FNCE/BEPP 2020: Consumer Financial Decision Making

Section 401: Tuesday & Thursday, 10:15 am–11:44 am, JMHH 265
Section 402: Tuesday & Thursday, 12 pm-1:29 pm, JMHH 265

Fall 2022

Professors: Nikolai Russanov and Olivia S. Mitchell

Course Overview

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. Such gaps in financial literacy and sophistication contribute to persistent and rising 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 everyone uses 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 any Penn undergraduate, 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 2008-9 Great Financial Crisis and the economic upheaval brought by the COVID-19 pandemic. The course is geared toward those seeking to take charge of their own financial futures, anyone interested in policy debates over consumer financial decision making, and future FinTech entrepreneurs.

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 (check with your advisor to confirm this is feasible for your concentration).

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

Course Structure and Requirements

This cross-listed course is taught by Professors Roussanov and Mitchell. The course includes assigned readings, class discussion, homework assignments, two in-class midterm exams, and a team project and presentation. There is no final exam. There are weekly online homework assignments which must be submitted by 5 pm ET; each student must submit his or her answers to assignments via Canvas individually. Many of the homework assignments will require empirical analysis, and we will also spend some time discussing statistical tools and data sources. In addition, during the semester, teams of students will choose a research topic to explore in a short term paper. A draft of the research report will be due November 3, which we will promptly return with comments, giving students time to revise their work. Class presentations on the projects are after Thanksgiving with the final reports due at the end of the semester.

Grades are determined by the following breakdown:

Midterm Exam 1	100 points	25%
Midterm Exam 2	100 points	25%
Assignments*	120 points	30%
Team Project and Presentation	80 points	20%
Total	**400 points**	**100%**

* Please note that for Assignments, the two lowest assignment grades will be dropped in computing the final assignment points.

Course Material. Lecture notes, some readings, case studies, problem sets, and other material will be posted on our course Canvas. Students are responsible for checking this site regularly for updates.

Required books/section of books. Portions from the following two textbooks will be part of the required reading. In addition, homework problems and case studies will be associated with material from these textbooks and will be marked via the online portal. Instructions about how to order the custom textbook which has the selected chapters from these books which will be needed for this class is at the end of the syllabus.

1. Kapoor, Dlaby, Hughes, and Hard, *Personal Finance*, 14th Edition, McGraw Hill.
2. Bodie, Kane, and Marcus, *Essentials of Investments*, 12th Edition, McGraw Hill.

The following paperback is also required and can be purchased at the UPENN Bookstore or online:
Olen and Pollack, 2017, *The Index Card: Why Personal Finance Doesn't Have to be Complicated*, Penguin.

Course Expectations and Academic Integrity

Class attendance and punctuality are expected. Mutual respect for the professor and fellow classmates is also expected. We reserve the right to remove any student from the classroom and/or course if, in our opinion, his or her behavior is disruptive to the professor, fellow classmates, and/or the classroom environment.

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/)

Important Dates

Put these dates on your calendar now!

Midterm #1:	October 13, 2022: Review Session October 18, 2022: Midterm Exam #1
Midterm #2:	December 6, 2022: Review Session December 8, 2022: Midterm Exam #2
Team Project Dates:	October 13, 2022: Project Proposal Due November 3, 2022: Draft of Project Report Due November 29, 2022 & December 1, 2022: Project Presentations December 12, 2022: Final Project Report Due

Draft **Class Schedule**

Class	Day	Date	Topic
1	Tuesday	August 30, 2022	Introduction and Overview: Financial and Economic Concepts
2	Thursday	September 1, 2022	
3	Tuesday	September 6, 2022	Overview of Life Cycle Economic Decision-Making
4	Thursday	September 8, 2022	
5	Tuesday	September 13, 2022	Household Goals and Financial Vehicles: Saving and Investing
6	Thursday	September 15, 2022	
7	Tuesday	September 20, 2022	Household Goals and Financial Vehicles: Borrowing and Investing
8	Thursday	September 22, 2022	
9	Tuesday	September 27, 2022	Household Goals and Financial Vehicles: Education
10	Thursday	September 29, 2022	Household Goals and Financial Vehicles: Private Business
11	Tuesday	October 4, 2022	Household Goals and Financial Vehicles: Durables and Housing
No Class	*Thursday*	*October 6, 2022*	*Fall Break*
12	Tuesday	October 11, 2022	***Deliverable: Project Proposals Due on Thursday, October 13***
13	***Thursday***	October 13, 2022	***Review Session***
14	***Tuesday***	***October 18, 2022***	***Midterm #1***
15	Thursday	October 20, 2022	Household Goals and Financial Vehicles: Marriage and Children
16	Tuesday	October 25, 2022	
17	Thursday	October 27, 2022	Household Goals and Financial Vehicles: Health, Disability, LTC Insurance
18	Tuesday	November 1, 2022	***Deliverable: Report Draft due Thursday, November 3***
19	Thursday	November 3, 2022	Household Goals and Financial Vehicles: Retirement Planning
20	Tuesday	November 8, 2022	
21	Thursday	November 10, 2022	Household Goals and Financial Vehicles: Bequests and Charity
22	Tuesday	November 15, 2022	
23	Thursday	November 17, 2022	Other Considerations: Taxes, Wills, Bankruptcy, Financial Advisors
24	Tuesday	November 22, 2022	
No Class	*Thursday*	*November 24, 2022*	*Thanksgiving Break*
25	***Tuesday***	November 29, 2022	***Project Presentations***
26	***Thursday***	December 1, 2022	***Project Presentations***
27	Tuesday	December 6, 2022	*Review Session*
28	***Thursday***	***December 8, 2022***	***Midterm #2***
	Monday	December 12, 2022	***Project Deliverable: Final Report Due***

