



The Business Section

The Official Publication Serving the Notre Dame MBA Community

Vol. XI No. 12

April 8, 2002

Notre Dame, Indiana

Contents

Why You Should Sell Your Self Short	1
Stefano Athanasoulis	
<u>Descent into Madness II</u>	
Will Work For Food, Will Grovel For Work!	3
Benjamin Fleck	
All is Fair in Love, War, and MP3	5
Stephen Hunia	
MBA and Campus Activities	6

Why You Should Sell Your Self Short

By **Stefano G. Athanasoulis**
Assistant Professor

One of the first things we learn in our investments courses is the principle of diversification. In particular, we learn that when we purchase a large portfolio of securities, we only take on systematic risk and we have no unsystematic risk in our portfolio. This is the optimal thing to do since we are compensated for systematic risk in terms of a risk premium, and we are not compensated for unsystematic risk. In principle we should do this in every aspect of our lives. For any wealth we invest, we ought to take on only systematic risk and diversify away unsystematic risk.

Whenever we buy an asset that is priced correctly, the value of the asset is the present value of the cash flows we expect to receive from it. When the asset is liquid, as for example with a stock, we can always buy and sell the asset and hold a portfolio of them. We do not have to own an entire publicly traded firm nor invest all of our wealth in a single firm. Rather we can buy a small piece of each firm.

When one cannot purchase a portion, or shares, of an asset, as for example with human capital, then one bears the total risk for the value of the asset. Human capital is the skills and knowledge a person has for employment. The value of human capital is the present value of all the future wages one can earn from employment.

Currently there are no such liquid markets to trade one's risk in

human capital. Why might such markets in human capital be important? Suppose you are making a choice of whether to take on a job with a firm or to begin a small business. Let's say the small business produces services so that it is not too capital intensive, but very human capital intensive. Should I take the safe road and take on a job with a firm and make an income, which one can live well on? Or should I start the business and take on much more risk with a larger probability of either a very large reward or a very small reward? This is not a simple decision.

In particular while one may prefer to start their own business, one may begin to think that there are far too many circumstances that may come up to reduce the value of their own business. As such, many will decide to take on employment with a firm rather than take on more risk and start a business. On the other hand, much of the risk of small firms is non-systematic risk so that if individuals could sell their private firms short, that is they could sell themselves short, then one could sell off their non-systematic risk and purchase a portfolio of other individual's human capital.

Markets that allow individuals to sell themselves short are potentially very valuable for many reasons. In the example above, if one is allowed to hedge their non-systematic risk in their human capital, they may make different career choices. There can be no doubt that potential risks of one's earnings over a lifetime is a serious concern when making career decisions. In an article

SeeSell Your Self Short, Page 2

.....continued from page 1

published in Business Week, August 23-30, 1999, entitled 21 Ideas for the 21st Century, this idea was stated as follows: "Imagine a market where hedgers and speculators meet to trade futures, similar to today's betting on the value of corn or soybeans. The wagering will concern the future value of a career, a neighborhood, or even a country. If the risk of a stick-your-neck-out choice is hedged, it's suddenly a whole lot easier to take the plunge."

One question one will ask is how important will such markets be? To answer this, it is important to first look at a breakdown of total wealth in the US and where it is invested. Wealth is measured as the present value of all cash flows from all assets. We define four asset classes that US wealth is invested in from which we derive cash flows, or services, from. They are human capital measured as the present value of all future labor income, financial assets, real estate and consumer durables.

According to estimates by Robert Shiller in his study entitled "Institutions for Managing Risks to Living Standards" Spring 1998 in the NBER Reporter, he estimates that total wealth for the US in 1996 is \$114 trillion. 16.2% of that wealth is invested in financial assets where we have well functioning financial markets to buy and sell these assets. 7.9% is in real estate, which is less liquid than financial assets, and 2.2% is in consumer durables. The majority of the nation's wealth, 73.7%, is in human capital. Given 74% of our wealth is invested in human capital, it makes sense that we should have markets to trade these risks.

