An age old question in every discipline… How much of what we do can be taught and how much are we born with?
The ingredients for teaching a large class are the same as those needed for a small class.
The importance of testing…

- Why do you give exams and quizzes?
  - Because I am required to...
  - Because it forces students to keep up with the material..
  - It is the basis for their grades..
  - All of the above
  - None of the above (Give me your reason then..)

- Which of the following best describes your exam writing/grading philosophy?
  - I give easy exams but grade tough
  - I give tough exams but grade easy
  - I give easy exams and grade easy
  - None of the above

- What are the characteristics a good grading system? Of a bad one?

How you approach giving and structuring exams depends in large part on why you give exams…
If you have to compromise on how you teach and how you test students, when you are teaching a large class, you will find yourself (and the students) dissatisfied with the final output.

Being clear and consistent about how you will be testing and grading is critical in a large class.

1. Start the first session off by explaining what form the tests will take, how much they will weigh and how the final grades will be assessed
2. Stick with it.
3. Be much stricter about allowing deviations from the rules. While this just may be a headache with a class of 20 can be devastating in a class of 150 or 300.

This may sound technically infeasible, but giving feedback quickly is much more critical in a large class. Students in large classes have a much tougher time gauging where they stand and how they are doing. Anxiety about performance is therefore rampant, and quick and constant feedback is necessary.
Just asking… Most people that I have talked to either dislike office hours or resent the drain it puts on their time.
How do you interact with 300 students outside the classroom?

First, eliminate questions that arise because of poor organization. A simple mistake like getting a chapter number wrong on the syllabus can cost you. Fix the mistake as quickly as you can.

Second, reduce repeat questions on the same topics. Help students find the help they need without having to come to you.

Third, be available, if needed.

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Interaction outside the class

- **Minimize administrative issues**: Be as clear and decisive as you can be about the administration of the class and how you will be grading students.
- **Learn from doubts/questions**: Reduce the proportion of your office hours you are spending answering the same question over and over.
  - If you are asked the same question more than three times by different students, either open a class by posing the question for the whole class and answering it (or)
  - Developing a help manual for the class, where you start listing the questions with your answers and make the manual available to all students (or)
  - Use technology. Put your help manual online. It makes searching easier
- **Have an open-door policy**: Being available does not mean that you will be inundated by students.
Some creative uses of email.

1. Reinforcing lessons from class
   a. Short summary of class right after class ends
   b. Newsletter at the end of each week
   c. Articles relating to the topic at hand (from business press…)
2. Reminders of cases and exams coming due.
3. Keep track of your outliers…
   a. The Good outliers, who are interesting in delving deeper into the subject than you will be able to cover in class.
   b. The Neutral outliers, who hope to fade into the background.
   c. The Bad outliers, who have given up on the class

**Email Rules**

1. Set aside time to answer email. Don’t view it as an imposition.
2. If you open email, answer it.

Email is part of our lives now. No point fighting it.
Rather than talk about teaching in the abstract, I will use a set of overheads from one session that I teach in my corporate finance class on the right mix of debt and equity that a firm should use in funding a business….This session is midway through the class (about the 14th session in a 27 session class)
The Classroom

- In the classroom,
  - Put it in context - provide the big picture
  - Be clear about where you are going before you take off.
  - Make it relevant
    - Explain why what you will be doing matters before jumping into topics
  - Frame topics to appeal to the widest audience
  - Make it real
    - Use real companies
    - Connect to everyday occurrences
  - Keep people involved
    - Active versus Passive participation
    - Look for Ahah Moments
- Know your strengths and weaknesses and choose a teaching style that reflects them.

