

# THE CATHOLIC MISSION IN FINANCE CURRICULA: TOWARDS ETHICALLY GROUNDED FINANCE

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In his book *On Ethics and Economics*, Economics Nobel Prize winner Amartya Sen points back to two origins of economics.<sup>1</sup> On the one hand, the “engineering” side is systematic and quantitative. On the other hand, the “ethics” side is characterized by its qualitative features and its normative function. Sen goes on to explain that the latter side has been abandoned, leaving economics to be a purely quantitative science, uprooted from moral systems of good and bad, and even attention to needs. Utility and the rule of “limitless wants” centered on the individual have trumped what some may call solidarity and communal well-being.

The discipline of finance, which is a sub-set of economics (more precisely: micro-economics), illustrates very well Sen’s description of economics as a quantitative science. Finance has become a topic almost exclusively devoted to quantitative studies, especially the creation and improvement of statistical models in order to predict the price of financial assets. A rather direct way to illustrate this claim is to turn to the teaching of the discipline of finance courses. What is taught in business schools reflects, if not the extent, at least the core of the discipline in question. By analyzing selected finance curricula, this study will show that these courses are designed solely to emphasize the engineering side of finance, leaving no room for the ethical side. Through the lenses of several authors studying the interaction between morals and economics, we will see how detrimental is this partial view of the discipline of finance.

If finance programs in business schools frame students’ thought and shape certain behaviors, as any educational system should, the need for reform in the financial sphere calls for a need for reform in financial education. Ideally, this reform would take place in every business school or department teaching finance. Realistically, this ambitious project needs to start at a smaller scale. One such context facilitating the change in finance might be that of business schools in Catholic universities, since Christian, and specifically Catholic theologians have done so much in proclaiming the need for economics to recover its normative origin. Catholic moral thought is grounded in a rather unified tradition (Catholic social teaching), and change can be implemented under the banner of the “common” mission of all Catholic schools. We will offer three ways in which Catholic business school might reform their finance curricula in order to introduce a moral sense in the discipline of finance.

- I. The Discipline of Finance and the Need for its Reform.
  - A. An Overview of Finance Through Finance Curricula.
    - a. The Importance of Finance Today.

It would be impossible to present here an exhaustive overview of the discipline of finance, and the many domains in which it used. Finance can be broadly defined as the science of managing monetary inflows and outflows of institutions and individuals. It is usually divided

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<sup>1</sup> Amartya Sen: *On Ethics and Economics* (New York: Basil Blackwell, 1987), pp. 3-4.

into two branches: investments—the allocation of money into financial instruments and their valuation—and corporate finance—the management of resources and needs of money in companies. Usually, the goal of finance can be stated as maximizing monetary value for the agent, by investing money in the most profitable way or borrowing it at the lowest cost. The framework of finance, thus, is a utilitarian-based comparison of projected qualitative costs and benefits.

In the past decades finance has become such an important part of the economy in the world, and especially in the U.S. Moreover, the contribution of the financial sector has been growing very strongly since the end of World War II. In a recent article, finance professor Thomas Phillipon writes: “over the past 60 years, the value added of the U.S. financial sector has grown from 2.3% to 7.7% of GDP.”<sup>2</sup> This shows the growing importance of financial services in the economy, relative to manufacturing, which contribution to the GDP has been cut in half between 1947 and 2007.<sup>3</sup>

This growth in the relative contribution of the financial sector to the GDP does not even include the increasing recourse that all companies have to finance in order to optimize their own financial performance. Neither does it take into account the tremendous complexification of financial instruments, permeating to more and more operations, e.g. the trading of pollution rights. All this shows how important a part of economics finance has become. Any effort to reform economics and the current dominant economic system of free market capitalism has to include a way to challenge the hyper quantitative financial environment, witnessed both in academic research, and more importantly, in professional practice, since the latter is what constitutes the bulk of the financial activity throughout the world.

