How *Not* To Teach Finance: A Note

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This short paper illuminates shortcomings not uncommon in many college finance courses. If readers benefit from a single insight, this effort will be a "financial" success.

How *not* to teach finance can be easily explained. It starts with a challenging subject. Finance uses terms not likely seen before by students such as *present value, annuity* and *beta*—not to mention acronyms like CAPM, SML and WACC. If they conquer the language barrier, students face the often-cryptic equations populating the 10 or so chapters typically covered in an undergraduate principals course. Intuitive it is not, and common sense plays only a small role.

Despite that backdrop, the ineffective finance professor cannot relax. If the textbook begins with five or six chapters of introductory material, economic concepts and accounting rules, no problem. But reordering chapters in order to begin the subject of finance sooner or choosing a book with an early finance chapter such as the time-value-of-money must be avoided. If finance chapters are delayed, one or more of the central topics could be forfeited. While TVM may be unavoidable, security valuation could be made the responsibility of an investments course. Since the historical and estimated versions of risk and return are fairly similar, only one has to be taught. For capital budgeting, our instructor could simply suggest the use of appropriate keys on a calculator.

Of course, teaching requires students, and that is another opportunity for the ineffective instructor to fall short. If a good grade in finance is a desirable outcome, the failure to attend class probably results from the perception by students that attendance does not matter. Our professor can seek to remedy the problem (if he sees it as such) by requiring it. Grades could be reduced or worse. Comforted by colleagues who take those measures, he is not likely to pursue an idea that could promote preparedness as well as attendance. Imagine a quiz system that rewards, say, the "top 20%" of the class on the basis of cumulative correct answers on true/false quizzes with an automatic "90" on the corresponding test. Three or four chapters would spawn sufficient questions that will thin out the quiz-takers and produce the 20-percent best. The "bottom 80%" would simply sit for the test—i.e., no downside for students and no make-ups by professors. A "low man" option might be added to motivate those

students who start slowly and would otherwise give-up on future quizzes. Such students would strive for a perfect score of zero or scores of 1, 2 or 3—possible only when prepared—in order to finish with the fewest correct answers and earn an automatic 90. An added benefit of the quizzes is that they will address the chapters' descriptive content and free the professor to focus on the analytical material.

If these 15-minute quizzes measure the students' comprehension of the straightforward facts in the chapters, the meeting-long tests can focus on the equation-dependent problems. To the ineffective professor, the predictable response is to copy the test bank. Never mind that it includes more questions than problems and that it was prepared by someone other than the students' instructor. But the happy offset for our professor is that if the test is graded but not returned, the same the test can be given multiple times again. Forget that the students never see their mistakes.

Critical to doing well on such tests is a student's formula (or "cheat") sheet. It would include those enigmatic formulas nearly impossible to memorize. The ***e***ffective instructor might even provide those sheets. They could begin as a handout that highlights a chapter's key models and relationships—perhaps little more than what the instructor prepares for himself. Monarch Publishing once provided outlines keyed to specific books but was probably sued out of existence. But professors can and should. Call them "Insider's Notes" and let them condense, highlight and amplify the chapters' salient points.

Will the adoption of some form of "insider's notes" with its equation approach to TVM problems save our ineffective instructor? No, not when the financial functions of calculators and computers loom as quick and easy alternatives. Consider this common test problem: *What is the price of a 20-year bond with a $50 coupon, a $1000 par and a 6% yield?* No sweat. Tap a few keys, and there it is…$885.30. Will students realize that bonds sell for the present worth of a lump sum and an annuity? Probably not, but they got the right answer!

The final straw is the likelihood that nothing is going to change with the ineffective professor. Finance can be an intimidating subject, and challenges to his approach are difficult to imagine when student input is often limited to a few brave questions. Test scores and online rating services may alert our professor to his shortcomings, but negative feedback can always be attributed to the rigors of the discipline. In sum, choosing finance as a major will remain a mature decision, and ineffective instructors won't make that choice any easier.