

Marquette University  
College of Business Administration  
**FINA 194/ FINA 189/ BUAD 259: Investment Management,  
Ethics, and Society**  
Dr. Sarah W. Peck  
Spring 2007

***Goals of the Course:***

The objectives of this course are to make students aware of the importance of making ethical and socially responsible decisions. Business have an important role in society are responsible to other stakeholders, beyond shareholders. Sometimes ethical and socially responsible behavior can conflict with traditional business objectives creating dilemmas for managers. Individuals that work in the area of investment management have a special duty to behave in an ethical and socially responsible way. Not only, do they have a moral and fiduciary duty to their clients, but they also can influence business practices at other corporations through their investment decisions. Portfolio managers can sell securities when they disagree with corporate practices and thereby punish poorly performing firms by limiting their ability to raise capital in the financial markets. Thus it is important for students considering a career in investment management to be acutely aware of the possible dilemmas they will face and provide them with the skills to resolve these dilemmas ethically. This need is only highlighted by the on-going spate of financial scandals.

**Goal 1: Understand Ethical Issues in Investment Decisions and Money Management**

This course is designed to expose you to ethical issues specific to the money management business in the money manager's professional relationship to clients, employers, and other employees. We will also examine corporate governance practices, accounting practices and investing in socially responsible companies.

**Goal 2: Possess critical thinking skills**

This course will stress the process of ethical decision making and the analysis of ethical issues and the relation of companies' stock returns to their corporate governance and accounting practices and socially responsible behavior.

**Goal 3: Possess effective written and oral communication skills**

Your written reports must be persuasive, clear and succinct. You will be required to actively participate in class discussions.

**Goal 4: Be familiar with financial spreadsheet applications.**

Class projects will give you exposure to excel spreadsheet modeling commonly used in financial analysis.

**Goal 5: Develop Research Skills**

You will be required to find and research issues and examples for your written reports.

**Goal 6: Prepare Students for CFA® Level I Exam**

Students also will learn the specific ethical and professional standards recommended by the CFA Institute who confer the designation of Chartered Financial Analyst® on its members by administering the CFA® exams. The material on ethical standards is critical to successfully passing the first of three of these exams. This course will prepare students for that part of the exam.

## ***Course Materials:***

### **Available from Book Marq (required):**

*Ethical Theory and Business*, Beauchamp and Bowie, 6<sup>th</sup> Edition, Pearson-Prentice Hall

*Corporate Governance*, Minow and Monks, 3<sup>rd</sup> Edition, Blackwell Publishers

*Ethics in Finance*, John R. Boatright, Blackwell Publishers

### **Available from the CFA Institute (<http://www.cfainstitute.org>) (required):**

*Standards of Practice Handbook*, 9<sup>th</sup> Edition, (CFA Institute, 2005)

*Global Investment Performance Standards (GIPS<sup>®</sup>)*, (CFA Institute, 2005)

*The Corporate Governance of Listed Companies: A Manual for Investors*, (CFA Institute, 2005)

### **Available from various other sources (<http://www.amazon.com>) (recommended):**

*When Genius Failed*, Roger Lowenstein, Random House, ISBN 0-375-75825-9

*Liar's Poker*, Michael Lewis, Penguin Books, ISBN 0-14-014345-9

*Tales from the Boom-Boom Room: Women vs. Wall Street*, Susan Antilla, Harper Collins, ISBN: 0-06-056545-4

*Den of Thieves*, James B. Stewart, Simon & Schuster Paperbacks, ISBN:0-671-63802-5

### **Available from Marquette Library (recommended):**

*Crimes and Misdemeanors*- the movie

*Enron: The Smartest Guys in the Room*- the movie

*The Insider*- the movie

*Wall Street*- the movie

*Rogue Trader*- the movie

### **Various Articles (required):**

These will be largely news items from the financial press and articles from practitioner and academic journals and available through the library's web site. These will be announced in class as the course proceeds to keep students current on ethical issues in the industry.

