Student Project Outlines due

Class 13: Review Section

Classes 14 & 15: Household Goals and Financial Vehicles: Marriage & Children

- Role for prenups: formal vs informal
- Community property states vs others
- Child care, child support/alimony

Assignments:

- *Reading #15. Kapoor Ch. 10
- *Reading #16. Kapoor et al. Ch 12
- *Probs. Ch 10 and 12
- *FinPlanning Probs Ch 12
- *Continuing Case 53 (Life Insurance)
- *Prenup agreements.org. [8 Reasons Why You Should Get a Prenup](#)
- *Johnson, Jeffrey. (2020). [What is Community Property?](#) FamilyLaw.freeadvice.com

Gordon, James, Chris Herbst, and Erdal Tekin. (2018). [Who's Minding the Kids? Experimental Evidence on the Demand for Child Care Quality](#). IZA DP 11985.

Classes 16 & 17: Household Goals and Financial Vehicles: Health, Disability, & LTC Insurance

- Patterns of health expenditure over the lifecycle
- Health insurance options: private, employer provided, Medicare, Medicaid, HSAs
- Living wills/ health advance directives

Assignments:

- *Reading #17. Kapoor et al. Ch 11
- *Ch. 11 Prob.s
- *Olen/Pollack, Rule #8.
- *Mayo Clinic. [Living Wills and Advance Directives](#)
- *PGP Foundation. (2020). [“Why Are Americans Paying So Much for Healthcare?”](#)

Classes 18 & 19: Household Goals and Financial Vehicles: Retirement

- Pensions and Social Security, annuities
- Dementia and financial decision-making

Assignments:

- *Olen/Pollack Rules #3, 9.
- *Reading #18. Kapoor et al. Ch 18
- *Fin Plan probs Ch 18
- *Video questions Ch. 18
- *Continuing Case 65
- *Zweig, Jason. (2011). [Meet 'Future You.'](#) Like What You See? New 'Virtual Reality' Techniques Could Help Solve The Age-Old Problem of Saving for Retirement. WSJ. March 26.
- *Stoll, John D. (2020). [The End of Retirement](#), *Wall Street Journal*. Jan 10.

Munnell, Alicia, Wenliang Hou, and Geoffrey Sanzenbacher. (2017). [“Do Households Have a Good Sense of their Retirement Preparedness?”](#) Center for Retirement Research brief.

Brown, Jeffrey, Arie Kapteyn, Erzo Luttmer, and Olivia S. Mitchell. (2017). [“Cognitive Constraints on Valuing Annuities.”](#) *JEEA*. 15(2): 429-462

Lusardi, Annamaria and Olivia S. Mitchell. (2007). [“Financial Literacy and Retirement Preparedness. Evidence and Implications for Financial Education.”](#) *Business Economics*, 42(1): 35-44.

Lusardi, Annamaria, Olivia S. Mitchell, and Noemi Oggero. (2019). [Debt Close to Retirement and Its Implications for Retirement Well-being.](#)

Agarwal, Sumit, Driscoll, Xavier Gabaix, and David Laibson (2009) [The Age of Reason: Financial Decisions over the Life Cycle and Implications for Regulation](#), *Brookings Papers on Economic Activity*

Classes 20 & 21: Household Goals and Financial Vehicles: Estate Planning

- Estate Planning
- Wills, Living Wills, Powers of Attorney

Assignments:

- *Reading #20. Kapoor et al. Ch 19
- *Fin Plan Probs Ch 19
- *Continuing Case 69
- *Video questions Ch 19
- *National Caregivers Library. (nd). [What is a Power of Attorney?](#)

*Your Digital Estate Plan <https://www.aarp.org/caregiving/financial-legal/info-2019/digital-assets-planning.html>

*Living Will and PoA <https://livingwillforms.org/advance-directives/>

Brody, Jane. 2009. [End-of-Life Issues Need to Be Addressed](#) NYT, August 18.

Classes 22 & 23: Other considerations: Taxes, Bankruptcy, and Financial Advice

- Trusts and charitable giving
- Bankruptcy
- Choosing (and Firing) a Financial Advisor

Assignments:

*Olen/Pollack. Rule #6.

*Phipps, Melissa. (2020) [How Bankruptcy Can—and Cannot—Affect Your Retirement Savings](#).

*Wall St. Physician. (2018). [Understanding the Conflicts of Interest of Financial Advisors. Sept 10.](#)

*Right Financial Advisor <https://www.cnbc.com/2015/12/02/make-sure-the-advisor-you-select-is-the-right-fit.html>

*Video: Pros/Cons Robo? <https://www.youtube.com/watch?v=fVGKrmNDQ7A>

*Video: Robo-advisers: How they work and why they're a good option for some investors <https://bit.ly/34vOSng>

Agnew and Mitchell. 2019. Ch 1: [How FinTech is Reshaping the Retirement Planning Process](#). In *The Disruptive Impact of FinTech on Retirement Systems*. Oxford University Press.

Allmand Law. (nd), [The Bankruptcy Timeline](#)

Mitchell, Olivia S. and Kent Smetters. (2016). [Ch 1: Introduction](#). *The Market for Financial Advice*.

