



MORALS & MONEY: ETHICS IN FINANCIAL MARKETS

Seminar Leader: JUNHAN (JEFF) CHEN; House Leader: TOMOHIRO NAKATA

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Course Description

This seminar's main aim is to introduce students to the general mechanisms of a typical financial system, as well as introduce and discuss the more common controversies that surround the industry. A large part of the course will focus on the 2008 financial crisis. How did it happen? Who is responsible? What were their motives? Through discussion and analysis, students will be able to better understand how the recent crisis came to be, as well as its less visible causes. The role of finance in society and the limit of markets will also be discussed. "Is it OK to buy life insurance on a stranger and collect the benefits when they die?" Another main focus will be on career choice and finance on a more personal level. What career can we choose to best benefit the world, and why is that choice the best? By the end of the course, students will have a basic but solid understanding of how the finance industry works in general, and be able to better form their own opinions on financial matters.

Message from the Seminar Leader

Hey everyone! I'm Jeff, and I'll be a sophomore at Princeton in the fall. A little about me: I'm from Navajo, a small town on the Navajo Reservation in the wide, open deserts of New Mexico, and I plan to major in Computer Science or Economics. I've always been fascinated by the importance of the finance sector, especially how throughout history we've repeatedly let it run unchecked until it blew up and took the rest of the economy down with it. I was lucky enough to take a course analyzing exactly this and *loved* it, which is why I'm teaching this seminar! Hopefully this seminar will teach you more about how financial systems work, what finance is capable of (both good and bad), and why it's so important!

Message from the House Leader

Hi! My name is Tomohiro. Please call me Tom! I'm 19 years old and am a student of Keio University. I major in economic and policy studies. I can speak Japanese, English and Spanish. I've played soccer for 13 years. By the way, my partner Jeff and I prepare wonderful class! If you want to contact me, send me an e-mail! Let's make this summer unforgettable!

Pre-Assignments

- (Day 1) Cohan, William. "How Goldman Sachs Made Money Mid-Crisis"
<http://www.businessweek.com/articles/2013-09-12/how-goldman-sachs-made-money-mid-crisis#p1>



- (Day 1: Optional) Subprime Mortgages:
<http://www.ifinance.ne.jp/glossary/world/wor033.html>
- (Day 1: Optional) Lehman Shock:
<http://www.ifinance.ne.jp/glossary/world/wor005.html>
- Stiffs.com, <http://stiffs.com/blog/about/>¹
- MaxAskill, William. “Replaceability, Career Choice, and Making a Difference.” URL Link²

Course Schedule

Day 1: *From Deception to Detonation: Conflicts of Interest and the Subprime Mortgage Crisis*

Financial systems are important to the economy of a country, and a great example of their importance and inner workings is the Great Recession of 2008, which devastated the world’s economy and exposed many flaws within the finance industry. We will begin with finance in the business world, with an outline of the events that led to the Great Recession, from subprime loans to credit-default swaps to leverage. Then we will move on to discuss how three particular conflicts of interest arose. First we’ll analyze how Goldman Sachs treated its clients in the years leading to the Great Recession and discuss why it was controversial. Then we’ll examine the compensation structures of Wall Street bankers and CEOs drove them to take on more risk. Finally, we’ll end by looking at the role of rating/audit agencies, and how “rating inflation” (a la grade inflation) slowly crept into the system.

Day 2: *Black, White, and Morally Gray: Have markets gone too far?*

Are there things that should not be bought and sold? Why or why not? As we shift our focus away from corporations to the role of finance in society, today’s main topic is the limit of markets. For example, is it OK for investors to anonymously buy life insurance on elderly people and collect the benefits when they pass away? What about companies buying accident insurance on their employees without telling them? Betting on celebrity deaths? Legalizing organ sales? Paid line-holders for free events? What should not be monetized, and why?

Day 3: *Crossroads of Life: The Ethics of Career Choice*

What do YOU want to become? As high schoolers, that choice will come in a few years. Are some jobs inherently better for the world than others? Which ones, and why? After discussing finance in the business world and society in general, we will shift our focus to the finance on the personal level. We will start by comparing the many stereotypes of a career in finance in the US and Japan, then move on to discussing how we can best

¹This is a website about dead pools. Just read the site’s About page to get an idea of what a dead pool is, and check out the rest of the website if you’re interested!

²This paper can be quite technical, so it’s OK if you don’t understand everything. Just understanding MacAskill’s general argument is sufficient.



improve the world through our various careers. In particular, MacAskill's paper will be a major discussion point. Is it better to help people directly, or is it better to take a higher-paying job and use your extra income to help the world? Finally, we'll finish with a case study on the lawyers of the Securities & Exchange Committee and the "revolving door of government" (天下り)

Day 4: *Here and There, Then and Now: Wrap-up & Final Presentations*

Financial matters are everywhere today, from the business level to the personal level to society at large. We'll start with a recap of what we discussed in the previous three days, from how the Great Recession came to be, to the limit of markets, to career choice. Afterwards, it's your (the students) turn to shine with your final presentations! It'll be a short oral presentation. What do you suggest we do to help improve the financial system to reduce conflicts of interest and unethical acts? Each presentation will be followed by a discussion on what was presented, so be prepared to present and discuss!