#### b. The Need for Reform.

But why would one desire to change the contemporary economic system? Many authors have noted the lack of justice and fairness of the “free market” system. In the U.S., the richest country in the world, there are still millions of poor people, some homeless, some who work in almost unbearable conditions. This is even truer in poorer nations throughout the world. Strong proponents of free markets argue that these injustices, that they might call “inequalities,” can be resolved by letting the markets play without any hindrance, or “friction,” such as government-imposed minimum wage, trade barriers, and various other laws restraining the free movement of what Adam Smith called “the invisible hand.” These proponents, thus, encourage a better-engineered market system, and less legal and moral regulation.

Catholic ethicist Daniel Finn, in his book *The Moral Ecology of Markets*, shows that the proponents of such policies (what is sometimes called “laissez-faire” capitalism, promoted by members of the “Austrian school,” or the “Chicago school”) actually contradict themselves.<sup>4</sup> For,

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<sup>2</sup> Thomas Phillipon: *The Equilibrium Size of the Financial Sector*, (NBER Working Paper No. W13405, September 2007, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1016333](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1016333) accessed December 2, 2007).

<sup>3</sup> See the chart on [http://www.bea.gov/industry/gpotables/gpo\\_action.cfm](http://www.bea.gov/industry/gpotables/gpo_action.cfm), for a table between 1947 and 2006, with respective contributions of manufacturing being 25.6% and 12.1%. Website accessed December 2, 2007.

<sup>4</sup> Daniel K. Finn: *The Moral Ecology of Markets: Assessing Claims about Markets and Justice* (New York: Cambridge University Press, 2006), pp. 11-33.

Finn argues, in their systems, such thinkers still assume some sort of moral order and discipline, at least that individuals will obey laws and behave rationally. There is, then, an implied sense of normativity and morality imbedded in the systems even of those economists who are the most in favor of an exclusive “engineering” take on economics. This is to say, in turn, that these systems cannot, and do not in practice, reject the ethical claim that Sen labels the primary origin of economics, dating from Aristotle’s “concern with wealth”, preceding mathematical developments of the seventeenth century onward.<sup>5</sup> For Finn thus, morality is an integral part of any economic system. Partisans of the “laissez-faire” capitalist system cannot, therefore, dismiss moral claims concerning justice, distributive or otherwise, on the ground that these are irrelevant to the market system.

On the contrary, for the Economics Nobel Prize winner Amartya Sen, systematically incorporating the ethical along with the engineering aspect of economics (and thus of its various sub-disciplines like finance) would allow the entire discipline of economics to improve: “economics... can be made more productive by paying greater and more explicit attention to the ethical considerations that shape human behavior and judgment.”<sup>6</sup> Sen’s claim of greater productivity seems, ultimately, only to pertain to the usefulness and accuracy of economic systems and predictions. Catholic theologians calling for a “preferential option for the poor,” argue for this change on a more fundamental basis. Their argument—based on the intrinsic dignity of all human beings and the call for love of one’s neighbor—is that the motivation for ethically-grounded economic systems is not simply improving the science of economics, but more importantly a moral duty towards all persons, especially the poorest.<sup>7</sup> Principles of the dignity of all persons, widely recognized even outside of Catholic circles (e.g. in the U.N.’s *Declaration of Human Rights*), belong to the moral sphere, and inform ethical practices. Moreover, these principles pertain to all human relationships, including those dealing with business, and financial, issues.

### c. What Kind of Reform?

The religious argument for a morally based economics/finance therefore entails a stronger claim than Sen’s argument in *On Ethics and Economics*. The Catholic developments on the topic, based on natural law and a sense of rights and duties inspired in creation and demanded by God, aim at a universal claim for the duty of pursuing justice in the world, be it economic or otherwise. This point might be disputed by non-believers. However, as Paul Knitter wrote, “the mind cannot bear the suffering of others” such as the sight of a child falling in a well.<sup>8</sup> Underneath human desire to achieve and to dominate, there is a natural desire to wish the good not just of oneself but also of others. There seems to be, therefore, a solid basis for the claim that human beings are more built for solidarity than they are for fierce and ruthless competition, ultimately.

