

Economics 154-316A
THE UNDERGROUND ECONOMY:
An International Perspective
Fall 2014 Syllabus

Class Times: Tues. Thurs. 1:00-2:30
SADB 1/12

Instructor: R. T. Naylor

All students are required to understand the meaning and consequences of cheating, plagiarism and other academic offenses under the Code of Student Conduct and Disciplinary Procedures.

All Students have the right to submit their written work in English or in French.

**LOOK AT THIS OUTLINE CAREFULLY AND CONSULT IT FREQUENTLY:
IT IS THE MOST IMPORTANT THING YOU WILL READ IN THE COURSE!**

PRELIMINARY WARNINGS:

- 1) **Are You Permitted To Take This Course?.** U-1 students in a 90-credit program are **NOT** admitted to this course. There are **NO** exceptions. U-1 students in a 120-credit program (who have one year of university experience) legally can take the course, but it is **strongly recommended they wait one more year**. They usually do very badly.
- 2) **Is This Course Really For You?** Students must do original research on unusual topics requiring, in some cases, in-person interviews along with the collection and analysis of government and court documents. Since the course deals with illegal activity, success in research requires that you be able to understand the mind of those so engaged, and follow their activities step by step. This is **NOT** easy - many students have a great deal of trouble with it. ***Decide NOW and do not complain later if you made a mistake!***
- 3) **Formal Prerequisites:** Six credits of University Level Introductory Economic Principles. There are **NO** Exemptions. (Keep in mind the difference between a **pre**-requisite and a **co**-requisite; and note that Management advisors cannot exempt you from Arts requirements.) Although students are admitted with six credits of micro economics, they are **STRONGLY** advised to have at least three credits of university level macro economics. McGill students who have taken 208-209 are better placed than those who have taken only 230.
- 4) **Grading Standards:** Standards are high. Do **NOT** enroll if you are concerned primarily about your GPA.
- 5) **Classroom Etiquette:** Although the class is large, class participation is encouraged. But large numbers make considerate behavior essential. **If you bring in a cell phone and it rings in class, leave immediately. If that happens a second time, you will be referred to the associate dean for disciplinary action.**
- 6) **Responsibility:** Attendance is voluntary. **BUT** announcements are made **once**. If you miss a class, consult MyCourses or ask other students. Do not bug me to repeat something for your individual benefit.

- 7) **WebCT:** All course outlines and similar *administrative* materials (but NOT the contents of lectures) will be on WebCT. Emergency announcements, when necessary and possible, will be posted there. It is important that you **consult your MyCourses e-mail frequently**.

COURSE CONTENT:

Topics covered **may** include (among others):

- *The Traffic in Body Parts*
- *Cigarette and Alcohol Smuggling*
- *Income Tax Evasion*
- *Drug Trafficking*
- *Currency Counterfeiting*
- *Stock Market Fraud*
- *Securities and Mortgage Fraud*
- *Money Laundering*
- *Piracy and Maritime Fraud*
- *Illegal Fisheries and their Environmental Consequences*
- *Illegal Dumping of Toxic Waste*
- *Trafficking in Endangered Species*
- *Fraud, Theft and Smuggling in Art and Antiquities*
- *Fraud, Theft and Smuggling in the Gemstones and Precious Metals Businesses*
- *Economic Warfare and State-Sponsored Smuggling*
- *Gunrunning*
- *Financing of Insurgent (“Terrorist”) Groups*
- *Policy to Combat Economic Crimes*

MARKING SCHEME:

In the event of extraordinary circumstances beyond the University’s control, the content and/or evaluation scheme in this course is subject to change

Grades are based on two types of written work. One is a case study (research paper) worth 50% of the final grade. The second, also worth 50%, is mid-term **and** final short essays described below. **HOWEVER** there are other requirements noted below in which failure to perform satisfactorily can lead to **reduced** grades.

THE CASE STUDY (RESEARCH) PAPER:

(See separate detailed handout or attachment on how to prepare a case study)

For the academic year 2014 all case studies must deal with something that falls into ONE

of the following general categories:

1) *Black-Collar Crimes*: These are financial and commercial frauds committed in the name of religious organizations. This does NOT mean a particular religion is the subject of your investigation – merely the abuse of religious labelling for illegal enrichment (through tax fraud, embezzlement of funds, financial victimization etc.). *All* religious bodies are possible targets for fraudulent activity; criminal cases involving Buddhist monks and Hassidic rabbis, Christian evangelical ministers and Islamic bankers. The cases can be historical and deal with any and all parts of the world. Example of a grossly overdone request – “I want to do a case study on the Church of Scientology.”

