

Excellence through Ethics™

Session 6

Understanding Insider Trading



High School



Junior Achievement®



Excellence through Ethics
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Session 6

Understanding Insider Trading

Content: Ethics, Competition, and Insider Trading

Methods: Similes

JA Foundational Pillars: Ethics and Financial Literacy

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Acknowledgements

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Understanding Insider Trading

Overview

Students examine ethical issues related to competition. They learn why insider trading is illegal.

Objectives

Students will be able to:

- Review four types of business competition.
- Read about insider trading.
- Develop similes for insider trading.
- Clarify what makes insider trading unethical.

Preparation

Review the activity. Prepare the necessary copies and session materials.

Group work is incorporated into this session. You may consult with the teacher to determine how best to form the groups.

Post Key Terms and definitions in a visible place.

- **Ethics:** The standards that help determine what is good, right, and proper.
- **Monopoly:** Amtrak, utility companies, etc. Mention that the government has enacted anti-trust laws to protect consumers from lack of competition in the marketplace.
- **Oligopoly:** A situation where a small number of businesses affect, but do not control, the market.
- **Monopolistic competition:** It is a market in which there are many different buyers and sellers of very similar products, which are differentiated by real or perceived features.
- **Pure price competition:** It is a market in which there are numerous buyers and sellers of the same product, and market information is widely available.
- **Insider trading:** Illegally buying and selling corporate stocks based on information that is not available to the public.
- **Simile:** It is a comparison of two different things that are alike in certain respects, and are introduced as a figure of speech using “like” or “as.”

Recommended Time

This session typically takes 45 minutes to complete. Ask the teacher to help you keep track of time.

Materials

- Insider Trading Fact Sheet (1 per student)
- Pens or pencils (1 per student)

Presentation

Introduction (5 minutes)

Greet the students. Tell students that you are going to briefly introduce four, broad types of business competition, and then look at some ethical issues related to two of them.

Activity

Business Competition and Ethics (15 minutes)

Ask students if anyone can tell you what a business is called if it is the only player in the market and has no real competition? **Answer:** Monopoly.

Ask students if they can think of any examples of a monopoly. **Sample Answers:** Amtrak, utility companies, etc. Mention that the government has enacted anti-trust laws to protect consumers from lack of competition in the marketplace.

Now, ask if students can define oligopoly. **Answer:** A situation where a small number of businesses affect, but do not control, the market. Discuss the examples of the automobile and airline industries.

Ask, “What is the difference between an oligopoly and a monopoly?” **Answer:** Competition still exists in the market with an oligopoly, which is not the case with a monopoly.

Next, ask students if they can tell you what monopolistic competition is. Have them give you an example. **Answer:** It is a market in which there are many different buyers and sellers of very similar products, which are differentiated by real or perceived features. Examples include cosmetics, cereals, clothing, etc.

Now, ask students to define pure price competition. **Answer:** It is a market in which there are numerous buyers and sellers of the same product, and market information is widely available. Explain that examples of this kind of fair competition include the commodity and stock markets.

Tell students that you want them to think of how pure price competition works with regard to the stock market. Have them imagine for a moment the hustle and bustle of Wall Street and the fervent buying and selling of stocks inside the New York Stock Exchange (NYSE). Have them think about how share prices are determined in the stock market. In this environment, market information drives changes in supply, demand, and price. Market information is critical to the process. If both buyers and sellers do not have access to the same timely information, then pricing will not be deemed fair because one party will take advantage of the other’s ignorance.

Ask students, “How difficult is it for investors to get information on the public corporations whose shares they are thinking of buying?” **Answer:** Not difficult. Corporate annual reports, news accounts, library references, and stockbroker research are all available to the public.

Tell students to again imagine the NYSE. Have them consider the outcome of a situation in which the buyers and sellers do not have access to the same information about a corporation. For example, what if one investor had a friend who worked as a lawyer for the corporation in question. And, this friend said that the corporation had just developed a new product that would increase the company’s worth by over 25% within the next three weeks. The public wouldn’t find out about this information until after the legal papers were signed at the end of the week. What would happen if the one investor decided to buy stock today? Would that be fair to the sellers of the stock who didn’t know about the deal in the works? Have students explain their answers.

Tell students that this situation is not only unethical, it is known as insider trading, and it is illegal. Stock markets are dependent on pure price competition to work, which in turn depends on all possible buyers and sellers having access to the same information.

Activity

Insider Trader Similes (20 minutes)

Tell students that they will do an activity that stresses the unethical nature of insider trading. Distribute the Insider Trader Fact Sheet. Give students a few minutes to read it, and then answer any questions they have.

