fundstrategy

Quest for enlightenment or self interest

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The global crisis prompts business students to choose specialised, career-focused courses as the job market shrinks. Meanwhile, doctoral graduates seek answers to the "new normal".

In the 1970s - my generation - students embraced journalism, many inspired by Watergate (and some by Robert Redford's cinematic portrayal thereof). A decade later, law schools saw an upsurge in enrolment; after that business schools attracted battalions of MBAs, while students also pursued economics and finance courses at universities.

And how have American business students reacted to the global financial crisis? Are they disillusioned? Their theoretical framework, with its elegant models like capital asset pricing, diversification and efficiency, no longer seemed to work, as markets melted down in 2007. Why bother with carefully constructed portfolios, when all correlations merged to one? *(article continues below)*

Bringing home the bacon

The answer depends in part on students' differing motivations. Most of those who choose economics-related disciplines are in it for credentials, jobs and earnings potential. "They come to us to land jobs in investment banks and consulting firms," says Vikas Agarwal, a professor of finance at Georgia State University. "They want to learn just enough for interviews. They're not looking for the holy grail." He recalls how last September, at the start of his course on hedge funds, his students only wanted to know how to make money. Agarwal told them that if he knew that, he would not be standing there. He could however, teach them ways not to lose money, and help them understand fundamental strategies for trading.

Of course every Wall Street aspirant recognises that jobs have become more scarce. The highest ranking diplomas are still the most likely to open doors. Richard Herring, Jacob Safra professor of international banking at the Wharton School of the University of Pennsylvania, notes that "many of our students believe that they will get some of the few investment banking jobs that remain, although most are adjusting their expectations to the new normal."

Terry Connelly, the dean of the business school at Golden Gate University in San Francisco, reports that finance enrolment is up, although only thanks to interest from foreign students, mainly from China, South Korea and South-East Asia. His students prefer MBAs tied to specific career path "concentrations" like health services, human resources, project management or even sustainable management. "Employers like these too," he adds.

Old timers remind that they have seen business cycles come and go; yet less seasoned veterans exhibit stoicism too. Professor David Nawrocki reports that undergraduates at Villanova School of Business are "taking the longer view". Many of them, who come from the New York area, grew up close to the financial industry. "They know investment banking is cyclical, and are confident that it will come back eventually."

That holy grail

One contingent, especially among doctoral graduates, is embracing the challenge of constructing fresh models. Unlike the more subdued job seekers, they are curious and enthusiastic. A similar phenomenon took place during the 1930s, when enrolments in economics rose significantly. "It's as if a crisis convinces students that the subject is really important to understand," Herring suggests. The market turmoil will doubtless set off a tsunami of doctoral theses, many intended to help prepare for the next Big One. (Ironically, like all black swans, it will almost certainly come from an unexpected direction.)

The financial upheavals have reinforced the limitations of yesterday's textbook models, which may be too simplistic. We now need something to replace them, since "we are in the business of analysing and understanding the realities of the marketplace," as Agarwal says. Questioning those models may require more integrated disciplines and critical thinking, to replace a canon of assumptions.

Finance has experienced an extraordinary evolution over just the past 50 years. From Harry Markowitz's portfolio theory it has progressed through Eugene Fama's efficiency hypothesis, (which he and colleagues later modified substantially) as well as asset pricing models. Lately, behavioural approaches have surfaced as alternatives to rational market theories.

The process continues. The most intellectual students have not lost their passion to create new frameworks that will be one step closer to an elusive reality. They share some of the energy of medical researchers who are confronted with different strains of viruses every year, and continue to work on improving vaccines. For the next generation of financial theorists, perceived inadequacies of models offer an extraordinary opportunity to revise and rebuild.