

**COLUMBIA UNIVERSITY**  
**Graduate School of Business**

**The Psychology and Economics of Consumer Finance**  
**B8744**

**Block Week Course: Monday, January 14 – Friday, January 18, 2019**

Room: Uris 142

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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 2018, households hold \$ 82 trillion in financial assets and have debts totaling about \$15 trillion. Non-financial corporations have less than 1/3 of the financial assets, and less than 2/3 of the 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, peer-to-peer 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 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. When we were thinking about creating the course, we identified several trends that suggested that the introduction of an MBA consumer finance elective was overdue:

- Over the last 30 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.
- Consumer debt to income ratios in the U.S. have risen from about 60% in the late 1970's to about 90% today, while the personal saving rate has dropped to less than ½ of its level in the 1970s.
- 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.
- The 2007-9 financial crisis highlighted the importance of consumer decisions to consumer well-being and to the overall economy (e.g. 401(k) asset allocation, sub-prime mortgages, home foreclosures). There has also been renewed discussion of the government's role in the financial sector, and one of the instructors recently served as a senior visiting scholar at the U. S. Consumer Financial Protection Bureau.

### **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 course 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!

### **What's Broken, How to 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 'What's Broken, How to 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 Monday). Some or all of the teams will give 5-minute presentations to the class on Wednesday evening.

### **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. Last year's speakers included Jon Stein, CEO of Betterment, and Noah Kerner, CEO of Acorns. 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: Monday, January 14 through Friday, January 18, 2019. Classes will run between 9 am and 5 pm, Monday through Thursday, *plus an evening session on Wednesday that runs 5:15 – 6:30 pm*, and 9-2 on Friday, with breaks and a few 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. There should be no electronic devices used during class time, with the exception of occasional required use of Poll Everywhere technology (see below).

### **Cases, readings, and assignments**

We will use cases during the course, and 3-4 of them will require short write-ups (1-2 done individually and the others done as a team). The remaining cases should be read and analyzed in preparation for class discussion. There will also be some additional readings. 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 bring your name cards to every class and expect (friendly) cold calling. We will also use the Poll Everywhere interactive technology for classroom responses and class discussion, and also to help keep track of attendance. Please download Poll Everywhere and be prepared to use it during class. We will not use your specific responses for grading without prior announcement, but we will use them to indicate your participation 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. Class notes will be distributed during each class and then posted to Canvas.

### **Final Exam.**

The final will be a timed, open-book, take-home exam that you can download any time between 2:15 pm on Friday January 18<sup>th</sup> and Monday night January 21<sup>st</sup>. 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. If you wish, you may use our classroom to take the exam on Friday afternoon, starting any time at or after 2:15 pm.

### **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	30 %
Class participation	30 %
Final exam	40 %

### **Office hours**

We are generally available via e-mail and also after classes each day. Please feel free to contact us with any questions or feedback about the course.

**Teaching assistants**

There will be two TAs for the course. They 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.

**Auditing**

Depending up on the availability of space, we may accept auditors, but first priority for seats goes, of course, to 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](mailto: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.