As a first step towards doing this rigorously, Robert Shiller and I, co-authored an article entitled "World Income Components: Measuring and Exploiting Risk-Sharing Opportunities." The idea is that countries have a lot of risk in their total wealth and only about 17% of that wealth is traded on financial markets. As such, there is a large portion

of total wealth across countries, which is not traded currently. In this case, each country as a whole would like to sell herself short, and buy a portfolio of a each country's wealth, world wealth.

The idea is each country would trade off her wealth for a piece of world wealth. The way one can set up such markets is to set them up as futures contracts. We can view the Gross Domestic Product of each country as the cash flow of the country much like a dividend is the cash flow of a stock that is paid to the owner. These contracts would be constructed as perpetual futures contracts. For example, suppose that the US and Japan wanted to trade the risk in their GDP's. We can construct a futures contract on Japan's GDP and one on US GDP. Japan will sell the Japanese future and buy the US future. The US will sell the US future and buy the Japanese future. The price of a claim on GDP is just the present value of all expected future GDP's and the futures price of each of these contracts is just the expected price in the future of these contracts.

One difficulty with such ideas is actually getting them started. In a paper I co-authored with Robert Shiller and Eric van Wincoop, entitled "Macro Markets and Financial Security", in the FRBNY Economic Policy Review 1999, we discuss how such markets can be used by the average investor as well as why these markets may one day become reality. One may ask: if this is such a good idea, why don't these markets already exist? One reason is this idea is not immediately obvious and these particular markets that we are proposing are a little more unusual than most. There are cases in history where items that are commonplace now did not seem important previously. For example, in rejecting a proposal for investing in radio technology in the 1920's, David Sarnoff's Associates wrote, "The wireless music box has no imaginable commercial value. Who would pay for

a message sent to nobody in particular?" Between 1939 and 1944, more than twenty companies rejected the idea of Chester Carlson, inventor of the Xerox machine, to copy a document on plain paper. Establishing markets for long-term claims on flows of income aggregates is no more obvious than other recent financial innovations. Even the concept of national income itself is a relatively new invention. The concept of national income was developed by Kuznets and others, in the late 1930's and 1940's. It did not become widely accepted until after WWII.

In short there are very good reasons to construct new securities to share risk that is currently not traded. Financial assets account for only about 17% of our wealth. The rest of our wealth cannot be traded in liquid markets. Society and individuals can gain in terms of risk and return if such assets are constructed.

Stefano Athanasoulis is an Assistant Professor teaching Finance for Business Majors at the undergraduate level. He got his Ph. D. from Yale University and joined University of Notre Dame as an Assistant Professor in 2001. Following is a list of his working papers:

- "Asset Prices and Consumption in a Model of Perpetual Youth," 2001.
- "Asset Pricing From Primitives," 2000.
- "Defining Residual Risk-Sharing Opportunities: Pooling World Income Components," with Robert J. Shiller, 2001.

Contact Stefano Athanasoulis at Stefano.G.Athanasoulis.1@nd.edu

The above is presented for the benefit of a typical MBA student with the understanding that the author, The Business Section and the University of Notre Dame and its affiliates are not rendering legal or other professional advice or opinions on specific facts or matters and, accordingly assume no liability whatsoever in connection with its use.

Will Work For Food, Will Grovel For Work!

By Benjamin Fleck
MBA Candidate 2003

A process takes place each year at business schools around the country. Whereby normal, confident, intelligent and knowledgeable individuals shed any semblance of their own self worth and become puppets of the recruiting process. Like sheep, they make their way from the lower level of the MBA lounge to the upper level, and into the halls of the doermer center. There, they enter a room at a given time, and willingly sacrifice their self dignity to the representative of whatever company has chosen to honor that particular student with an interview. Once the student has completed selling their soul, and their sense of self worth, they exit, only to begin to feverishly complete a thank you letter, expressing their undying gratitude to the recruiter for taking a moment out of their busy schedules to listen to them beg for a chance to work for their company, as a dog would for scraps from a table.