The ingredients for a successful class. Necessary but not sufficient conditions?
SHOW THE BIG PICTURE

Frame each session in the context of a big picture. This way

1. you provide a motivation for why you will be talking about what you are
2. You provide a context for the topic, and connections to both what has been done already and what is coming.
3. Start the class with a familiar page, and allow it to settle in before new concepts are introduced
Not all of us are lucky enough to be able to frame classes the way we want them to. All too often, we are given classes structured by other people and asked to teach them. One test of how difficult it is to get a class to make sense is whether you can put together a big picture for the class. If you find yourself constructing laundry lists rather than a compelling story, you have a tough class to teach. If this happens,

- Be subversive. Teach the class that you want to teach while meeting all of the criteria required of you.
- Work at making some cohesive sense of the material that you have teach and a way of tying it together
CONTROL THE AGENDA

Pose the basic question that you will be trying to answer in this class, before you delve into models and details. This will frame the discussion for the rest of the class.
Remember that your class is not the focal point of any of your student’s lives. They have other classes, lives to live, personal crises to overcome, families to deal with…. Giving them a hook before each class makes it easier for them to understand the material in the class and hold on to what matters.
You may believe that every topic and model you cover is important but it is your job to explain to others why this is so, even though it may be obvious to you.
If the only reason you can give for why your students have to study something is that it will be on the exam, you have failed. You need to make whatever you are teaching have a deeper meaning....
**Generalize the discussion**

The Choices in Financing

- There are only two ways in which a business can make money.
  - The first is debt. The essence of debt is that you promise to make fixed payments in the future (interest payments and repaying principal). If you fail to make those payments, you lose control of your business.
  - The other is equity. With equity, you do get whatever cash flows are left over after you have made debt payments.
- The equity can take different forms:
  - For very small businesses: it can be owners investing their savings
  - For slightly larger businesses: it can be venture capital
  - For publicly traded firms: it is common stock
- The debt can also take different forms
  - For private businesses: it is usually bank loans
  - For publicly traded firms: it can take the form of bonds

**BE INCLUSIVE**

Assume nothing, or better still, assume that you are talking to a very diverse group of students with different backgrounds and interests. Generalize the discussion to have meaning to everyone in the class. Make clear why the topic that you will be discussing should have interests to different groups of people.
Get a sense of your student backgrounds… How old are they? Where are they from? What are they interested in? Where do they plan to go after your class?

Task 4: Generalize your discussion

- Take a typical lecture and go through it looking for ways to say things that appeal to those from
  - From other countries
  - From other backgrounds (not finance, in my case)
  - With other interests
DEFINE TERMS (EVEN OBVIOUS ONES)

Even the simplest terms can be defined differently by different people or not be understood by others (who will be too embarrassed to ask questions). Give your definition of terms. This will allow you to bring different definitions together, and correct those who have the wrong definition to begin with.

Make it real
Measuring a firm’s financing mix

- The simplest measure of how much debt and equity a firm is using currently is to look at the proportion of debt in the total financing. This ratio is called the debt to capital ratio:
  
  \[
  \text{Debt to Capital Ratio} = \frac{\text{Debt}}{\text{Debt} + \text{Equity}}
  \]

- Debt includes all interest bearing liabilities, short term as well as long term.

- Equity can be defined either in accounting terms (as book value of equity) or in market value terms (based upon the current price)
Real companies cement concepts and also bring home the fact that companies are different (and usually for good reasons)....
Application Test: What is your firm’s debt ratio?

Looking at the balance sheet of your firm on page 9, estimate the following:
- Total interest bearing debt at your firm
- The book value of equity
- Book value debt to capital ratio

Using the market value of equity in the firm on page 1, estimate the market value debt to capital ratio
Shows how different real companies are in their choices of debt vs equity, ST debt versus LT debt....
Try finding a good example for every concept or model that you will be introducing in the real world…. This may seem like a lot of work but it is really incremental. Every time you read the business pages, look for real world examples and save them.
Roadmap…
The Trade Off: Debt versus Equity

- Benefits of Debt
  - Tax Benefits
  - Adds discipline to management
- Costs of Debt
  - Bankruptcy Costs
  - Agency Costs
  - Loss of Future Flexibility

SUMMARY, BEFORE DETAILS
Use anecdotes to bring home your point
Debt adds discipline to management

- If you are managers of a firm with no debt, and you generate high income and cash flows each year, you tend to become complacent. The complacency can lead to inefficiency and investing in poor projects. There is little or no cost borne by the managers.
- Forcing such a firm to borrow money can be an antidote to the complacency. The managers now have to ensure that the investments they make will earn at least enough return to cover the interest expenses. The cost of not doing so is bankruptcy and the loss of such a job.

