Infusing Diversity Into a Corporate Finance Course

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ABSTRACT

As interest in incorporating diversity education into courses across campuses increases, finance becomes a natural discipline for diversity inclusion. The history of financial markets is ripe with examples of financial discrimination against different groups and communities. This paper explores a process for the inclusion of diversity-related examples/problems in finance courses and methods for incorporating diversity discussions into the curriculum of a graduate finance course.

INTRODUCTION

Today the topic of diversity can seem ubiquitous; conversations about diversity take place everywhere, from digital media to the dinner table. Despite the progress that has been made in creating awareness and moving towards a more diverse, equitable, and inclusive society, there remains much more work to be done, and courses at the higher education level offer the opportunity to enlighten students regarding the variety of races, ethnicities, religions, cultures, gender identities, and socio-economic circumstances spanning the U.S. population. University courses prepare students for the future workforce, where they will undoubtedly encounter pluralistic environments, given the extent of diversity in America.

For nearly 20 years, Loyola University Maryland (Loyola or the University) has included a diversity course as a part of its core course requirements for all undergraduate students. A liberal arts-based university located in the Mid-Atlantic with approximately 5,200 students combined at the undergraduate and graduate levels, Loyola's mission includes a provision that the University will inspire students to "learn, lead, and serve in a diverse and changing world."[1]

In 2004, Loyola sought to increase student awareness and critical understanding of three aspects of human diversity: differences across nations and world cultures, especially those outside the Western intellectual tradition; experiences of distinct minority groups in the United States; and justice-oriented movements or intellectual traditions that address diversity and systems of injustice[2]. The goal of adding a diversity requirement to the undergraduate curriculum was "to prepare students to dedicate themselves to diversity that values the richness of human society as a divine gift and to pursue justice by making an action-oriented response to the needs of the world."[3]

University faculty submit applications to a faculty committee that assesses whether a course meets the learning aims relative to global awareness, justice awareness, or domestic diversity awareness[4]. Once a course is approved as a diversity requirements course, it is designated as such in the course catalog to make students aware the course fulfills the graduation requirement.

In 2023, the diversity requirement was approved for expansion to a three-course diversity-justice requirement, with one course required within the student's major[5]. Loyola seeks to help its students become global citizens and seeks "to prepare them to navigate, contribute to, and serve within a rapidly transforming, diverse society. Critical to this is cultivating awareness of the breadth of human difference and to understand how issues of power and social justice

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[1] https://www.loyola.edu/about/mission
[2] https://www.loyola.edu/department/academic-affairs/resources/diversity-course-requirement
[3] https://www.loyola.edu/department/academic-affairs/resources/diversity-course-requirement
[4]file:///C:/Users/kbleggio/Dropbox/PC%20(3)/Downloads/New%20Diversity%20Course%20Designation%20Application.pdf
[5] The third course will be phased in during academic year 2025-26.

intersect with human difference."[6] It is believed that one course is not sufficient to strive for this goal; hence the enhancement to the curriculum.

At this point in time, the diversity requirement does not currently apply to graduate students; however, many of our graduate students are already working and experiencing the changing nature of the workforce. These students are experiencing the benefits of diversity and the costs when it is lacking. The finance department endeavored to begin developing a diversity course at the graduate level and then use that learning to adapt the content to the undergraduate level.

TEACHING DIVERSITY

Teaching diversity, equity and inclusion is not a new phenomenon. Numerous universities offer continuing education and certificate programs in the subject matter (Cornell[7], Northwestern[8], Temple[9]) minors (Syracuse[10]), and majors (University of Pennsylvania[11], Bentley[12], University of New Hampshire[13]).

Teaching about diversity helps society to better understand that the U.S. population is becoming increasingly diverse; it is also more diverse than estimated in the past. For example, while white non-Hispanics constituted 63.7 percent of the population in 2010, that segment of the population had declined to 57.8 percent in 2020 (Jenson, 2020). Further, the Census Bureau acknowledges that increases in diversity revealed in the 2020 census "likely reflect actual demographic changes in population", as well as "improvements to the question designs, data, and coding" used in the compilation of census reporting (Jenson, 2020). In addition, changes in the child population foreshadow an increasingly diverse society in the future; while children of