To get that long sought after interview requires a lengthy and complicated process of self-debasement prior to the interviews' torturous process. Cover letters are written, in which the student expresses their endless love for the company, how they have wished to work there since birth, and have been spending every moment since preparing to someday become an employee. That being hired by them would be the culmination of their life's work, and if hired, they would slave each day with no thought for themselves, and live only for the company. Those that are best able to articulate this willingness to subjugate themselves to a life of virtual slavery for their companies become investment bankers. And according to each persons ability to lower themselves to new levels of pathetic groveling decides their place in the recruiting process.

Even having the opportunity to grovel requires you are able to pass a pre-screening process, based on a combination of networking, and resume selection. Only the best will have the chance to crawl in the mud before the company. Unlike writing an article for the business section, in which massive grammatical errors, and spelling errors is fair game; the resume writing process is an exact science. Only specific types of nonsense are permissible.

Writing a resume drives an MBA into a literary frenzy, as countless versions of a single page document are revised, lies, omissions, and outright fabrications have to be just so, and quantified to boot! How much did your attempts to improve employee morale with a free donut and beer Thursday improve productivity? 23.2%! I spearheaded the initiative to dramatically increase productivity by promoting the consumption of Jolt, a high caffeine beverage, while lowering water cooler usage, resulting in weekly savings of over 89 cents. That's resume gold.

Any modesty held by an MBA is quickly shed as the resume takes form, and for good reason. You single handedly saved the company millions of dollars in costs, discovered and were the key witness in the trial of an employee who was embezzling company funds, and landed a UN contract to purchase 2 trillion dollars of your products, all while valuing diversity? Impressive, but Joe here did all that and saved a dolphin from a tuna net.

Other statements are merely

ambiguous, leaving you two possibilities. Analyze the excerpt below.

"Took part in the work of the Industrial Department of 7-10 people, which carried out import and export operations to the amount of \$10,000,000 a year, namely, in the organization and execution of deals on the importing of raw materials for industrial production"

What on earth did this person actually do? They could either be uninitiated in the resume inflation process, and may have had a strong leadership role, negotiating, structuring the deals, and working closely with client firms. On the other hand, they could be well trained, and the truth is the person was a secretary, took some notes and kept the coffee warm. The resume is certainly where creativity pays off most.

Once the document has gone through its thousandth revision, it is printed, and brought to the first stage in the schmooze fest that is recruiting. The company presentation.

This is an excellent opportunity to trade a few insincere and pre-prepared questions such as "What do you perceive as the most important growth areas in the 21st century?" for some company trinkets (on a good day, over the counter drugs, bags of foodstuffs, and an occasional blender) and a free meal of cheese, crackers, carrot sticks, and whatever those weird things are that they are passing off as hors d'oeuvres, all courtesy of the gourmet cooking of the university catering cartel. Business cards are collected, resumes occasionally handed out, and some schmoozing takes place. On to round two.

Your resume, although it

Will Work for... continued on page 4

Continued from page 3

clearly illustrates your god-like powers and business prowess, may not be enough to get you that interview. In many cases, networking must pick up the slack. This key skill is developed, honed, and applied to devastating effect. You are systematically instructed by the friendly people at career services on how to approach alumni, who like lobsters in a tank are presented before you in database form, ready and willing to be attacked by hordes of new friends, far in advance of the recruiting process. You learn how to appear interested in their work, to build a rapport with them, and to try to convince them of your sincerity to only “learn more”, all the while being told not to ask them for a contact or to spread your resume around until they are sufficiently deceived.

This whole process is undergone twice throughout the slug like existence known as MBA candidacy. The student invariably passes from their first year to their second year, much like the larva stage of an insect, they emerge into their second year and find that the job search process is largely unchanged.

The same “networking” is present, only when you take a moment between breaths and comment on the recruiters well shined shoes, do you work the word “full time” into the sentence, instead of internship. The recruiter smiles weakly, and comments to stop talking and continue to shine their shoes, after all, you missed a spot.