Next, ask if anyone knows what a simile is and give an example. **Answer:** It is a comparison of two different things that are alike in certain respects, and are introduced as a figure of speech using “like” or “as.” For example, that stick is like a snake, or America is like a melting pot. Ask for a volunteer to explain the various ways in which similes help people understand a concept.

Explain that students will work in three groups to come up with similes for insider trading. The simile should be as accurate as possible. It should help explain what insider trading is, and why it is wrong. It should be something almost any student would immediately understand. To help students with this exercise, write the following on the board:

Insider trading is like _____ because...

Organize the class into three groups. Each group should come up with its own simile by finishing the sentence on the board.

Review the main attributes of insider trading and write them on the board:

- Someone has information that others don't have.
- Someone will reap profits that are not available to others, unless by pure chance.
- This someone has reduced his or her risk and cost.
- Those without the information stand to lose something valuable.

Students' similes should incorporate as many of these features as possible. If students still need a hint, explain that knowing the winning numbers to the lottery before the lottery is drawn is very similar to insider trading.

The groups must be ready to explain and defend their similes to the others.

Have the groups select spokespersons to present their answers. Encourage the other groups to question and comment. When all have been discussed, ask students to vote for the one they think best explains what insider trading is, and why it is wrong.

Summary and Review (5 minutes)

Briefly review the vocabulary introduced in the session.

Ask students if they agree that insider trading is unethical and should continue to be illegal. Allow for several responses. Ask students what might happen to the market if insider trading was not illegal. How would that affect society?

Because insider trading is illegal, business employees have a responsibility to protect confidential information, proprietary information, and intellectual property. For example, a new employee hired from a competitor may try to share confidential information from his previous employer; this would be unethical, and information obtained should be returned to the competitor without anyone looking at it.

Session Outline

Introduction

- Greet the students.
- Review the four, broad types of business competition and give examples of each.
- Explain the role of market information in setting share prices on the stock market.
- Ask students what would happen if an investor was able to get confidential information on a company. Explain that this situation, known as insider trading, is unethical and illegal.

Activity

- Distribute the Insider Trading Fact Sheet.
- Explain what a simile is and give examples.
- Separate the class into three groups.
- Have each group devise a simile that explains what insider trading is, and why it is wrong.
- Have each group present and defend its simile.

Summary and Review

- Briefly review the vocabulary introduced in the session.
- Ask students if they agree that insider trading is unethical.
- Thank the students for their participation.

Insider Trading Fact Sheet

Insider Trading of Stock is Illegal.

“Insider trading refers generally to buying or selling a security [stock], in breach of a fiduciary duty [one held in confidence] or other relationship of trust and confidence, while in possession of material, private information about the security. Insider trading violations may also include ‘tipping’ such information, securities trading by the person ‘tipped’ and securities trading by those who misappropriate such information.”

Source: U.S. Securities and Exchange Commission

In cases of insider trading, there is usually a tipper, or someone “on the inside” who passes along the information, and a tippee, someone who receives the information.

Suppose you get a tip that the price of a stock is at its peak and you should sell before it falls:

- If the tipper is a friend who heard it from a friend (or a stockbroker) and you sell before the price drops, that is not insider trading.
- However, if your friend didn’t hear it from a friend, that is, your friend is the CEO of the company (or a director, or an employee with information about significant, confidential corporate developments), and you profit because of this information, both your friend (the tipper) and you (the tippee) have acted illegally.
- A CEO and other company officers have a fiduciary duty not to tell outsiders company secrets so they can profit from the knowledge.
- The officers themselves are also prohibited from trading stock based on confidential company information they possess.

Another standard the courts apply is whether the tipper benefited from passing on the tip to someone else, with the benefit being a payment of some kind.

Other groups forbidden to pass on tips are employees of law, banking, brokerage, and printing firms who are given confidential information in the course of providing services to the corporation.

In determining whether insider trading took place, the key is who knew what, how, and when.

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Welcome to Junior Achievement's

Excellence through Ethics

As a Junior Achievement (JA) volunteer or teacher, you are joining other teachers and volunteers from across the United States in providing students with a unique educational experience. Junior Achievement's *Excellence through Ethics* offers students learning opportunities to share knowledge and information regarding ethics in business. JA strives to show students how business works, and to better evaluate organizations that conduct their operations in the right way.

Excellence through Ethics is designed to equip volunteers and teachers with supplemental, ethics-based activities for use with JA in-class programs for grades four through twelve. All these activities provide students with current and essential information about business ethics.