Detailed Outline and Assignments:[1]

→*Note that Assigned Problems are due each Friday following the lectures for that pair of classes by 5 pm ET, on Canvas.*

Class 1 & 2: Intro/Overview of Financial and Economic Concepts
- Readings:
  - Olen/Pollack: Introduction
  - Reading #1 (Kapoor et al., Chapter 1)
- Problems: Kapoor et al.: Chapter 1 problems, Case problems

Class 3 & 4: Overview of Life Cycle Economic Decision Making
- Readings:
  - Olen/Pollack: Rules #1 and 6
  - Reading #2, #3, #4 (Kapoor et al., Chapters 3 and 4; Bodie et al., Chapter 2)
    Note: Bodie et al. reading available on Study.Net not Canvas, if using the eBook
- Problems: Kapoor et al.: Chapter 4 problems, Case problems

Class 5 & 6: Household Goals and Financial Vehicles: Saving and Investing for the Future
- Readings:
  - Olen/Pollack: Rules #4 and 5
  - Reading #5, #6, #10, #11, #12, #13, #21
    (Kapoor et al., Chapters 5, 6, 7 and Appendix, 8 and Appendix, Chapter 3 Appendix)
  - Video: Fisher Effect and Bond Valuation
- Problems: Kapoor et al.: Chapter 5 problems, Chapter 6 problems

Class 7 & 8: Household Goals and Financial Vehicles: Borrowing and Investing for the Future
- Readings:
  - Olen/Pollack: Rules #2, 3, 7
  - Reading #7, #19 (Bodie et al., Chapter 5 and Chapter 21 (21.1-21.7))
    Note: available on Study.Net not Canvas if using the eBook)
- Problems: Bodie et al.: Chapter 5 problems, Chapter 21 problems

Class 9 & 10: Household Goals and Financial Vehicles: Education & Private Business
- Readings:
  - Reading # 8 (Kapoor et al., Chapter 2)
  - Reading # 9 (Bodie et al., Chapter 15- Options background to discuss employee stock options) *Note: available on Study.Net not Canvas if using the eBook*
  - Options video posted on Canvas
- Problems: Kapoor et al. Chapter 2 videos and problems, Bodie et al. Chapter 15 problems , Simulation exercise (provided in-class)

Class 11 & 12: Household Goals and Financial Vehicles: Durables and Housing
- ***Thursday, October 13: Team Project Proposals Due***
- Readings:
  - Olen/Pollack: Rule #7

[1] Note that readings may be added or substituted at the instructor's discretion. Specific problems for weekly homework assignments will be detailed on the course Canvas site. Supplementary readings for each week/topic are available on Canvas.

  - Reading #14 (Kapoor et al., Chapter 9)
- Problems: Kapoor et al. Chapter 9 problems and Case problems

Class 13: Review Session

Class 14: In-class Midterm Exam #1

Class 15 & 16: Household Goals and Financial Vehicles: Marriage and Children
→Survey Class 15: Life Insurance Application Questions and 16: Prenups & Insurance
- Readings:
  - Reading #15, #16 (Kapoor et al., Chapters 10 & 12)
  - 8 Reasons Why You Should Get a Prenup + Prenups in the news (canvas)
  - Community Property (canvas)
  - Cost of Childcare (canvas)
- Problems: Kapoor et al. Chapter 10 problems, Chapter 12 problems, Ch 10 & 12 Continuing Case problems

Class 17 & 18: Household Goals and Financial Vehicles: Health, Disability, LTC Insurance
→Survey Class 17: Health/Disability Insurance & 18: Narrow Framing
- ***Thursday, November 3: Draft of Project Report Due***
- Readings:
  - Reading #17 (Kapoor et al., Chapter 11)
  - Olen/Pollack: Rule #8
  - Colorado Health Plan Plus Application.pdf (in canvas)
- Problems: Kapoor et al. Chapter 11 problems

Class 19 & 20: Household Goals and Financial Vehicles: Retirement Planning
→Survey Class 19: FIRE & 20: Retirement Income/Expenses & Retirement Knowledge Quiz
- Readings:
  - Zweig, Jason. 2011. Meet 'Future You.' Like What You See? (in canvas)
  - Stoll. 2020. The End of Retirement. (in canvas)
  - Olen/Pollack: Rules #3, 9
  - Reading #18 (Kapoor et al., Chapter 18)
- Problems: Kapoor et al., Chapter 18 problems, Video questions, and Continuing Case problems

Class 21 & 22: Household Goals and Financial Vehicles: Annuities, Bequests, and End of Life Issues
→Survey Class 21: Annuities & 22: Advance Directives & Living Wills
- Readings:
  - Reading #20 (Kapoor et al., Chapter 19)
  - What is a PoA? (in canvas)
  - Digital Estate Plan (in canvas)
  - End of Life (in canvas)
  - Brain Quiet but Heart Beating (in canvas)
  - Donate Body to Science (in canvas)
  - Laurenzi. Logistics of Death (in canvas)
- Problems: Kapoor et al., Chapter 19 problems, Video questions, and Continuing Case problems

Class 23 & 24: Other Considerations: Financial Advisors, Taxes, Wills, Bankruptcy
→ Survey Class 23: Roboadvisors & 24: Special Needs Trust
- Readings:

- Olen/Pollack: Rule #6

Class 25 & 26: **Team Project Presentations**

Class 27: **Review Session**

Class 28: **In-class Midterm Exam #2**

Final Report due**: Monday December 12**

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