2) *Gunrunning for Fun and Profit*: This can involve fraud in military procurement and/or illicit sales of military equipment. It can focus on a country, a region, or a particular company. Be very careful here – there will be enormous amounts, not just of Internet babble, but of the planting of deliberate disinformation by one side or another (or both) in political conflicts. In fact diagnosing propaganda as well as phony numbers in the military supply business can be a challenging but illuminating topic. Example of a grossly overdone “case study” proposal – “I want to write about the Iran-Contra scandal in the US.”

3) *Financial Fraud*: There seems to have been recently an epidemic of financial frauds, at least judging from the media. But there is little genuinely new about the great majority of them. If you choose this subject, to find a specific case you have **three main obligations**: *first*, find something that is not obvious – don’t waste your time and mine just rehashing recent headline stories; *second*, make sure YOU understand what is really going on since this type of topic is full of traps for amateurs; *third*, find credible sources of first-hand information rather than relying on gossip recycled through the pop media or Internet chat rooms. Example of a dumb request - “I want to do a case study on Bernie Madoff.”

Other Ideas: from time to time the instructor will mention during class a possible alternative topic. But that will occur only after the mandatory registration of preliminary topics. Proceed now as if the four choices above are the only applicable ones; and later your choice may be revised, with permission of the instructor, NOT the TA.

Whatever your choice, avoid the Four D’s – Dumb, Dull, Dangerous or Done many times already. To guard against the last, ask yourself – is this obvious, is it something already well washed through the press, or is it possibly unusual and original? Remember - if it looks easy to do because so much attention has been paid to it, that is a danger sign UNLESS you can dissect the popular version by using unusual, well-informed alternative sources – that usually excludes Blogosphere babble or any of the crap on “social media.”

Topic registration: You must register your topic with Professor Naylor in Leacock 321D on or before **Friday, September 19 between 11:00 AM and 6:00 PM**. *Earlier times will be available to those who cannot make the Friday registration. They will be announced in class. Only persons who register at such times or have a documented excuse like a medical emergency to explain their delay will be assumed to be enrolled in the course.*

BEFORE YOU COME TO SEE PROFESSOR NAYLOR you are expected to have done serious investigation of a minimum of **THREE** potential (and quite specific) topics drawn from **any** of the three classifications above. If you wish to discuss an alternative, come with the three mandatory ones, and with some concrete ideas for the alternative.

Doing proper preparation means:

- 1) defining the topic carefully
- 2) finding out by preliminary research the main issues involved
- 3) having in your mind a short summary of how you intend to proceed.

Do not show up without these preliminaries or you will be told to come back later – requiring you to stand again in the queue. And if you don't show up at the required time without a documented excuse, you will be assumed to have withdrawn from the course. *But also be aware: many topics do not work; one purpose of discussing them early with the instructor is to minimize wasted time. If you have done your work, and none of your suggestions seem viable, don't worry - we can discuss alternatives.*

Preliminary Outline: Each student **must** submit a ***brief*** formal written outline of their project (quality not quantity counts here – one page is usually enough) by **Thurs, Oct. 2, at 5:30 PM**. ***Take this seriously.*** An outline must contain:

- a) A summary statement of the topic chosen.
- b) A brief plan of action.
- c) A summary of research already done with specific sources cited.
- d) A summary of further research planned with sources you intend to search.

NOTE CAREFULLY: failure to submit an outline that is adequate AND on time can lead to the loss of up to 25% of the case study grade.

Preliminary outlines will be returned in class on **Tues, Oct. 7**. Students can potentially receive **THREE** grades – S: satisfactory, U: unsatisfactory (see above about loss of up to 25% on case-study mark) or R: revise-and-resubmit. If you receive an R you must resubmit a satisfactory outline within one week of *the class when the outlines are returned* or you will be downgraded to U and possibly lose up to 25% of final case grade.

NOTE: once your ***preliminary outline*** is approved, it is still possible to change topics, but you ought to do so only with three steps: (1) careful consideration; (2) consultation with course assistants; and (3) approval by Professor Naylor. However after you submit

your *extended outline* you are locked in.