The immediate result of all this effort is a sudden upsurge in the quantity of mail you receive. Your mailbox is filled with small envelopes from a myriad of companies. Each assures you that they were incredibly impressed with your background, educational and professional accomplishments, as well as you as a person. Despite thinking that you are the best thing since sliced bread, and second only to Jesus, they tell their tale of woe, it's been a highly selective year, and since they were only taking a single candidate, Jesus got your internship. Oh well, next time.

Finally, the day comes. The recruiters shoes are shined, his car is

waxed, his lawn mowed, and his socks and underwear neatly folded. Having exhausted the supply of chores to assign to you, his willing slave, he puts a stamp on an envelope, and drops it in the mail, you have a job offer.

But in the end, it's not all for nothing. At some future point, with luck, you could be in a position to exact your revenge. Whether as a recruiter, torturing those that follow you much as you have been tortured, or as a regular employee, taking your turn with the new crop of interns your boss rewards you with each summer, like a cat being given a ball of string to bat about before you shred it/ them with your claws, the joy is the same. The sense of revenge is complete. You have come full circle.

Contact Benjamin Fleck at
bfleck@nd.edu

The views expressed in the article are those of the author and not necessarily those of The Business Section.

Letter from the Editorial Board

The Business Section is a publication of the MBA Association with a clear purpose of providing news, information and commentary about events and activities of the MBA program. It is also a tool in the hands of the MBA students to air their views, comments, and ideas about the school, the program and their experiences of being in a business school. With this aim in mind we are trying to make The Business Section as insightful and interesting as possible. The new columns in the publication were added with the clear purpose of making The Business Section a more interesting publication to read by adding a little humor to it and by talking about the lighter side of being in a business school. None of our articles are intended to hurt the sensitivities of an individual or group of individuals.

We encourage feedback from you, both positive and negative, as “Letters to the Editor” at bsection@nd.edu.

We look forward to your participation to make this Newsletter a success.

The Editor

All Is Fair In Love, War And MP3

By Stephen Hunia,
MBA Candidate 2003

The Internet has brought us many things, but few have been as hotly debated and had more money thrown at them than the ongoing debate about the legalities of MP3s. For those of you who may not be familiar with MP3s they are a compression file type that allows you to store an average musical song at near CD quality in as little as 4 or 5 megabytes. That alone may not seem very significant, that is until you realize that almost any song ever recorded can now be download for FREE off of the Internet.

This process is accomplished through multiple programs which establish searching and sharing access between millions of users. MP3s now represent the largest threat to the music industry it has ever faced, far more than the copying of cassettes or burning of CDs. The industry is spending record amounts of money lobbying in Washington for protection and even more amounts on lawyers attempting to try and shutdown some of the more popular sites. So far they have had very limited if any success. They succeed in essentially neutering the most popular mp3 outlet, a program called Napster. This however resulted not in a reduction of mp3 sharing, but an unimaginable increase.

Napster was quickly replaced with half a dozen new programs, which functioned better than Napster ever had. The most popular programs have been Audio Galaxy and Morpheus both of which now sport user bases twice that of Napster. The record companies' chief gripe of course is copy infringement, and the loss of their super inflated CD sales.

The legality of the issue is not one that I am going to debate here, however the principle is completely separate. I personally can find no wrong in mp3s they represent a wonderful way to share and discover new music. They allow you to listen to a whole album before deciding to purchase it; making the purchase decision a far more informed one.

The quality is not the same as a CD and when I find an album or artist I

like, I still purchase the CD. The potential though is the loss to the artist of a product they worked to create, and there is substantive evidence to suggest this does happen. However the loss is not nearly what you would think. On average the artist receives only \$1 from a \$15 CD. The record company, retailer, recording label, and a multitude of other hands in the cookie jar all take their cut. The record company is hurt the most and claims that this inhibits their ability to discover and promote new artists. What a load of crap! Record companies spend millions attempting to create the next pop sensation (Britney Spears, N'Sync) without any regard to musical talent. They are far more concerned with addicting and brainwashing America's youth than in promoting music that people actually want to listen to. In my opinion whatever they get they deserve, they can try all they want mp3s are here to stay.

