

The Psychology and Economics of Consumer Finance B8744

Block Week Course: Tuesday, January 18, 2022 – Saturday, January 22, 2022

All sessions will be held in person (in one of our new Manhattanville buildings 😊).

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Introduction

Business schools all teach multiple courses in Corporate Finance. Until recently none taught Consumer Finance. Yet Consumer Finance is a much larger segment of the economy. In the U.S. as of the end of 2020, households hold \$101 trillion in financial assets and have debts totaling about \$16 trillion. Non-financial corporations have less than 1/4 of the financial assets, and less than 3/4 the amount of debt. This course helps provides a remedy to the teaching imbalance.

The course will be inter-disciplinary -- Johnson is a psychologist and a professor in the Marketing division, and Zeldes is an economist and a professor in the Economics division. We will bring different perspectives to every topic:

- What is the economic theory describing how people behave?
- What does psychology and behavioral economics contribute to understanding behavior?
- What are the facts about how consumers actually behave? What are the existing markets, institutions, firms, and regulations, both in the U.S. and abroad?
- What are the opportunities for and barriers to innovating in these markets?

We will examine markets for borrowing (mortgages, credit cards, marketplace lending, student loans, payday loans), saving and investing (401(k)s, strategies to promote

saving, optimal asset allocation), and insurance (including life, health, and longevity). We will emphasize both how people *do* and how people *should* make financial decisions, and the implications for financial services firms.

We will use the tools of traditional economics, behavioral economics, and psychology to better understand consumer financial decisions, current and possible future financial products, the consumer finance industry, and financial public policy. Important new research illustrates how combining insights from psychology and economics can improve our understanding of consumer financial behavior. In their book *Nudge*, for example, Cass Sunstein and Richard Thaler (2017 winner of the Nobel Prize) argue that firms and policymakers can design mechanisms to guide people's choices in a way that improves outcomes yet maintains freedom of choice. The current pandemic, the aftermath of the financial crisis, and continuing debate about consumer financial protection will keep the class lively and yield lots of class content that is "torn from the headlines."

Why consumer finance?

We first developed and started teaching this course together in 2010, with the belief that the introduction of an MBA consumer finance elective was overdue. Various trends and events have only reinforced that belief.

- This is a 'hot' area of research, and new and interesting results are being published in journals in economics, psychology, and marketing. One of our goals is to translate these findings into products and public policy that will lead to better outcomes.
- Over the last 35 years there has been a global shift from defined-benefit to defined-contribution pension plans, putting decisions about the management of retirement wealth increasingly into the hands of households.
- The 2007-9 financial crisis and the ongoing pandemic have highlighted the importance of consumer decisions to consumer well-being and to the overall economy (e.g. home foreclosures, consumer borrowing and saving decisions in the face of employment, income, and health shocks, 401(k) asset allocation, ...).
- There have also been important ongoing discussions of the government's role in the financial sector. Johnson has worked at the U. S. Consumer Financial Protection Bureau and is currently on their Academic Research Council.

Who should take this course? Why?

This course should appeal to a wide variety of students:

- First, those who want to work for financial services firms, including asset management, banking, and insurance.
- Second, those who are interested in consulting, investment banking, or private equity, and need to understand and value firms that provide financial services to

consumers.

- Third, those interested in marketing and consumer decisions more generally.
- Fourth, those interested in broader public policy issues (consumer finance is at the heart of many important public policy debates.)
- Finally, the course will be helpful to anyone interested in learning how to better manage their *own personal* finances.

Our course is open to both MBA and EMBA students. In the past, the interaction between these groups been beneficial, and we encourage students from both programs to enroll.

Course structure

The class will include lectures, class discussions, guest speakers, case analysis, small assignments, and student presentations. It will be highly interactive, and you are expected and encouraged to take part in class discussions. Both professors will participate in all of the classes throughout the week. We bring different perspectives to these questions, and we look forward to lively debates!

It's Broken, Let's Fix It (optional assignment)

In recent years, there have been enormous advances in technology, in our understanding of consumer decision-making, and in financial instruments. This suggests there is a lot of opportunity for financial innovation in consumer finance. The idea of the 'It's Broken, Let's Fix It' exercise is to identify such an opportunity by finding a problem (this could be one that annoys you) and suggesting a solution. This should be done in small group teams (formed over lunch on Tuesday or Wednesday). Some or all of the teams will give 5-minute presentations to the class on Thursday.

Guest speakers

We will have 4-5 sessions (usually one per day) with an outside expert. In the past, we have included individuals whose companies are start-ups, decision makers featured in the cases, executives with responsibility for introducing new products for large firms, and well known financial writers. Past year's speakers include Jon Stein, founder and former CEO of Betterment, Daniel Schreiber, CEO of Lemonade, and Robb Granado, President of CommonBond. The course calendar will include additional details about this year's speakers.

Culture

This course adheres to Columbia Core Culture. You are expected to be i) Present, ii) Prepared, and iii) Participating. Some specifics are below.

Class meetings and attendance

This is a block-week course, so all classes will be held in a one-week period: Tuesday, January 18, 2022 through Saturday Jan 22, 2022. Classes will run between 9 am and 5:00 pm (until 6:30 pm on Thursday), with breaks and breakout preparation sessions interspersed. Class attendance and participation is important. If for some reason you need to miss class, please let us know in advance via e-mail.

Cases, readings, and assignments

We will use cases during the course, and 4-5 of them will require short write-ups (some done individually and some done as a team). The remaining cases should be read and analyzed in preparation for class discussion, and there will also be some additional readings. Using Poll Everywhere, we will ask a question at the beginning of the relevant class on each of these remaining cases and each reading. Since this is a block week course, please prepare what you can in advance of the first class (including some of the readings) and also plan to leave time during the week outside of class hours to prepare for the next day.

Class participation

We will be grading your participation in the cases and class discussions. Please expect (friendly) cold calling. We will also use the Poll Everywhere interactive technology for class responses and class discussion, and also to help keep track of attendance. Please download Poll Everywhere and be prepared to use it during class. For some questions (e.g. on cases and readings), we will use your specific responses for grading, and for the others we'll use them to facilitate class discussion and also to indicate your presence in class, and so they will be part of your participation grade. When asking for your opinions on sensitive issues, we will use a mode that makes your responses anonymous.

Course materials

There is no textbook for the course. The cases and readings will be posted in Canvas in advance of the course. Class notes will be posted to Canvas for download prior to each session.

Final Exam.

The final will be a timed, open-book, take-home exam that you can download any time between the end of the last class on Saturday, January 22 and Tuesday night January 25th. You will have 2 hours for the exam, i.e., you will need to upload your answer no more than 2 hours after your download time.

Course grading

Grades will be based on the assignments and short case write-ups, class participation, and a final exam, as follows:

Weights for grading	
Assignments and case write-ups	35 %
Class participation (including PE graded questions)	25 %
Final exam	40 %

Office hours

We are generally available before and after class sessions during the week and also via e-mail. Please feel free to contact us with any questions or feedback about the course.

Teaching assistants

The TAs for the course will be attending class, and their contact information will be posted in Canvas. You can contact the TAs with questions related to readings, assignments, calendar, etc.

Whether or not we accept auditors will depend on enrollments by registered students. We won't know about availability until shortly before the course begins, so if you are interested in auditing, please send an email to ejj3@columbia.edu with the Subject: *Audit Request B8744-001*. If you would share a couple of sentences, no more, about why you would want to audit the class that would be useful.