**D2L:** D2L will be used for electronic materials and course communication. *All students are registered for the FINA 194 course site and should use this site for the course regardless of which class they are actually registered for.*

***Communication:***

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Office Hours: M, F 11:00 am- 12 noon.; W 11:00 am – 1pm; T, TH 12 noon- 1pm.

I encourage you to ask whenever you have a question about course material or difficulties with the concepts. This includes questions during class, office hours or appointments, by phone, fax, or e-mail.

***Absences:*** Students are expected to attend all sessions of the course. Consistent with both University and Business School policy, I will make no distinctions between excused and unexcused absences. Students that miss more than the equivalent of two weeks of classes will automatically be dropped from the course. If you do miss a class, it is *your* responsibility to find out from a *fellow student* what material you missed. I will not repeat material that was gone over in class to an individual student during office hours because that student missed class.

***Academic Honesty:*** Academic dishonesty will not be tolerated. You should not represent material from secondary sources as your own in your report, i.e., plagiarize material from secondary sources. ***It is critical that all material used is carefully credited.***

Cheating on the exams will not be tolerated. Cheating is defined as (but not limited to): use of unauthorized materials during exams; looking at, copying or otherwise colluding with anyone during the exam; copying test questions; and removal of the exam.

Anyone engaging in the above activities will automatically receive an "F" in the course and the case will be referred to the department Chairperson for further action.

### **Grading and Course Requirements:**

Your grade will be based on the following\*:

4 Reports (equally weighted)	80%
Class Participation	10%
Quizzes (equally weighted)	10%
Total	100%

Letter Grade	Percentage
A	92-100
AB	86-91
B	81-85
BC	76-80
C	71-75
CD	66-70
D	60-65
F	<59

\*Student's registered for FINA 194 see grading requirements below.

### **Reports:**

These should be research papers that are **3 pages** in length *exclusive* of any tables, graphs, etc. They should include:

- Careful and comprehensive gathering of articles and reference material related to the topic
- Careful use of references and citations and appropriate form for each
- Include a Reference List
- Well written, organized
- Use of meaningful sub-headings
- Executive Summary
- Use of the articles should be organized to delineate the issues involved
- Examples and illustrations of issues which are quantitative in nature
- Diagrams where necessary
- Issues should be linked to topical material covered in class
- Excel spreadsheet models when appropriate
- All excel spreadsheet models, tables, diagrams and figures are to include explanatory footnotes and be formatted for readability and use

Reports can be done individually or in teams of *up to three students*. All members of the team will receive the same grade. Once a student/team has picked a topic and/or company to analyze no other student can work on it. When I student has selected the topic/company they should notify me and all students in the class via e-mail (use class list in e-mail function in D2L). A list of topics/ companies chosen will be periodically updated and maintained on D2L. ***All companies/ topics must be approved by me.*** I will send you an e-mail to verify that your topic/ company has been approved.

*The same company must be used by the individual student for Reports #2, 3, and 4, regardless of whether the student works alone or in a group (you can exit or get kicked out of a group after turning in Report 2, 3, or 4 at any point; however you can not join a group after Report 2 is due and switch your company for Reports 3 and 4).*

Reports will be in the four broad areas that this course covers:

- Ethical Issues in Money Management
- Corporate Governance Practices
- Accounting Practices
- Investing in Socially Responsible Companies

Reports by individual students will serve as the basis for your contribution in class. When we are discussing a particular topic, you can offer what you learned from your report.

More detailed information about individual report requirements will be discussed in class.

### ***Class Participation:***

The majority of our class time will be spent discussing ethical issues as exemplary of the process of ethical decision making. Your class participation grade will largely be based on more on the *quality* of comments (those that indicate that a student has prepared well for class) are more important than *quantity*. I do not wish to put students on the spot by randomly calling on them. In addition, this process tends to disrupt the flow of the discussion. Thus students have the responsibility for raising their hands to participate meaningfully in the discussion. Finally, absences will hurt your class participation grade.

