

**University of Pennsylvania - The Wharton School**  
Professor Olivia S. Mitchell (mitchelo@wharton.upenn.edu)  
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*Fall 2020 Syllabus*

### **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 lead them to make mistakes and lose money. Moreover, consumer finance comprises an enormous 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. Additionally, recent breakthroughs in the FinTech arena are integrating innovative approaches to help consumers. 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.

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 (10 p) term paper. A draft 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 midterm exams and no final exam. There are also weekly assignments which must be handed in; each student must submit individual answers to assignments via Canvas. Final grades are determined by the two midterm exams (50%), assignments (30%), and projects/class presentations (20%).

**Prerequisites.** There are no formal prerequisites for the class but students are assumed to have an introductory knowledge of economics and statistics. A special section on statistics will be offered to those needing help with basic concepts.

**Faculty:** You may schedule meeting times with 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 10<sup>th</sup> 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. Students are asked **to use laptop computers exclusively for taking notes; other uses for electronic devices during class are prohibited.**

**Course Electronic Device Policy.** Experience has shown that use of the use of electronic devices during any class for non-educational purposes significantly disrupts learning for the students using the device and for others in the class. Accordingly, the following policies should be observed with penalties set by the instructor as deemed appropriate:

- Phones must be turned off and put away. If a student must keep a phone on by reason of a personal emergency, the student must inform the instructor before class begins.
- The use of laptops and tablets is not allowed unless for educational purposes as permitted by the instructor (e.g., note taking, reading, or data analysis).

**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 explaining why you think that the exam should be regraded. This request must be submitted within 5 business days after the graded examination papers have been made 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 must 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 may not 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:**

TBD

**Teaching Assistant**

TBD

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

*Midterm #1:*

Review Session: TBD

Exam: TBD

*Midterm #2:*

Review Session: TBD

Exam: TBD

*Class Presentations on Projects:* See syllabus

### **Tentative Outline and Readings:<sup>1</sup>**

*Note:*

**Required Text:** Kapoor, Dlabay, Hughes and Hart, *Personal Finance*, 13<sup>th</sup> Edition, McGraw Hill. We will assign homeworks and problems linked to this text, and you will be marked via the online portal.

Additional readings and problems from Bodie, Kane, and Marcus, *Essentials of Investments*, 11<sup>th</sup> Edition, McGraw Hill, will also be assigned.

The following book will also be used over the term:

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

#### **1. Intro/Overview of Basic Financial Concepts**

- Preferences, tastes
- Intertemporal decisions
- Decisions involving risk: insurance, diversification

#### **Readings:**

FINRA National Financial Capability Study financial literacy quiz,  
<http://www.usfinancialcapability.org/quiz.php>.

Olen/Pollack. Introduction.

Vanguard Investor Questionnaire. <https://advisors.vanguard.com/iwe/pdf/FASINVQ.pdf>

Kapoor et al., Ch. 1.

#### **2. Overview of Household/Consumer Economic Decision-making Concepts**

- Budgeting
- Constraints: income, wealth, access to financial markets, taxes
- Behavioral biases, misconceptions, and mistakes

#### **Readings:**

Olen/Pollack. Rule #1.

Kapoor et al., Chapters 3 and 4

[Budgeting 101](#): How to Start Budgeting for the First Time.

Balancing Act, *The New York Times* <https://www.nytimes.com/2020/01/09/business/how-much-debt-do-i-have.html?smtyp=cur&smid=fb-nytimes>

Stango and Zinman, 2009, "Exponential Growth Bias and Household Finance," *Journal of Finance* 64, 2807–49.

#### **3. Household Goals and Financial Vehicles: Saving for the Future**

- Banking: savings accounts, CDs, etc.
- Investing in risky assets: stocks vs. bonds; mutual funds, ETFs, etc.
- Diversification in practice (income risk, international vs. domestic, etc.)
- Robo-advisors: promises and pitfalls
- "Alternative" investments: gold, cryptocurrencies, and beyond...

#### **Readings:**

Olen/Pollack. Rules # 3, 4, 5.

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<sup>1</sup> Note that readings may be added or substituted at the instructors' behest.

Kapoor et al., Chapters 5 and 6

Bodie et al., Chapter 5

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

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.

Kurutz. 2018. [How to Retire in Your 30s With \\$1 Million in the Bank](#): NYT. Sept. 1.

#### **4. Household Goals and Financial Vehicles: Education**

- Human capital as an investment
- Financing education: 529's, student loans, other
- Worker or a "human capitalist": equity-linked compensation (e.g. stock options), partnership

##### **Readings:**

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

Kapoor et al., Chapter 2

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

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

#### **5. Household Goals and Financial Vehicles: Private Business**

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

##### **Readings:**

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*.