These activities are designed to reinforce students' knowledge and skills, teach them how to make ethical decisions, assist them in learning to think critically, and help them to be better problem-solvers. All the activities are hands-on, interactive, and group-focused to present the material to students with the best instructional methods.

Within these supplements, you will find sections to help you effectively implement the activities in your volunteer experience. Materials include: (a) an introductory discussion of business ethics, marketplace integrity, and the growing capacity of students for ethical decision-making; (b) activities and student materials that connect to and expand current classroom-based Junior Achievement programs; and (c) a functional glossary of terms relating to a wide spectrum of ethics, quality, service, and social responsibility considerations in business.

JA greatly appreciates your support of these important and exciting activities. If you have comments about the *Excellence through Ethics* program content, curriculum, and/or instruction, please access <http://studentcenter.ja.org.aspx/LearnEthics/> and choose the “*Excellence through Ethics* Survey” link located in the middle of the page.

Appendix

Introduction and Overview

- *How do I do the right thing in this situation?*
- *Should I be completely honest, even if it puts others in jeopardy?*
- *What kind of community do we want to be?*
- *How do we do what's best for the long term?*
- *Who should cover the cost of "doing the right thing"?*

These are all questions having to do with business ethics. They are valid and necessary questions, and good business people have asked them for generations. They form the backdrop of vital discussions as business, community, and political leaders grapple with significant issues. Many students would ask these questions, even if Junior Achievement hadn't developed this ethics curriculum.

Business Ethics Discussions Are Here To Stay

Business ethics has been in the spotlight for much of the past decade, especially as examples of wrongdoing come to light in the media. New technologies and international competitive pressures cause a steady focus on the question, "Is it possible to be competitively successful in business today and still operate in an honest and ethical manner?" The past decade has seen individuals search for deeper personal meaning in the workplace, which has contributed to lively ethics discussions in the business realm. For these reasons, the discussion of business ethics is not a passing fad; it's here to stay.

Many graduate schools of business have either required ethics coursework or integrated ethics principles throughout all areas of study. That is commendable. We believe this vital area of exposure and instruction also should happen at earlier ages and continue throughout the students' educational journey. Many of today's students haven't had access to a well-rounded education in economics and free enterprise or have come to see these in a very negative light. They have limited awareness of the extent to which good business leaders engage in the challenging exercises of ethical decision-making amid heavy competitive pressures. As students learn the general principles of economics and business, it's critical that these be underpinned with a strong foundation in ethics. This will accentuate the best in American business traditions, while laying the groundwork for students' continued evolution into future generations of leaders.

Integrity in the Marketplace?

Many adults and young people choose to believe that the marketplace is driven only by greed. They view it as bringing out only the worst in human behavior, demoralizing the human spirit, and driving out any sense of idealism. While elements of greed and extreme self-interest among some individuals cannot be denied, solid research has shown time and again that companies with a long-term focus on ethics and a broad consideration of stakeholders' interests are much more profitable than those lacking such a focus.

James A. Autry, in his book *Love and Profit: The Art of Caring Leadership*, said it well: "I do not doubt the presence of greed in the marketplace because I do not doubt the presence of greed in people. But, I also do not doubt the ennobling aspects of work, of the workplace, of the community, of endeavor, of

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the marketplace. So I choose to believe that most of the marketplace is driven by people who want to do good work for others and for themselves.”

Excellence through Ethics accepts the challenge of educating youth in the basics of economics and business while establishing a positive balance on the side of well-informed, ethical business practice. This may appear to place a heavy burden on Junior Achievement volunteers, who are not trained ethics experts. The following informational pages will not turn you into an ethics expert. That’s not what we’re striving for here. What students need most is meaningful interaction with people who are willing to engage in a discussion of these vital issues.

Lively Practitioners Rather Than Dry Theorists

This program is more about day-to-day ethics practice than the nuances of ethics theory. Some believe that working in business requires a disconnect from one’s personal ethics. We do not believe this is the case. Students need to know that what they learn about fairness and honesty in general also applies to business. While business ethics may address some specific areas of business practice, it’s not a separate and distinct specialty to be set apart from the general ethical principles that apply in other areas of life. Young people need to encounter the wisdom of age and experience that volunteers bring to the classroom.

Students’ Growing Capacity for Ethical Decision-Making

Excellence through Ethics is designed to foster discussions at the appropriate level for each age group. The curriculum developers have designed the ethics activities with sensitivity to student’s mental maturity. At the late elementary and middle-grades levels, students’ capacities for ethical reasoning tend toward good personal behavior as determined by adult rules and authority. In relationships, personal trust, loyalty, and respect are of paramount importance. For these students, corporate ethical behavior is viewed in much the same light as their own personal behavior: it’s governed by rules.