[6] file:///C:/Users/kbleggio/Dropbox/PC%20(3)/Downloads/Revised%20Motion%20to%20Revise%20Loyola's%20Diversity%20Course%20Requirement.pdf
[7] https://ecornell.cornell.edu/certificates/leadership-and-strategic-management/diversity-equity-and-inclusion/?creative=475040010239&keyword=diversity%20courses&matchtype=p&network=g&device=c&authGate=1&utm_source=google&utm_medium=cpc&utm_campaign=dei_US+-+Diversity+Equity+and+Inclusion&utm_term=diversity%20courses&utm_content=g_475040010239_p&creative=475040010239&keyword=diversity%20courses&matchtype=p&network=g&device=c&url={lpurl}&target=&position=&gad=1&gclid=Cj0KCQjwwISlBhD6ARIsAESAmp5ZYhqOULXjfbsCeiTghgc4YikJfvqVBScr7O0jWEaC3I4F4FcQJToaApoKEALw_wcB
[8] https://www.kellogg.northwestern.edu/executive-education/individual-programs/executive-programs/dei.aspx?utm_source=google&utm_medium=cpc&utm_term=diversity%20and%20inclusion%20courses&utm_campaign=Exec_Ed-Priority&gclid=Cj0KCQjwwISlBhD6ARIsAESAmp5dK_7Md2l2wv0nAzQa8ntwItwBLVo8la4w-9yyUx3OdUvbUdPkdykaAnxREALw_wcB&gclsrc=aw.ds
[9] https://www.temple.edu/academics/degree-programs/diversity-and-inclusion-certificate-undergraduate-ed-di-cert
[10] https://diversity.syr.edu/academics/degree-programs/
[11] https://mgmt.wharton.upenn.edu/programs/mba/dei-major/
[12] https://www.bentley.edu/academics/undergraduate-programs/diversity-equity-inclusion-ba
[13] https://catalog.unh.edu/undergraduate/liberal-arts/programs-study/education/educational-studies-major-equity-diversity-inclusion-ba/

color represented 26 percent of the child population in 1980, in 2020 that amount had increased to 56 percent (O'Hare, 2023).

Continuing the progress toward a more diverse, equitable, and inclusive society requires one to gain an awareness of the extent to which racism and/or discrimination (whether systemic or non-systemic, purposeful or unintentional), and its deep seeded and lingering impacts, continue to exist. Recent data on unemployment and wealth demonstrate the significant challenges that remain. For example, the total overall U.S. unemployment rate for 2021 was 5.3 percent. While white unemployment was lower, at 4.7 percent, the rate for black/African Americans was significantly higher, at 8.6 percent. Rates for other races and ethnicities were also higher, with American Indian/Alaska Native unemployment at 8.2 percent, and Hispanic/Latino unemployment at 6.8 percent (U.S. Bureau of Labor Statistics, 2023). Differences in median levels of family wealth for whites vs. blacks were even more pronounced. At $171,000, the median level of family wealth for whites was about 10 times the $17,100 level for blacks. While levels of wealth had been improving for blacks, they took a turn backwards during the 2007 – 2008 Great Recession due to blacks being "disproportionately harmed by the sub-prime mortgage blow-up" (*The Economist, 2019).* In addition, as of the first quarter of 2023, whites held more than 82 percent (or $115.65 trillion) of total household wealth in the U.S.; blacks held roughly 4.5 percent ($6.25 trillion) and Hispanics held 3 percent ($4.24 trillion) (Board of Governors of the Federal Reserve System, 2023).

The concepts of diversity, equity, and inclusion underpin the whole of society, and therefore are not discipline-specific. An awareness of the concepts can, and should, be taught in higher education, in every discipline, to demonstrate their impacts. For example, considering the concept of equity from a business/finance lens, a recent study postulates that discrimination against African Americans cost the U.S. economy $16 trillion; the study also indicates that $5 trillion could be recovered over a 5-year time horizon if such practices could be eliminated (Peterson, 2020). While this represents a singular business case, one can also appreciate that diversity promotes openness, which often leads to innovation; it also focuses on changing demographics, which impacts markets, messaging, and profitability. Put simply, there are sound business cases for understanding, promoting, and teaching diversity (CFA Institute, 2023). Further, effective teaching recognizes the importance of motivation, and motivation is correlated with culture. As a result, students should be better motivated to learn and subsequently apply curriculum content if it is connected to their culture (Ginsberg, 2009).

There are some who take the view that it is unnecessary to teach about diversity. They argue, for example, that the racial wealth gap has nothing to do with "individual agency, education, and financial education" or "individual or racialized behavior", but instead "is rooted in socioeconomic and political structure barriers", noting that "The source of inequality is structural, not behavioral" - so why bother teaching about it? Those taking this view indicate that the solution is not education, but "seed money" (such as trust accounts/baby bonds) that "would go a long way toward eliminating racial disparities and building an inclusive economy for all Americans" (Hamilton, 2017). The counter argument to this perspective is that unless society is educated on the roots, barriers, and impacts of discrimination, what would provide the impetus for implementing the suggested structural changes?