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<sup>5</sup> Sen (1987), p. 3.

<sup>6</sup> Sen (1987), p. 9.

<sup>7</sup> On this see for example: Pope John Paul II: *Centesimus annus* (1991, [http://www.vatican.va/holy\\_father/john\\_paul\\_ii/encyclicals/documents/hf\\_jp-ii\\_enc\\_01051991\\_centesimus-annus\\_en.html](http://www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus_en.html) , accessed December 2, 2007).

<sup>8</sup> In: Paul Knitter and Chandra Muzaffar: *Subverting Greed, Religious Perspectives on the Global Economy* (Maryknoll: Orbis Books, 2002), p. 2.

The project of moral theologians interested in market dynamics has, thus, a broader aim than that of a “better tuned” economics by means of qualitative factors. There exists a growing trend of integrating qualitative issues into finance, for example in the field of behavioral finance. Behavioral finance is defined by Hersh Shefrin, one of the pioneers of this field, as “the application of psychology to financial behavior—the behavior of practitioners. Practitioners need to know that because of human nature, they will make particular types of mistakes. Mistakes can be very costly.”<sup>9</sup> Behavioralists, then, use qualitative data such as psychological patterns, in order to better explain decision-making processes and better anticipate reactions of the different agents on the market. The claim of Catholic theologians, such as Finn, is one that goes further. Indeed, it questions the rational and purpose of the market itself, and by extension those of the sciences dealing with the market, such as finance.

## B. Finance Through Finance Curricula.

### a. How to Reform Finance?

Considering the catholic theologians’ argument for the need for change in the market’s functioning, and the incorporation of a framework that focuses on the “dignity of the human person” and “the preferential option for the poor,” how could one influence the understanding and practice of finance in order to advance and integrate these notions? Current practitioners of finance (bankers, traders, corporate financial managers, scholars developing valuation models, etc.) are already part of a system with processes and goals well in place. Arguably, therefore, the most effective way to introduce change may be by changing the formation of young people learning about finance. If teachers can integrate ethical considerations into finance curricula as part and parcel of the overall discipline, then learners and practitioners of finance are much more likely to adopt moral and ethical views not just in their private lives but also at work. This, if critical masses of practitioners adopt this stance, could have a drastic impact on issues such as poverty, inequalities, and on preventing economic crises such as the one we are facing at the moment. This study, then, will focus on finance curricula as a basis for change of the overall discipline of finance.

In order to implement this change, we will need to remain realistic about the framework and goals of the financial discipline. It would be unwise to condemn all speculative gains on investments, for example, since such gains belong to the primary goal of finance. Simply dismissing the current system, in which finance plays such an important role, would only allow economists at large and finance academics and practitioners to shut down voices proclaiming the need for reform. Instead, one needs to find a way to open financiers’ eyes not just to the need for change, but also to concrete and feasible processes of change. Education is a good channel for such change. Finance curricula can therefore be a privileged locus for the reform of financial practices.

### b. Assessing the Current State of Finance Curricula: A Sample.

In order to practically gauge the extent to which business schools take the above-mentioned ethical side of economics into account in their finance courses, the best immediate way is

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<sup>9</sup> Hersh Shefrin: *Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing* (New York: Oxford University Press, 2002), p. 3.

arguably to sample some course syllabi, and to study course outlines and objectives. The number of business schools over the nation is very large, however, and surveying even most of them would be an extremely lengthy process. In order to give a limited but fair view of the current state of finance courses, we have therefore taken a sample of three schools. These business schools chosen are the ones at New York University (Stern), at the University of California at Berkeley (Haas), and at the University of Notre Dame (Mendoza).<sup>10</sup>

This sample allows for a double cross-section of business schools in the United States. First, it provides a geographical diversity, which should allow us to detect regional differences and concerns about finance, if those existed. They offer a view of teaching in finance in major economic, and financial, centers in the nation: New York, the most important institutional financial center in the world; California, especially Northern California, which is a land of pioneers with regards to venture capitalism and private equity; and the Chicago area, known for its important centers in trading commodities and financial instruments called options, futures, and derivatives. Second, and maybe more important, they provide an overview of different types of university systems. U.C. Berkeley is a stellar public university; N.Y.U., the largest private university in the country, is a non-denominational private school; Notre Dame is a private school with an explicitly Catholic mission.