I know that all of this may seem irrelevant; however there is an important business lesson to learn here. The Internet is the ultimate information sharing tool,

and information is by no means limited to text, it includes pictures, video, music and more. Companies that do not appreciate the seriousness of that are destined to falter. The record industry could have spent money to develop mp3 technology and begin retailing music at discounts over the Internet, but instead chose to ignore it, and let it grow uncontrollably into the free market trade system it is today. Soon the spread of broadband internet connections and superior compression technology will allow the sharing of movies, TV shows, and DVDs over the Internet. Will these companies work to counteract this ahead of time? Probably not, but don't believe them when they say they weren't warned.

Contact Stephen Hunia at shunia@nd.edu

The views expressed in the article are those of the author and not necessarily those of The Business Section.



The Business Section

Editor

Sapan Singh

Assistant Editor

**Sandhya Acharya
Rebecca Funk**

Columns / Features

**Stephen Hunia
Benjamin Fleck**

The Business Section is a publication of the MBA Association serving the Notre Dame MBA Community. Its goal is to provide timely news, information, and commentary about events and activities of the MBA program. Contact the editor at bsection@nd.edu for additional information. The Business Section is not an official publication of the University of Notre Dame.

MBA and Campus Activities

April 07, 2002 to May 19, 2002
All Day

University of Notre Dame Student Exhibition

This annual juried exhibition is of the thesis projects of ast department master and bachelor degree students.

Admission Fee free
Location **Snite Museum of Art**
Sponsor **Art Department**

April 12, 2002 07:30 PM to 09:00 PM

Dark Side of the Rainbow

Admission Fee \$2
Location **155 DeBartolo**
Sponsor **SUB**

April 13, 2002 10:00 PM to 11:30 PM

Harry Potter

Admission Fee \$3
Location **101 DeBartolo**
Sponsor **SUB**

April 25, 2002 10:00 PM to 11:30 PM

Vanilla Sky

Admission Fee \$3
Location **101 DeBartolo**
Sponsor **SUB**

April 26, 2002 07:30 PM

Notre Dame Opera, Mozart's the Magic Flute

Admission Fee \$3 - \$6
Location **Washington Hall**
Sponsor **Department of Music**
Contact Ph # **219-631-6201**

April 11, 2002 04:00 PM

Chaebols and Catastrophe: A New View of the Korean Business Groups and their Role in Financial Crisis

Hewlett Lecture Series in International Economics begins at 4:15 pm

Speaker **Robert Feenstra, Dept. of Economics, University of California, Davis and National Bureau of Economic Research**
Admission Fee free
Location **Hesburgh Center**
Sponsor **Kroc Institute**
Room **C-103**

April 21, 2002 03:00 PM

Notre Dame Jazz Bands

Admission Fee free
Location **Band Building**
Sponsor **Department of Music**
Contact Ph # **574-631-6201**

April 21, 2002 08:00 PM

Notre Dame Glee Club

****begins at 8:15 pm

Admission Fee free
Location **Basilica of the Sacred Heart**
Sponsor **Department of Music**
Contact Ph # **574-631-6201**

April 18, 2002 04:00 PM

The Pinochet File: Declassifying U.S. Secrets on Chile

****begins at 4:15 pm

Speaker **Peter Kornbluh, National Security Archives, George Washington University**
Admission Fee free
Location **Hesburgh Center**
Sponsor **Kroc Institute**
Room **C-103**

April 23, 2002 05:00 PM

Baseball vs. Chicago State

April 25, 2002 03:00 PM

Softball vs Indiana University, Ft. Wayne

Location **Ivy Field**

May 04, 2002 12:00 PM

Baseball vs. Rutgers

Location **Frank Eck Stadium**