Others may take a simplistic, and perhaps a naïve, perspective, noting the laws (as well as speeches by prominent people of color) which already prescribe that individuals should be treated without regard to race, creed, or color (Rosenberg, 2012). The fallacy in this argument is that laws are not always designed for the sake of societal progress, nor are they always abided by.

Finally, some take the view that it is unnecessary to teach diversity in the classroom because exposure to it can and does occur in many other venues, "such as the interracial workplace for which the student is being prepared, or the popular culture—where the message of equality and tolerance is ubiquitous—or the student's neighborhood or house of worship or home" (Rosenberg, 2012). The counter argument for this perspective is that having a general awareness of an issue is not nearly the same thing as having a comprehensive understanding of the barriers and related impacts that an issue creates, nor does it necessarily lead to the motivation to resolve them.

Higher education provides a fitting environment to teach about diversity because it affords students the opportunity to understand that society's failure to address injustices relating to diversity has resulted in significantly negative economic consequences to diverse populations. Through culturally focused education about the roots, barriers, and impacts related to issues of diversity, students cannot only understand the challenges, but also be motivated to address them.

IDENTIFYING DIVERSITY TOPICS

Each fall, Loyola hosts optional diversity reading groups for faculty and students. The groups consist of 6-10 participants, meet weekly for eight weeks, and discuss a book covering a topic such as racial, religious, or sexual diversity. One person from each of the diversity groups agrees to serve as the moderator, and each week's discussion lasts for approximately one hour.

One of the co-authors participated in a diversity reading group that discussed "The Sum of Us: What Racism Costs Everyone and How We Can Prosper Together" by Heather McGhee. This award-winning book published in 2021 makes the case for the cost of racial discrimination for everyone, not just for people of color. Given her specialty on the American economy, the author makes the point that the presumption of a zero-sum game has led to poor political decisions that are partially responsible for red lining, the 2008 financial crisis, and the student debt crisis, among others.

In reading the book one of the authors of this study noted how many of the challenging political decisions had financial ramifications. This was the impetus for the idea of incorporating historic discrimination events into the introductory finance course for graduate students.

In addition, we began looking to stories from current day news that involved financial ramifications for discriminatory decisions. It was, unfortunately, not difficult to find examples.

CREATING PROBLEMS

The Corporate Financial Strategy course at the graduate level is set up to cover a series of topics; the goal for incorporating diversity discussions is to have at least one problem that covers a discriminatory practice presented for each topic. The topics are as follows:

- Stakeholder rights and ethics
- Financial statements
- Financial ratios
- Growth
- Time value of money
- Discounted cash flow
- Stock valuation
- Bond valuation
- Net present value
- Capital investment decision-making
- Stock market history
- Risk
- Cost of capital

Two sample problems representing two of the topics above are as follows:

I. Time Value of Money: Black college graduates have nearly $25,000 ($52,726 vs. $28,006) more student loan debt than white college graduates.

1. Presuming an annual interest rate of 5%, monthly payments, and a ten-year repayment schedule, how much more will black college graduates spend monthly to repay their obligation (presume payments are made at the end of the month)?
2. How much, in total, will black college graduates pay? How much will white college graduates pay?
3. Four years after graduation, on average, black graduates owe 6% more than they borrowed and white graduates owe 10% less than they borrowed. Why do you think this is true?

Reference: https://sites.ed.gov/whblackeducation/files/2016/11/Black-College-Graduates-and-the-Student-Debt-Gap.pdf

For problem I, the goal is for students to do two time value of money problems, solving for payments for both black students and for white students. Given monthly payments, the time will be calculated in months (twelve months x ten years = 120), and the interest rate must be converted to the periodic interest rate (5%/12 = .4167%). Students will calculate the monthly payment on the $52,726 present value owed by black students and the $28,006 present value owed by white students. The payment is $559.24 for black students and $297.05 for white students, indicating black students spend an additional $262.19 each month on repaying student loan debt.

For the second question, we multiply each monthly payment by the 120 months in the life of the loan and find black students repay a total of $67,108.92 while white students repay $35,645.65, indicating black students repay $31,463.27 more than white students over the life of the loan.