Our sample's syllabi from Berkeley and N.Y.U. are undergraduate courses, while for Notre Dame we were not able to access the syllabus of the introductory undergraduate course, but only to access that of its equivalent at the graduate level. This is not extremely problematic for the purpose of the study, since the Notre Dame graduate class is an introduction for MBA and thus remains very close to its undergraduate equivalent (unlike an M.S. or Ph.D. class, that would prove to be much more technical, for example). The reason for comparing introductory finance classes is twofold. First, these classes are fairly homogenous in their content, by nature, and therefore comparable. Second, if the ethical side of economics as we have been describing it were already seriously taken into account in finance, it would be part of the first things that one needs to know about finance. The fact that our sample shows finance classes in financial centers at the forefront of the practice of finance would suggest that advances in qualitative finance, such as those pertaining to the ethical side of economics, should be known and mentioned in these classes. In this regard, our choice of the geographical and institutional arrangements of our sample makes up to some degree for its small size.

In studying the course outlines and objectives of the syllabi previously mentioned, we notice immediately their similarity. The assumption of homogeneity among these different introductory courses in finance is therefore empirically verified. It seems, then, that the institutional nature of the university (public vs. private, denominational vs. non-denominational) has little, if any, impact in the material students first encounter with regard to finance. Moreover, there is no mention of the ethical component of finance. Finance is presented as a purely quantitative discipline. There is a mention of "linking financial decisions to value" in the N.Y.U. syllabus.

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<sup>10</sup> The respective course objectives and outlines are reproduced in an appendix to this study. The original syllabi can be accessed, as of December 16, 2007 at: [http://www.nd.edu/~finance/020601/pdf/syllabi/2005%20Fall%20Faculty%20Syllabi/2005\\_fall\\_msa60401\\_halloran.pdf](http://www.nd.edu/~finance/020601/pdf/syllabi/2005%20Fall%20Faculty%20Syllabi/2005_fall_msa60401_halloran.pdf), of the Notre Dame course, <http://faculty.haas.berkeley.edu/berk/teaching/ugba103/outline.pdf>, for the U.C. Berkeley course and <http://www.stern.nyu.edu/~adamodar/pdfiles/cfovhdscfsyll.pdf>, for the N.Y.U. course.

This refers not to ethical values, but to the financial value of possible investments and decisions, as the bolded objective of finance in the previous page attests: “Objective: maximize the value of the firm.”

This notion of a purely quantitative, mechanical discipline of finance is problematic. The continuing growth of the financial sector and of the impact of financial decisions on the overall national and international economic system is undeniable. The fact that students in finance are presented the discipline as one that is solely a matter of “engineering” can only leave unquestioned the lack of consideration towards the other, and especially the poor, or the less knowledgeable. This is clearly illustrated by the current crisis of the “subprime mortgages,” where inconsiderate bankers and financial advisers have encouraged many individuals and families to buy houses at inflated prices with unreasonably high interest rate mortgages. This, in turn, created a housing bubble, which has now burst, and has put the economy (in the U.S., at least for now) on course towards a recession. Major banks have been taking enormous write-offs, CEOs have been ousted with lofty severance packages (W. Stanley O’Neill, formerly of Merrill Lynch, got over 160 million dollars of severance after his ousting following a 8.4 billion dollar loss due to his firm’s exposure on subprime mortgages related financial instruments).