### ***Quizzes:***

Short quizzes will be periodically given to ensure that students are completing outside reading and that students are attentive during class discussion. The lowest quiz grade will be dropped. Quizzes may not be announced.

### Course Schedule:

The class schedule is tentative. While, I have every intention of adhering to the schedule, I reserve the right to make changes as the need arises. Any changes will be announced in class. It is the student's responsibility to be informed of any changes.

Week	Class	Topic	Course Materials	Assignments Due
<b>I. Introduction to Ethical Decision Making and Issues in Money Management</b>				
1	W 1/17	Introduction: Why Are Ethics So Important in Money Management	Beauchamp and Bowie, Chapter 1: Ethical Theory and Business Practice  Monks and Minow, Chapter 1: What is a Corporation?  Boatright, Chapter 1: Financial Ethics: An Overview Chapter 2: Theoretical Perspectives in Financial Ethics	
	F 1/19	Unethical Versus Illegal: Making the Distinction; Understanding Ethical Decision Making		
2	M 1/22	Student Cheating: What Is It and Is It Wrong?		
	W 1/24	Getting Caught	"Crimes and Misdemeanors"- the Movie	
	F 1/26	Professionalism: How does professionalism relate to ethics and why is it important?	CFA Institute, Standards and Practice Handbook, 9 <sup>th</sup> edition, Standard I: Professionalism	
3	M 1/29	Causes of Ethical Lapses: Arrogance	"Enron: The Smartest Guys in the Room"-the movie  <i>Den of Thieves</i> , James B. Stewart	
	W 1/31	Causes of Ethical Lapses: Conflicts and Pressures	CFA Institute, Standards and Practice Handbook, 9 <sup>th</sup> edition, Standard VI: Conflicts of Interest	Topic Choice for Report #1 Due
	F 2/2	Causes of Ethical Lapses: Covering Up Mistakes	"Rogue Trader"- the movie	
4	M 2/5	Whistle Blowing- What are the Costs?	"The Insider"- the movie	
	W 2/7	Whistle Blowing- What are the Costs?- cont'd.	Enron, Strong	
	F 2/9	Personal Plan of Action	CFA Compliance Standards & Practice	

Week	Class	Topic	Course Materials	Assignments Due
<b>II. Integrity of Capital Markets</b>				
5	M 2/12	Inside Information	<i>When Genius Failed</i> , Roger Lowenstein  "Wall Street"- the movie  Boatright: Chapter 5: Ethics in Financial Markets  CFA Institute, Standards and Practice Handbook, 9 <sup>th</sup> edition, Standard II: Integrity of Capital Markets	
	W 2/14	<u>Guest Speaker</u>		Money Management Report Due
	F 2/16	Market Manipulation		
<b>III. Fiduciary Duty</b>				
6	M 2/19	What is Fiduciary Duty?	CFA Institute, Standards and Practice Handbook, 9 <sup>th</sup> edition, Standard III: Duties to Clients Beauchamp and Bowie, Chapter 4: Acceptable Risk  CFA Institute, Standards and Practice Handbook, 9 <sup>th</sup> edition, Standard VI: Conflicts of Interest	
	W 2/21	Fair Dealing, Client Trades, Suitability, Reporting		
	F 2/23	Confidentiality		