Before moving to the third part of the question, we often pause to get reactions. Even at the graduate level, it is typically surprising how little students have thought about the cost of borrowing money through the use of credit cards, car loans, mortgages, or student loan debt. Just the difference between the borrowed amount and the repaid amount ($52,726 compared to $67,108.92 for black students) is often surprising to students; when they see the absolute difference of more than $31,000 paid by black students, it can generate incredulity.

For the third part of the problem, we begin with students in small groups discussing this question for a few moments. Having each group share their rationale for this disparity is helpful. It is possible to include an amortization table to demonstrate how much principal has been repaid by the end of year four if all payments have been made in a timely fashion. Research shows that, on average, black graduates pay off their undergraduate debt at a slower rate than white graduates (Department of Education, 2016)[14]. This can be partly explained by a weaker job market in which black/white employment and wage gaps have widened. There is also less generational wealth in black families, so less assistance tends to be available for repaying the loan.

II. Bond Valuation: It is estimated that only 4% of those born into poverty ever create generational wealth. Connecticut (CT) has approved a program called CT Baby Bonds[15]. The plan is to set aside funds for each baby born in Connecticut whose birth was covered by Medicaid. Those funds will be held, managed and invested by the Office of the Treasurer. When a participating child reaches adulthood, they will be eligible to claim funds (between the ages of 18-30) to be used for:

- Buying a home in Connecticut
- Starting or investing in a Connecticut business
- Paying for higher education or job training
- Saving for retirement

CT Baby Bonds is designed to narrow the wealth gap and spur long-term economic growth for Connecticut's families and economy.

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[14] https://sites.ed.gov/whblackeducation/files/2016/11/Black-College-Graduates-and-the-Student-Debt-Gap.pdf

[15] https://portal.ct.gov/OTT/Debt-Management/CT-Baby-Bonds

1. The plan is for $3,200 to be deposited in a trust at birth for every child born in the state and receiving Medicaid. It is estimated that the trust accounts will be worth $11,000 when the child reaches age 18. What is the presumed annual interest rate?
2. What do you think about this program? What challenges do you see with the program?

Reference: https://portal.ct.gov/OTT/Debt-Management/CT-Baby-Bonds

For the first question, this is in essence a zero-coupon bond. $3,200 is the present value, and $11,000 is the future value. The number of periods is 18 with zero payments. Computing the interest rate determines a rate of 7.1%.

It is important to first calculate the rate before beginning the discussion of the second question. Many students will note that a rate of 7.1% on a state-issued bond seems high. Also of note are two "mechanics" challenges: first, the state Treasurer needs to invest each year and earn at least 7.1%, on average, to meet the stated goal for those eligible for this program. Second, the state needs to have available funds to continue this program by investing $3,200 per child each year for all of the new babies born annually. In recessionary times, both the investment expectation and the funds available could be problematic.

Notice references are provided in the hope that interested students will read further on the topic. Also note: Incorporating diversity discussions into a finance course requires only a small investment of additional time. The work in incorporating diversity discussions into the classroom is in identifying examples up front that meet the criteria for each week's course topic. From there, the discrimination topic problems that are created are essentially a problem that represents an example from that section. The baby bonds problem is simply a zero-coupon bond problem that would be discussed in the bond valuation section of the course.

The discussion portion of each question needs only five to ten minutes of class time. However, there are several alternatives if class time is constrained: create a threaded discussion, and/or ask students to complete a brief reflection on the topic and send it in as a graded assignment that counts towards class participation, for example. The faculty member of record for the class could then summarize the comments and post the class thoughts on the topic.

It also may be helpful if at least one question on each exam has a discrimination issue as the story that introduces the problem. This helps to reinforce the importance of diversity topics in the study of finance.

CONCLUSION

A widget is an imagined small product sold by a company[16]. Thirty years ago, when teaching finance, many of the examples were written about a company selling widgets. We have come a long way from answering finance questions that ask about the number of widgets that can be produced in a given scenario. With a plethora of available data, we now have the ability to use finance course examples as a way of also exposing students to content related to discriminatory financial practices and their impacts.

Exposure to the history of discrimination in the world as well as current day discriminatory processes enhances students' recognition of inequities, while at the same time, teaches finance. The goal at Loyola is to prepare students to make a difference in the work world that they will be entering. Becoming more versed on examples of inequality will provide students with a better chance of an empathetic response when confronted with inequalities in the workplace.

While this initial work is being done to develop examples for a graduate course in finance, a natural, and planned, extension is to incorporate questions/problems/discussions highlighting inequities into the undergraduate finance courses as well.

[16] https://dictionary.cambridge.org/us/dictionary/english/widget

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