At the time of this study, many workers are getting laid off as a result of the slowing economy impacted by the decline in the housing market, and foreclosures on mortgage payments are skyrocketing.<sup>11</sup> This is not just bad news for lenders who may not get all of their money back. The real bad news is for the many people heading toward bankruptcy and who are facing the prospect of losing their homes, and their savings. Was this ever a consideration for lenders? Who knows? Under the current standard operating approach to finance it is unlikely. What is certain is that it needs to be one. Considering the fact that balance sheet write downs for banks are estimated total \$285 billions as of March 2008, we may not have such a hard time convincing finance executives of the need for reform!<sup>12</sup>

- II. A Moral-Based Finance Curriculum in Catholic Business Schools.
  - A. The Potential For Change in Catholic Schools.
    - a. Catholic Social Teaching in Catholic Education

In the modern era, the Catholic tradition has, explicitly at least since the Leo XIII’s encyclical *Rerum novarum* in 1891, included teachings on social issues. More recently, Catholic social teaching has been referring to the need for a “preferential option for the poor,” that is to say a need to make decisions in a way that privileges the betterment of the least privileged. This is, for Catholic ethicists, a moral obligation, arising from the claim of the intrinsic and equal dignity of all people, a claim that is biblically rooted but whose specific articulation can be traced back to

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<sup>11</sup> In February 2008, home foreclosure in the U.S. rose 60%, and late mortgage payments were at a 23 year high, see <http://www.bloomberg.com/apps/news?pid=20601087&sid=ad7WKM2zVEgc&refer=home> , accessed March 15, 2008.

<sup>12</sup> Estimate provided by S&P on March 13, 2008. See: <http://www2.standardandpoors.com/portal/site/sp/en/us/page.article/2,1,1,2,1204833996022.html> accessed March 15, 2008.

the tradition of the natural law, on which much of Catholic ethics is based. This claim is also the focus of political documents such as the U.N.'s *Universal Declaration of Human Rights* of 1948.

Catholic institutions of higher education in the U.S. are eager to claim their religious heritage, both in their mission statements and through various requirements for students: philosophy and theology are often part of the curriculum, and some classes require community service.<sup>13</sup> These requirements reflect an understanding of a “Catholic” education as rooted in certain intellectual traditions and values such as the concrete love for the neighbor, now expressed more specifically as the preferential option for the poor.

Not all students may be overly enthusiastic with these requirements in Catholic universities, but Catholic universities around the country are nonetheless successful in recruiting students and contribute a significant percentage of college graduates each year. This gives Catholic education a powerful ability to change the views of many young people. If these notions of care for the neighbor and the preferential option for the poor could be integrated to the teaching of finance, it would go far to re-integrating the ethical side of economics into the discipline of finance.

#### b. Integrating Moral Values Throughout The Curriculum and in Life

This need for change is all the more urgent and necessary in Catholic schools because of the importance of integrating moral values in everyday life. Writing on various fields of business, including finance, Helen Alford and Michael Naughton have shown that if these values are not integrated into daily life, including at work, people tend to develop “split personalities.” People, then, operate on two modes of reasoning, one relating to work and the other for non-work decisions. Alford and Naughton call for an integrated sense of the person, where one can—and is expected to—operate on the basis of faith and, for example, the “preferential option for the poor” at all times.<sup>14</sup>

It is the duty of Catholic schools to educate students in a way that reflects the values of the Gospel. If a Catholic university decides to have a business school, it must then teach the curriculum at this school in a way that reflects this commitment to the Gospel and to its developments in the social doctrine of the Church. If one were to attempt to persuade business-school cynics about this, one could argue in terms of marketing. Catholic universities sell a product with a “brand”—i.e. Catholic education—that claims a certain difference vis-à-vis public or other types of private schools. This in turn, for parents and presumably students, create certain expectations with regard to the characteristics of this education. In order to continue to attract parents and students to their “product,” Catholic educators must live up to the promises of their specificity and teach in a way that is, specifically but not exclusively, Catholic.

All the more, from a moral standpoint, the Catholic specificity of some institutions of education, coupled with the Catholic tradition on social matters, morally compels educators who are part of

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<sup>13</sup> On philosophy and theology classes as part of the core curriculum in Jesuit schools see the magazine *Conversations On Jesuit Higher Education*, Fall 2007, Number 32.