Extended Outline: Each student will submit an extended outline (usually 2 pages suffices) with subject matter delineated, research methods explained, and a summary of work done and work expected to be done, but **without** appendices or elaborations of data sources, **by Thursday Nov. 6, 5:30 PM**. They will be returned the next week. *The extended outline is to be resubmitted with the final Case Study*. Think of the extended outline as your case study in miniature form. The same marking scheme – and penalties for failure to submit on time - as for the first outline applies. In other words you could go into the final paper with an automatic minus 50% on the grade of the paper if you do not follow the instructions for the outline and extended outline.

Case studies are individual efforts. However students are encouraged to cooperate by sharing ideas and resources. Use MyCourses for that purpose.

Submission:

Before submitting – *which must be done in paper form, no e submissions of case studies are permitted* – it is wise to show the case study to a class assistant/grader and/or to have another student read it. Class assistants/graders will have access to some previous case studies as examples. ***BUT this is often dangerous.*** Each one is different; so look at old ones only as a *general* guide to format; at worst they may needlessly scare you off.

NOTE CAREFULLY the checklist attached to the case-study handout. It **must** be completed and submitted with your case study. Failure to do so could lead to your mark being reduced.

Before submitting, make sure you **REREAD** carefully the instructions. All papers must have a cover page that clearly shows your name, student number, date, and a title. Please avoid any fancy or superfluous packaging (a strong staple is best – avoid those appalling and wasteful McGill hard binders), and *attach* all the required papers (i.e. outline etc. plus the *most important* documents used in your research). Failure to fulfill **all** requirements can result in a low or failing grade.

Keep a COPY! The Case Studies are NOT returned.

The final Case Study is due by 5:30 p.m. Thursday, November 20 at the latest but can be turned in earlier.

No excuses for delay except documented medical and similar emergencies are acceptable. U.S. Thanksgiving Day vacations are **not** a valid excuse. Penalties for late submission are five marks (out of a total possible of 50) per day. Penalties start being assessed at 5:01 PM on the day the item is due.

SHORT ESSAY EXAMS:

Students are also required to do both a midterm and final short-answer essay. Each is worth 25% of the final grade. Students will see on WebCT a separate handout with five questions – three for the first short essay, two for the second. Students should prepare answers to **all** topics for each set of essays using their own research. There is no need for footnotes or references. Originality is rewarded: simply repeating class and lecture material is unacceptable; just repeating what some other student says is fatal.

NOTE CAREFULLY on the handout dedicated to short essay exams, the requirement of doing an outline for submission to and feedback from the class TA. Failure to do so can lead to the same penalties as failure to submit (or submitting a lousy) case study outline.

- **Midterm short essay:** On **Tues, Oct. 7** in class there will be a random draw to select **ONE** of the three posted questions for the first essay-exam. They are to be submitted in neat, typed (*paper*) form by **5:30 PM Thurs, Oct. 9**.
- **Final short essay:** On **Tues, Nov. 25** in class there will be a random draw to select **ONE** of the two posted questions for the second essay-exam. They are to be submitted in neat, typed (*paper*) form by **5:30 PM Thurs, Nov. 27**.

Each answer submitted should be **no more than four double spaced pages using a 12-point font**. Late submissions will be penalized at the rate of *one letter grade* in the first two days after the paper is due; after that the paper will fail.

Course Packs:

Because of the nature of the material that is constantly changing, there are no *textbooks* in the strict sense. However there is a course pack: Economic 316: The Underground Economy, available at the bookstore. It will introduce you to **some** of the main issues but you are expected to use your own initiative to round out your knowledge and understanding. Most essential material will come from your own searches of periodical literature and news sources. ***This applies to both research papers and short essay-exams.*** There are a vast number of journals and newspapers available in the various libraries and free on the web.

Special Note on Lexis-Nexis:

The main library has access to the Lexis-Nexis database. For most case studies, in many

cases it will prove **essential** for research. Some students find Factiva easier to use than Lexis-Nexis. It covers newspaper and periodicals well, but not legal cases. However, do NOT neglect the enormous resources - hundreds of business publications - at the Management Library. A senior person from the Library, with expertise in precisely this material and with long experience helping this class, will give an overview in one of our early classes in September.

Class assistants:

The class assistants are here to help you. Use them. They have regular office hours and if you genuinely cannot make those times, they will create special times for you - within reason. Do not forget that they also have academic responsibilities. And they are not obligated to deal with people who are rude, pushy or inconsiderate. Their e-mail addresses will be distributed early in the term.

FINAL WARNING:

Think carefully before you sign up for this course. If you are not prepared, psychologically and academically, or if your main interest is your possible mark, go elsewhere!