ANAOLGY!
Don’t force analogies… and don’t go for just humor. Focus on your material first, and be comedians or entertainers later…..
Seek active participation
Added Discipline...

Assume that you buy into this argument that debt adds discipline to management. Which of the following types of companies will most benefit from debt adding this discipline?

- Conservatively financed (very little debt), privately owned businesses
- Conservatively financed, publicly traded companies, with stocks held by millions of investors, none of whom hold a large percent of the stock.
- Conservatively financed, publicly traded companies, with an activist and primarily institutional holding.
Again, try to add one participation question to each lecture each time you teach. You will build up to many more over time.

(When you ask a question and get an unexpected but very good answer, save it)
### Set up the process
Debt: Summarizing the Trade Off

<table>
<thead>
<tr>
<th>Advantages of Borrowing</th>
<th>Disadvantages of Borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Tax Benefit:</strong></td>
<td><strong>1. Bankruptcy Cost:</strong></td>
</tr>
<tr>
<td>Higher tax rates --&gt; Higher tax benefit</td>
<td>Higher business risk --&gt; Higher Cost</td>
</tr>
<tr>
<td><strong>2. Added Discipline:</strong></td>
<td><strong>2. Agency Cost:</strong></td>
</tr>
<tr>
<td>Greater the separation between managers and stockholders --&gt; Greater the benefit</td>
<td>Greater the separation between stockholders &amp; lenders --&gt; Higher Cost</td>
</tr>
<tr>
<td></td>
<td><strong>3. Loss of Future Financing Flexibility:</strong></td>
</tr>
<tr>
<td></td>
<td>Greater the uncertainty about future financing needs --&gt; Higher Cost</td>
</tr>
</tbody>
</table>

Aswath Damodaran

SUMMARIZE... REPEAT... SUMMARIZE
Let them figure it out
A Hypothetical Scenario

- Assume you operate in an environment, where
  - (a) there are no taxes
  - (b) there is no separation between stockholders and managers.
  - (c) there is no default risk
  - (d) there is no separation between stockholders and bondholders
  - (e) firms know their future financing needs

What are the costs and benefits of borrowing in this scenario? What are the implications for an optimal debt ratio?

LET THEM FIGURE IT OUT SOMETIMES….
Makes your students feel like they deserve the Nobel prize.
Close the discussion with the broad question that you began the discussion with…
Task 8: Create aha moments!

- If you could do it, what part of your class would you want your students to have the aha moment on? How would you go about making it easier for them to get there?
  - A simple framework for thinking through problems
  - No extraneous issues and questions
  - No buzz words…
  - A non-threatening atmosphere
- The more important the proposition, the greater the payoff to letting them get there on their own…

Don’t plan for it but be open to it.
Technology is your tool. If you cannot live without a technological device, that is no longer true.

Use technology wisely

- Go for the steak, not the sizzle
  - Don’t let technology get in the way of your message
  - Your audience is less dazzled that you think… and a lot more jaded.
- Technology is your tool… not the other way around
  - Don’t change your teaching style to match technology
  - Start with your class and think of how technology will help you deliver it better.
- Good technology cannot substitute for good teaching
  - Technology will not make up for laziness and lack of preparation
  - Use technology to enhance your strengths and minimize your weaknesses
- If technology can fail, it will
  - Always have a back up plan, and a plan to back that one up
  - In your worst case scenario, you still need to teach
Teaching is not a profession. It is a passion. Let it show.