<sup>14</sup> Helen J. Alford, O.P. and Michael J. Naughton: *Managing as if Faith Mattered* (Notre Dame, Indiana, University of Notre Dame Press, 2001), pp. 7-37.

a Catholic institution to address the needs of the world through their teaching other contributions to the education of young men and women and their surrounding community.

Education seems to be the most effective path to reform the financial system toward ethically-grounded processes of decision-making. Current managers are part of businesses with long histories of, for the most part, solely focusing on quantitative aspects and “engineering” in decision-making. They might feel too constrained by these to launch a reform of the system of which they are part. By educating young men and women to fully integrate the moral dimension of financial decision making, the financial system can change from within, with the help of a whole generation of students, reducing peer or institutional pressure against change. The hope that we bear here is that the example of future Catholic-educated managers will create success and emulation in the business world, and the moral dimension of business will be recovered by all. This is an ambitious goal. I propose renovating finance curricula in Catholic schools as a step toward this goal.

## B. Processes of Change

We will here offer three proposals to implement change in finance curricula, with the idea of integrating an ethical and moral component into finance, not just as an additional topic in the course, but rather as a dimension imbedded into the whole of the discipline itself. The three ideas presented here are conceived as ways to help students, as future professionals and decision-makers, to understand their moral responsibility in the work place and in the world, especially towards the most vulnerable.

### a. Teaching For the Mission.

The topic of “hiring for the mission of the university” has been one widely discussed in Catholic circles. During the expansion of many Catholic colleges into universities, and with the increased competition in higher education calling towards a wider scholarly recognition of these universities, religious institutions lost some control on Catholic universities in the U.S. In order to gain “national recognition” and climb in university rankings, hiring throughout Catholic universities have often been focused on scholarship of the candidates more than on their attraction towards the Catholic nature of the institution. This tends to be especially true in professional schools such as business schools, where the subject matter is not obviously tied to the Catholic character of a school and, as Sen remarked, whose scholarship has been almost exclusively devoted to the “engineering” side of business.

The result has been that many Catholic business school faculty today are not attuned to “teaching for mission.” Of course, this trend has also facilitated the recruiting of a more diverse body of faculty, and an openness of Catholic universities towards the “outside world.” This has been a positive aspect, and one that has helped create dialogues on inclusivity, discussions between Catholics and non-Catholics, and interaction between the Catholic church (through its members on campus) and “the world.” This openness, in turn, has made Catholic universities more willing and probably more able to articulate the purpose of the education they provide as *Catholic* institutions of higher education.

These “mission statements” are now a standard in Catholic universities and such statements tend to be articulated by each college of the university. This explicit definition of what a given university—and specifically its school of business—stands for is helpful to allow faculty and staff to work towards a common goal. Mission statements are hopefully written in a way that allows people from different religious and cultural backgrounds and beliefs to partake in the mission.

A desire to contribute to the mission of the school and of the university, we contend, should be an essential factor not only in the hiring of new faculty and staff, but also in their daily work. For teachers, this means planning course objectives and syllabi in a way that promotes the mission of the school and the university. Faculty and staff should not be constrained to do so, but should be invited to contemplate the greater purpose of higher education, the explicit Catholic label of the education they help provide, and the implications of this specific education for teaching and research, and the way one carries out one’s work as an agent of education in the school.

b. Foster Critical Thinking Rooted in the Moral Dimension.

In the explanation of our choices in the syllabi sample studied above, we have mentioned the fact that an essential component of a given topic should be one that is taught from the first courses taken in business school. As we have seen above, Daniel Finn has shown that neo-classical economists who explicitly reject the thesis that economics should be morally grounded do themselves make moral assumptions, such as trust, respect of the law and of legal authority, etc. This is to say, moral assumptions are pre-requisite to economic analysis. Finance being a sub-seed of economics, this conclusion must be true for finance as well. Moreover, Catholic social teaching can help articulate these moral assumptions in a coherent, inclusive and ethically consistent way.

