

Economics 154-316A
THE UNDERGROUND ECONOMY:
An International Perspective
Fall 2010 Syllabus

Class Times: Tues. Thurs. 1:00-2:30

Instructor: R. T. Naylor

Academic Integrity: 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.

**READ 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?.** Note: 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 and 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.) 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 actually 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 always encouraged. But large numbers make it essential that you behave in a considerate manner. **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** you are expected to know what happens in class. Announcements are made **once**. If you miss a class, consult WebCT or ask other students. Do not bug me to repeat something for your individual benefit.
- 7) **WebCT:** All course outlines and similar course 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 WebCT e-mail frequently**.

COURSE CONTENT:

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

- *Tax Evasion*
- *Cigarette and Alcohol Smuggling*
- *The Traffic in Body Parts*
- *The Myth of "Organized Crime"*
- *Drug Trafficking*
- *Currency Counterfeiting*
- *Securities, Credit Card and Bank Fraud*
- *Money Laundering*
- *Piracy and Maritime Fraud*
- *Illegal Disposal 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:

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

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

THE CASE STUDY RESEARCH PAPER:

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

For the academic year 2010 all case studies must deal with something that falls into ONE of the following general categories of topic:

1) *Financial Fraud*: There has been recently an epidemic of financial frauds of various sorts revealed in the media - although there is little genuinely new about the great majority of them. If you choose this subject you have three main obligations: first, find something that is not obvious – don't waste your time and mine 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 on Internet chat rooms. Incidentally major tax frauds also count in this category. Final warning – avoid insider trading scandals that are hopelessly boring.

2) *Black Collar Crimes*. These are financial and commercial frauds committed in the name of religious organizations. This does NOT mean that the 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 exist 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.

3) *Environmental Crimes*. This refers to such things as illegal dumping and waste handling, trafficking in banned or regulated substances, fakery in things like trading carbon emission credits, trafficking in endangered species, etc. BUT avoid the obvious – like poaching tigers or smuggling CFCs – unless you are sure you have something unusual to say.

4) *Military Procurement Fraud*. The term is self explanatory, and cases can be from any place in the world and almost any historical period, although the most contemporary may be the most interesting for people concerned with public affairs. Once again, use your brains in selecting the topic – don't do something already grossly overpublicized; there are probably already several books about it. E.g. Blackwater (now Xe) or KBR. And try to find non American topics.

5) *Economic Crimes of Law Enforcement Services*. This is not just “police corruption” like bribery or planting of evidence in asset seizure cases etc. It also includes malfeasance by prosecutors and judges; it can be extended (with considerable care) to embrace in the intelligence services. (PLEASE, no nonsense about the CIA running the world drug trade!) And it, too, can involve instances anywhere in the world.

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.

Topic registration: You must register your topic with Professor Naylor in Leacock 321D on or before **Friday, September 17 between 1:00 PM 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. When in doubt, consult the class assistants first. That means:

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

Do not bother to show up without these preliminaries – and if you don't show up without a documented excuse, you will be assumed to be 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.

Preliminary Outline: Each student must submit a formal written outline of their project (no more than 1-2 pages) by **Wed, Sept. 29, at 5:00 PM**. *Junk* will not do. (See WebCT for examples of excellent outlines.) 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 adequate outline on time can lead to the loss of up to 25% of the case study grade.

Preliminary outlines will be returned in class on **Tuesday, Oct. 5**. Students can receive **THREE** potential 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 the course assistants; and (3) approval by Professor Naylor. However you are locked in with no way out after you submit your extended outline.

Extended Outline: Each student will submit an extended outline (usually 2-3 pages, do NOT exceed) with subject matter delineated carefully, research methods explained, and a summary of work done and work expected to be done, but **without** any appendices or elaborations of data sources **by Monday Nov. 1, 5:00 PM**. They will be returned Tuesday of 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 applies.

Penalty for failure to submit adequately on time is as with preliminary outlines. 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. No group work is to be submitted. However students are encouraged to cooperate by sharing ideas and resources. You can use WebCT for that purpose.

Before submitting the Case Study it is wise to show it to a class assistant/grader and/or to have another student read it. Class assistants/graders will have access to previous case studies as examples. BUT keep in mind that each one is different; so look at old ones only as a *general* guide to format.

NOTE CAREFULLY the checklist attached to the handout explaining how to do a case study. It **must** be completed and submitted with your case study.

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. original outline etc. plus the most important documents used in your research) to the case study. Failure to fulfill **all** of the requirements of a proper case study, including submission of the checklist and outlines, can result in a low or failing grade.

Keep a COPY! The Case Studies are NOT returned.

The final Case Study is due by 5:00 p.m. Friday, November 19.

No excuses for delay except documented medical and similar emergencies are acceptable. US Thanksgiving Day vacations are **not** a valid excuse. Turn your case study in early if necessary. Penalties for late submission of research papers 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 two questions for each of the essays – i.e. a total of four, two for the first short essay, two for the second. Students should prepare answers to **BOTH** topics for each set of essays using course materials **and** their own research. There is no need for footnotes or references. Originality is rewarded: simply repeating class and lecture material is not acceptable; just repeating what some other student says is fatal.

Each answer 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 per day. (In other words, someone one day late can receive no more than a B, something two days late no more than a C.) E-mail submissions are not permitted.

- **Midterm short essay:** On **Thursday, Oct. 7** in class there will be a random draw to select **ONE** of the two posted questions for the first essay-exam. They are to be submitted in neat, typed form by **5:00 PM Monday, Oct. 11**.
- **Final short essay:** On **Thursday, Nov. 25** in class there will be a random draw to select **ONE** of the two posted questions. They are to be submitted in neat, typed form by **5:00 PM Monday, Nov. 29**.

READINGS:

Because of the nature of the material, which is constantly changing, there are no **textbooks** in the strict sense. However a book that covers some of the essential material (though certainly not all of it) is available.

R. T. Naylor, The Wages of Crime: Black Market, Illegal Finance and the Underworld Economy

Students can obtain this book at a discount at the office of McGill-Queen's University Press, on the 17th floor of the CIBC building on Sherbrooke Street just opposite the Bronfman Building. If you try to buy the book in bookstores, including the McGill one, you will be charged full price. NOTE there is an old hardcover edition and a newer softcover one. Either one, obtained second hand, is fine.

However this book is only a rough guide on some topics. Most essential material will come from lectures or 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 free in the various libraries and on the web.

SPECIAL NOTE ON LEXIS-NEXIS

The main library has access to the Lexis-Nexis database. For most case studies, 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 at the Management Library. Hundreds of business publications are available there that are not on Lexis-Nexis.

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.