Classes 24 to 25: Student Project Presentations

Class 26: Review Session

Draft Schedule

Class	Day	Date	Topic
1	Tuesday	9/1/2020	Introduction and Overview: Financial and Economic Concepts
2	Thursday	9/3/2020	(cont)
3	Tuesday	9/8/2020	Overview of Life Cycle Economic Decision-making
4	Thursday	9/10/2020	(cont)
5	Tuesday	9/15/2020	Household Goals & Financial Vehicles: Saving and Borrowing
6	Thursday	9/17/2020	(cont.)
7	Tuesday	9/22/2020	Household Goals & Financial Vehicles: Investing for the Future
8	Thursday	9/24/2020	(cont.)
9	Tuesday	9/29/2020	Household Goals & Financial Vehicles: Human Wealth
10	Thursday	10/1/2020	Household Goals & Financial Vehicles: Private Business
11	Tuesday	10/6/2020	Household Goals & Financial Vehicles: Durables & Housing
12	Thursday	10/8/2020	<i>(cont.) and Project Outlines Due</i>
13	Tuesday	10/13/2020	<i>Review Session</i>
NC	Thursday	10/15/2020	<i>Midterm #1</i>
14	Tuesday	10/20/2020	Household Goals & Financial Vehicles: Marriage & Children
15	Thursday	10/22/2020	(cont.)
16	Tuesday	10/27/2020	Household Goals & Financial Vehicles: Health, Disability, LTC insurance
17	Thursday	10/29/2020	(cont.)
18	Tuesday	11/3/2020	Household Goals & Financial Vehicles: Retirement Planning
19	Thursday	11/5/2020	(cont.)
20	Tuesday	11/10/2020	Household Goals & Financial Vehicles: Estate Planning
21	Thursday	11/12/2020	(cont).
22	Tuesday	11/17/2020	Other Considerations: Taxes, Wills, Bankruptcy, Financial Advisors Taxes, Wills, Bankruptcy, Financial Advisors
23	Thursday	11/19/2020	<i>Project presentations</i>
24	Tuesday	11/24/2020	<i>Project presentations</i>
NC	Thursday	11/26/2020	<i>Thanksgiving</i>
25	Tuesday	12/1/2019	<i>Project presentations</i>
26	Thursday	12/3/2020	<i>Review Session</i>
NC	Tuesday	12/8/2020	<i>Midterm #2</i>

Required Course Materials for BEPP/FNCE 202 (Fall 2020)

tentative as of July 30, 2020

Much of the reading material for this course is based on selected chapters from **Personal Finance 13/e** by Kapoor et al., and **Essentials of Investments 11/e** by Bodie, Kane and Marcus, supplemented with McGraw-Hill's online assignment and assessment software: Connect. You will use Connect to access an eBook, an adaptive eBook and homework problems, via your Canvas account. We've arranged with the publisher for two purchase options below.

Option A. Custom print book with Connect code from UPENN bookstore

Only the UPENN bookstore is selling a custom hardcopy book for this course, containing the necessary chapters you'll be responsible for and a Connect code. This is listed as: **Consumer Financial Decision Making: BEPP/FNCE 202**, ISBN # **9781307575156**. You will not find this book on Amazon or other textbook websites. You can order the hardcopy book here: <https://upenn.bncollege.com/shop/upenn/home> . The cost is \$93.35.

Option B. Online All-Digital Connect access.

Alternatively, if you are comfortable with learning from an eBook, you can purchase Connect for \$80 via your Canvas account, directions below. Once registered, you'll have electronic access to the Kapoor et al. **Personal Finance 13/e** chapters, **but not** the 4 chapters from **Essentials of Investments**. If you have previously enrolled in FNCE 205, you may already have the Bodie, Kane and Marcus *Investments* book. Although it's a more comprehensive version of *Essentials*, it includes similar 4 chapters from the custom book. If you have not taken that course, you may purchase these necessary chapters from study.net.

How to register for Connect:

Log into your Canvas account for the course. Click on the **Mcgraw-Hill Campus** link, likely on the left-hand side of your screen. If prompted, click **Load in a new Window**. Then click **agree to terms & privacy policy**. Then click the cover of the textbook **Personal Finance 13/e** by Kapoor et al. and get started.

Enter your email in the **Join this class** area. If you've registered for Connect in a previous or concurrent course, use the same e-mail. Otherwise you'll be asked to create a new McGraw-Hill education account.

If you purchased the custom package from the bookstore, enter the 20-digit code from the back of the book in the **Use Connect code** box and click **Redeem**. You will then have Connect access, which includes only the eBook chapters from Kapoor et al. **Personal Finance 13/e** (but not the Bodie et al. **Essentials of Investments** chapters) and your online homework assignments for 180 days. See the image below.

Or if you are comfortable with just using the eBook, select **Buy It** (valid credit card or Pay Pal required). You should ignore the Connect and Printed textbook Rental option for \$170.

If you are unsure you will remain in the course or are waiting for the textbook package to arrive at the bookstore, home, or dorm, you can select the **Temporary Access** which provides 14 days of complimentary access to Connect, the e-book, and homework. At the end of the complimentary

access period, you will need to enter either the 20-digit code from the custom book or select **Buy It**. You must purchase Connect access to maintain access to course assignments and materials. Any work you complete during the Courtesy Access period will be saved.

Technical Support:

If you need Technical Support (forgotten password, wrong code, etc.), please contact the McGraw-Hill Education **Customer Experience Group (CXG)** at:

(800) 331-5094

www.mhhe.com/support

(Please be sure to get your case number for future reference if you call the CXG line.)