The Catholic claim—based on the tradition of the natural law and on theological developments—of the dignity of all human beings and of the preferential option for the poor, is not a solely Catholic notion of care for others. Many traditions share this call against selfishness and individuality, and for a greater emphasis on mastery of one’s desire and towards care for all, especially the least fortunate in Society.<sup>15</sup> What Catholics would articulate as rather specific moral parameters and goals can, therefore, probably be agreed upon by many—if not most—human beings.

This common view of moral duties towards others, and especially towards the poor, must be adequately communicated to teachers, and then to students. The moral character properly imbedded into finance, but often time concealed by financial “engineers” for their own material profit and “peace” of mind, must be an explicit part of education in finance. Students must be taught about the necessary moral hypotheses and consequences of financial decisions. Teachers must aim at making both sides of this same dimension more explicit into their own research and reflection. A Catholic finance teacher at a Jesuit institution with whom I talked said “I don’t know how to teach finance without stating that the goal is to maximize shareholder value.” Can

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<sup>15</sup> See: Knitter & Muzaffar (2002), especially pp. 154-172.

research help find a way in which we can include ethical assumptions into a maximization model?

On a practical note here, one must underline that communicating the essentiality of the moral dimension of finance to both teachers and students must be done in the most inclusive way possible, within the realm of the explicit sharing of the Catholic nature of the school and its Catholic-influenced mission. The purpose here is to educate and to foster dialogue. It shall not be viewed as “indoctrination” or “catechism.” Presenting moral obligation in a persuasive and inclusive way, as Finn and Alford & Naughton do rather well, is the key to show its belonging into the very nature of the discipline of finance. Only then can our project succeed. If morality is shown as imposed from the outside, it will be readily dismissed by financial “engineers” far from eager to leave their comfort-zone.

c. Presenting the Ethical as Professional Practice.

Business education in general, and finance in particular, is aimed at practical matter. Though a good understanding of the theory is essential, students expect more from their business school than learning about political economy or studied impact of economic policies. Students majoring in finance will, in the course of their professional careers, be called to make concrete decisions in a matter of minutes, sometimes seconds. These decisions, in turn, might have a dramatic impact on many people: selling a large amount of stocks in a company will affect its stock price. This will bear negatively on investors in that stock; it might cause the company’s management team to decide towards laying off employees. Recommending potential investors to buy a stock like Enron, without proper analysis might cause many people to lose enormous amounts of money, etc.

Finance classes aim, more and more, at being rooted in the practice of finance, through simulations of decision making in finance, applications of financial information and trading terminals in practice “trading rooms,” etc. If the reform of finance curricula aims at being effective at reforming financial decision-making and management styles, it must show how ethical behavior, rooted in the moral dimension described above, plays out in practice. But, the ethical side of finance can be treated just as an “add-on” to existing syllabi. Concretely, teachers already lack time to teach all the financial concepts they would like to. Rather, then, ethics and morality must be made an explicit part of the presentation of these concepts.

Teachers must learn to balance the precise and clear-cut “engineering” side of finance (equations, problem solving, etc), with the qualitative and sometimes not obvious ethical, or moral side. Students must be taught to take into consideration the human element in measuring the consequences of their acts as future professionals. Lay-offs are not just a way to reduce a firm’s costs. They also dramatically impact lives. The same goes for providing employees with benefits, or stripping these benefits away. The consequences of the financial goal of “maximization of the stock price” for the firm must also be thoroughly thought about by students.

As is true of good pedagogy generally, one way to foster such reflection is to not always provide students with all the answers, but to allow them to search for these consequences, and maybe to

discuss them in class, as in a debate. In a class of twenty or so students in finance in a Catholic business school, some may feel very strongly about the need to focus solely on the “engineering” side, while others might be almost only in favor of taking the “ethical” side into account. As we have argued, both sides have to be considered. Among the learning objectives of the class should be: to help students realize that they will need to weigh in both “the numbers” and “the people.” Exercises to achieve this awareness towards the practice of ethical business should be viewed as a way to train students to a manner of thinking and making decisions, one that takes ethical components into account. Moral principles are universals. Their practical application, what we have called the ethical, is somewhat contingent on the situation at hand.