#### **6. Household Goals and Financial Vehicles: Borrowing**

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

##### **Readings:**

Olen/Pollack. Rule #2

Kapoor et al., Chapters 7 and 8

Lusardi and Mitchell. 2008. "Planning and Financial Literacy: How Do Women Fare?" *American Economic Review* P&P 98:2, 413-417

Tufano, Ryan, and Schneider. "An Introduction to Consumer Credit." Harvard Business School Note No. 9-209-107.

[Kivat, B. How to Read Your Credit Report.](#)

Stango and Zinman, 2014. "Limited and Varying Consumer Attention: Evidence from Shocks to the Salience of Bank Overdraft Fees." *Review of Financial Studies* 27, 990-1030.

Stegman. 2007. "Payday Lending," *Journal of Economic Perspectives* 21(1), 169-190.

## 7. Household Goals and Financial Vehicles: Durables and Housing

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

### Readings:

Kapoor et al., Chapters 9, 10

Olen/Pollack Rule #7.

### [Leasing v Buying a New Car.](#)

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.

## 8. Household Goals and Financial Vehicles: Marriage & Children

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

### Readings:

Kapoor et al, Chapter 12

### [8 Reasons Why You Should Get a Prenup](#)

### [What is Community Property?](#)

### [Who's Minding the Kids? Experimental Evidence on the Demand for Child Care Quality](#)

## 9. Household Goals and Financial Vehicles: Healthcare

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

### Readings:

Kapoor et al, Chapters 11

Olen/Pollack, Rule #8.

## 10. Household Goals and Financial Vehicles: Retirement

- Pensions and Social Security, annuities
- Health insurance in later life, incl LTC
- Dementia and financial decision-making

### Readings:

Kapoor et al., Chapter 18

Olen/Pollack Rules #3, 9.

Zweig. 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.

The End of Retirement, *Wall Street Journal*, 2020. <https://www.wsj.com/articles/the-end-of-retirement-11578632400>

Munnell, Hou, and Sanzenbacher. 2017. “Do Households Have a Good Sense of their Retirement Preparedness?” Center for Retirement Research brief, [http://crr.bc.edu/wp-content/uploads/2017/02/IB\\_17-4.pdf](http://crr.bc.edu/wp-content/uploads/2017/02/IB_17-4.pdf)

Brown, Kapteyn, Luttmer, and Mitchell. 2017. “Cognitive Constraints on Valuing Annuities.” *JEEA*. 15(2): 429-462.

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

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

### **11. Household Goals and Financial Vehicles: Bequests & Charity**

- Estate Planning
- Charitable Gifts
- Trust structures

#### **Readings:**

Kapoor et al., Chapter 19

### **12. Other considerations: Taxes, Wills, Bankruptcy, and Financial Advice**

- Wills, Living Wills, Powers of Attorney
- Estate taxes, probate
- Bankruptcy
- Choosing (and firing) a Financial Advisor

#### **Readings:**

Olen/Pollack. Rule #6.

Mitchell and Smetters. 2016. Ch 1: Introduction. *The Market for Financial Advice*. <https://pensionresearchcouncil.wharton.upenn.edu/wp-content/uploads/2015/09/0-19-968377-2-0111.pdf>

[The Bankruptcy Timeline](#)

[Understanding the Conflicts of Interest of Financial Advisors](#)

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

[Living Wills and Advance Directives](#)

[What is a Power of Attorney?](#)

**Draft Schedule:**

Class	Day	Date	Topic
1	Tuesday	9/1/2020	Introduction and Overview of Basic Financial Concepts
2	Thursday	9/3/2020	(cont)
3	Tuesday	9/8/2020	Overview of Household Economic Decisionmaking Concepts
4	Thursday	9/10/2020	(cont)
5	Tuesday	9/15/2020	
6	Thursday	9/17/2020	
7	Tuesday	9/22/2020	
8	Thursday	9/24/2020	
9	Tuesday	9/29/2020	
NC		10/1/2020	<i>Fall Break</i>
10	Tuesday	10/6/2020	
11	Thursday	10/8/2020	
12	Tuesday	10/13/2020	
NC	<i>Thursday</i>	10/15/2020	<i>Midterm #1</i>
13	Tuesday	10/20/2020	
14	Thursday	10/22/2020	
15	Tuesday	10/27/2020	
16	Thursday	10/29/2020	<i>Project Outlines Due</i>
17	Tuesday	11/3/2020	
18	Thursday	11/5/2020	
19	Tuesday	11/10/2020	
20	Thursday	11/12/2020	
21	Tuesday	11/17/2020	
22	Thursday	11/19/2020	Evening Review
23	Tuesday	11/24/2020	Midterm #2
NC	<i>Thursday</i>	11/26/2020	<i>Thanksgiving</i>
24	Tuesday	12/1/2019	Project presentation
25	Thursday	12/3/2020	Project presentation
NC	<i>Tuesday</i>	12/8/2020	<i>TBA</i>
	<i>Thursday</i>	12/10/2020	<i>TBA</i>