As students advance into high school, their ethical decision-making moves into the larger arena of social contracts and systems that guide and govern societal and group behavior. Here the rationality and utility of laws are scrutinized, as students become more capable of higher-ordered, principled thinking. Students are increasingly aware of the diversity of values among different cultures and communities. At this level, students’ capacities for processing the complex, ethical dilemmas that may be encountered in business are greatly enhanced.

You will gain confidence as you come to realize that conducting a robust, provocative discussion with students is more important than “having the right answer.” The activities have been designed to leave room for lively discussion and multiple points of view. Having the courage to share your own experiences is very valuable to students.

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You don't have to apologize for the excesses students may see in business. Don't assume responsibility for actions that are not your own, and do not try to defend the indefensible. While accentuating the fact that most businesses operate ethically, it's okay to scrutinize the unethical players in the marketplace who give business in general a bad name.

Continuing Education

Teaching this material to students will no doubt strengthen and enhance your own ethics awareness and continuing education. Some students will challenge your best reasoning capacities. Having your own support network of professional colleagues with whom you can share and discuss some of these issues is very valuable. It's also helpful to seek out colleagues with philosophical views that differ from your own. This serves as a valuable "cross-pollination" function because you will be able to understand and discuss a variety of views with students, as well as share students' perspectives with your colleagues. In this way, everyone learns.

Finally, please be assured that your contributions here have tremendous value to students and will serve to upgrade business ethics in the future. We're dealing with the future generation of leaders in their formative years. We can take pride in the fact that we've had a hand in shaping the very people who will be responsible for business ethics and social responsibility in the future.

Appendix

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Many educators, economists, businesspeople, and consultants have contributed to the development of *Excellence through Ethics*. We would like to acknowledge the following individuals and groups for their efforts, creative talents, and support in creating these materials:

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Appendix

Excellence through Ethics Evaluation

Junior Achievement has discontinued all paper versions of program surveys. However, we greatly appreciate your comments and feedback about *Excellence through Ethics*. Please help us improve the quality of *Excellence through Ethics* by sharing your comments through our new online survey process. The online survey should take less than 10 minutes to complete.

If you have comments about the *Excellence through Ethics* program content, curriculum, and/or instruction, please access <http://studentcenter.ja.org/aspx/LearnEthics/> and choose the *Excellence through Ethics* Survey link located in the middle of the page.

Thank you for participating in JA!



Excellence through Ethics Volunteer Survey

1. Including this session, how many individual sessions of Excellence through Ethics have you presented? _____

2. Do you feel that the students were engaged through this session?
 - A. Not at all
 - B. Somewhat engaged
 - C. Engaged
 - D. Very Engaged
 - E. Unsure

3. Do you feel the session was relevant to students?
 - A. Not relevant
 - B. Somewhat relevant
 - C. Relevant
 - D. Very relevant
 - E. Unsure

4. Do you feel students are more prepared to make ethical decisions after participating in this session?
 - A. Significantly more prepared
 - B. Somewhat more prepared
 - C. Somewhat less prepared
 - D. Significantly less prepared
 - E. Unsure

5. On a scale of 1 to 10 (10 being excellent), how would you rate the overall quality of the Excellence through Ethics session? _____

6. After this JA experience, how likely are you to volunteer for JA again?
 - A. More likely to volunteer
 - B. Less likely to volunteer
 - C. No more or less likely to volunteer
 - D. Unsure

7. What comments or suggestions do you have regarding the overall session (including format, content, etc.)?

Optional: City _____

State _____ Country _____

Email _____

Excellence through Ethics Student Survey

1. What grade are you in? _____

2. Please fill in the circle that best describes how you feel about the following statements.
There is no right or wrong answer.

	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree
This topic is very important.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am able to apply what I learned in this session to the real world.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The activities were interesting.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I learned something about ethics from this session.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3. Do you feel more prepared to make ethical decisions after participating in this session?

- A. Significantly more prepared
- B. Somewhat more prepared
- C. Somewhat less prepared
- D. Significantly less prepared
- E. Unsure

4. I saw someone at my job taking money from the cash register, I would:

- A. Ask someone I trust what I should
- B. Tell a supervisor
- C. Talk to the person taking the money
- D. Do nothing
- E. Not sure

5. To help us better understand who you are, please answer the following questions: How do you describe your ethnicity (family background)? (Fill in all that apply)

- A. African American
- B. Asian American
- C. Latino (a) or Chicano (a)
- D. European American (white)
- E. Native American
- F. Other – how do you identify yourself? _____

6. Do you have any additional comments regarding this session?

Optional: City _____ State _____ Country _____