Admittedly, firms and supervisors might want to un-train our students, and uproot moral principles once alumni are in the professional field, in order to desensitize them to the ethical side of economics. One way to counter this is to invite guest lecturers that are managers or outstanding professionals, known for their sense of ethics at work. In the longer term, a Catholic business school might be able to implement a mentoring program where students major each are put in contact with such “ethically remarkable” finance practitioner (e.g. an alumni of the school who has shown educational and professional attention to ethical questions and morally grounded decision-making). Once the student gets a job at a level of responsibility requiring morally challenging decisions, his/her mentor can assist with grappling with the “on the ground” aspects and demands of becoming ethical financial management.

Finance practitioners trained in Catholic business programs will be questioned on the need for ethics in their business. They must be prepared to respond, and must also learn to question others about it. They must feel the need to ask a CEO guest lecturer about his or her views on ethics in business and financial decisions. They must be able to ask a fund-manager about “responsible investment” policies, and long-term perspective on the funds’ portfolio allocation and frequency of trading, challenging the current focus on short-term speculative profits. In order to do this, students must know their subject matter and what is at stake. Teachers must teach them not simply a way to solve problems, but a methodology to raise issues in both the engineering and the ethical aspects of finance, search for information, and properly ask questions.

This kind of education, in turn, might get students “singled-out” as employees who care about the whole of business: finances, firm’s reputation, team work and firm culture, decision making processes and decision communication, etc. Only associates with a broad viewpoint can become decision-makers in a firm. Company executives are not just efficient financiers, but above all they are leaders able to relate to various kinds of people and to grasp many dimensions of an issue. Employees, firms, and the business world in general, then, can gain from a morally grounded practice of finance. Educators of the executives and managers of tomorrow must be able to effectively communicate this message, and train students to be articulate, sensible, and sensitive business people.

## Conclusion:

This study has sought to advance a perspective seemingly absent in the world of finance: that decisions are not just a matter of efficiency and bottom-line, but also—dare we say rather—an issue of people, and morals. Finance has become one of the major fields in the economy nowadays. It has dramatic impacts on all sorts of other businesses and their employees, and the economy in general, as the current economic crisis shows. The call for reform in economics, from a Nobel-prize winner such as Sen, and from scholars rooted in different religious traditions, shows that the subject matter treated here is not just limited to Catholic concerns. However, given the importance of Catholic education in the world and in the U.S. in particular, Catholic business schools can be a key tool in this reform. Ethically-grounded finance curricula in Catholic business schools can be a powerful source of improvement in the practice of finance and in economics in general.

We have offered three main ways through which Catholic business school can start to reform finance curricula, and through this, the world of finance and economics. The first step is to make faculty and staff aware of the need for reform, and of their duty to broadcast this need as educators in a Catholic school rooted in a mission that encompasses a commitment to justice and betterment of the world. The second step is to make ethical theory a key point of the teaching in business school, including in disciplines that would seem to be exclusively relying on issues of “engineering” such as finance. In such disciplines, attention to ethics remains essential, especially in educating students for decision-making. The third step, then, is one of emphasizing the practical aspect of ethics in financial decision-making, by allowing students to consider and discuss ethical issues in the classroom to interact with ethically-attuned professionals.

These ideas are a basis for dialogue, and would need to be adapted to particular conditions of different business schools. This study offers, nonetheless, a base for discussion on the reform of finance education, starting in Catholic business schools, but ultimately aimed at reforming the practice of finance and business throughout the world.

## Post-Scriptum, September 20, 2008:

As I review this paper after several weeks of “chaos” on Wall Street, the need for reform seems all the more important. Yesterday’s call for “further, decisive action to fundamentally and comprehensively address the root cause of our financial system's stresses” by Secretary of the Treasury Henry Paulson echoes the core of our argumentation. I do hope that Paulson’s words will be heard and taken seriously by Wall Street and all finance professionals and educators, so that the horrid consequences of the past Wall Street frenzy may never be repeated.

San Jose, September 20, 2008  
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