Week	Class	Topic	Course Materials	Assignments Due
<b>IV. Being an Employee and an Employer in Money Management</b>				
7	M 2/26	Overview of the Issues	<p>CFA Institute, Standards and Practice Handbook, 9<sup>th</sup> edition, Standard IV: Duties to Employers</p> <p>CFA Institute, Standards and Practice Handbook, 9<sup>th</sup> edition, Standard VI: Conflicts of Interest</p> <p>Beauchamp and Bowie, Chapter 5: Rights and Obligations of Employers and Employees</p> <p>Beauchamp and Bowie, Chapter 6: Hiring, Firing, and Discrimination</p> <p><i>Liar's Poker</i>, Michael Lewis</p> <p><i>Tales from the Boom-Boom Room: Women vs. Wall Street</i>, Susan Antilla</p>	
	W 2/28	Who Owns the Research?		Company Choice For Reports #2, 3, & 4 Due
	F 2/23	Workplace Diversity and Culture		
<b>V. Being an Ethical Research Analyst</b>				
8	M 3/5	Overview of the Issues	<p>Security Analyst Independence, Jennifer Francis, Qi Chen, Donna R. Philbrick, and Richard H. Willis, CFA Institute</p> <p>CFA Institute, Standards and Practice Handbook, 9<sup>th</sup> edition, Standard V: Investment Analysis, Recommendations, and Actions</p> <p>CFA Institute, Standards and Practice Handbook, 9<sup>th</sup> edition, Standard VI: Conflicts of Interest</p>	
	W 3/7	Dissemination of Recommendations		Corporate Governance Report Due
	F 3/9	Conflicts of Interest		
<b>SPRING BREAK</b>				



Week	Class	Topic	Course Materials	Assignments Due
<b>VI. Investing in Companies with Good Corporate Governance Practices</b>				
9	M 3/19	Board of Directors	Monks and Minow, Chapter 2: Shareholders: Ownership  Monks and Minow, Chapter 3: Directors: Monitoring  Monks and Minow, Chapter 4: Management: Performance  <i>The Corporate Governance of Listed Companies: A Manual for Investors</i> , (CFA Institute, 2005)	
	W 3/21	Guest Speaker		
	F 3/23	Shareholder Rights		
10	M 3/26	Executive Compensation		
	W 3/28	Takeovers		
	F 3/30	International Corporate Governance	Beauchamp and Bowie, Chapter 8: Ethical Issues in International Business  Beauchamp and Bowie, Chapter 9: Social and Economic Justice  Monks and Minow, Chapter 5: International Governance	
11	M 4/2	International Corporate Governance, cont'd.		
	W 4/4	Islamic Finance		Accounting Practices Report Due
<b>EASTER BREAK</b>				
<b>VII. Investing in Companies with Good Accounting Practices</b>				
12	W 4/11	SOX	Selected Readings on D2L	
	F 4/13	Earnings Management Models		
13	M 4/16	Earnings Management Model's Continued		
	W 4/18	Guest Speaker		
	F 4/20	Earnings Quality		

Week	Class	Topic	Course Materials	Assignments Due
<b>VIII. Investing in Socially Responsible Companies</b>				
14	M 4/23	Stakeholder Theory	Beauchamp and Bowie, Chapter 2: The Purpose of the Corporation Beauchamp and Bowie  Chapter 3: The Regulation of Business: Accountability and Responsibility  "The Insider"- the movie  CFA Institute, Standards and Practice Handbook, 9 <sup>th</sup> edition, Standard III: Duties to Clients (A)  CFA Institute, Standards and Practice Handbook, 9 <sup>th</sup> edition, Standard IV: Duties to Employers  Boatright: Chapter 4: Ethical Issues in Investment Decisions Chapter 6: The Financial Theory of the Firm	
	W 4/25	The Role of Regulation		
	F 4/26	Corporate Social Responsibility		
	M 4/30	Corporate Social Responsibility, continued.		
15	W 5/2	Discussion of Student's Companies		Socially Responsible Report Due
	F 5/4	Conclusion		

\* Grading for FINA 194 Students:

4 Reports (equally weighted)	75%
Class Participation	15%
Quizzes (equally weighted)	5%
<u>Final Exam</u>	<u>15%</u>
Total	100%

Letter Grade	Percentage
A	92-100
AB	86-91
B	81-85
BC	76-80
C	71-75
CD	66-70
D	60-65
F	<59