

COMM 210

Mid-Term exam warmup

Read the 2 articles carefully and then prepare a draft answer for each item.

- 1. Manipulation Creates Fall Guys for Crash – Joe Nocera**
- 2. CAE's Diversification Plans Are Paying Off- Peter Hadekel**

Part 3 – Value 35 points. All answers should be based on the article “Manipulation Creates Fail Guys For Crash” by Joe Nocera of the New York Times. The term “Fannie Mae” refers to the Federal National Mortgage Association (FNMA) and the term “Freddie Mac” refers to the Federal Home Loan Mortgage Corporation (FHLMC). Both are agencies of the US Government.

Version 1

For the Feb 7 Warmup Session, focus on Version 1

1. What is the claim that Joe Nocera is making? Where did you find it? 5 points
2. Nocera offers a range of evidence to convince the reader that he/she should believe the content of his article.
 - a. Comment on how Sufficient you find his evidence. What makes you say that? 4 points
 - b. Provide 4 examples that would illustrate the Accuracy of his evidence. 4 points
 - c. For an article like this comment on the required level of Precision to be convincing to the average reader. 4 points
 - d. In your opinion does his evidence represent all the necessary viewpoints on such a controversial topic? Is his evidence Representative enough? 4 points
 - e. What have you observed about the Authority of his evidence? Comment on the existence of any Authority that can be attributed to making this article convincing. 4 points
3. In your opinion what is the Underlying Assumption that Nocera has about the causes of the financial crisis? 5 points
4. How convincing was this article as you read it? Support your conclusion. 5 points

Version 2

1. What is the claim that Joe Nocera is making? Where did you find it? 5 points
2. Nocera coaches us on how to create the Big Lie. Using the article tell us
 - a. How do you create the appearance of a Sufficient amount of evidence? 4 points
 - b. How do you make up for the lack of Precision in your evidence? 4 points
 - c. What do you do to create the Illusion of Accuracy? 4 points
 - d. Show how the evidence can be shown as Representative when it is not. 4 points
 - e. Describe what to do to demonstrate Authority in your evidence. 4 points
3. How convincing is Joe Nocera’s presentation? Support your conclusion. 5 points
4. In your opinion what is the Underlying Assumption that Nocera has about the causes of the financial crisis? 5 points

Article rank 27 Dec 2011 The Gazette JOE NOCERA NEW YORK TIMES

Manipulation creates fall guys for crash

Fannie and Freddie got into riskier mortgages only after the horse was out of the barn.

So this is how the Big Lie works.

You begin with a hypothesis that has a certain surface plausibility. You find an ally whose background suggests that he's an "expert"; out of thin air, he devises "data." You write articles in sympathetic publications, repeating the data endlessly; in time, some of these publications make your cause their own. Like-minded congressmen pick up your mantra and invite you to testify at hearings.

You're chosen for an investigative panel related to your topic. When other panel members, after inspecting your evidence, reject your thesis, you claim that they did so for ideological reasons. This, too, is repeated by your allies. Soon, the echo chamber you created drowns out dissenting views; even presidential candidates begin repeating the Big Lie.

Thus has Peter Wallison, a resident scholar at the American Enterprise Institute, and a former member of the Financial Crisis Inquiry Commission, almost singlehandedly created the myth that Fannie Mae and Freddie Mac caused the financial crisis. His partner in crime is another AEI scholar, Edward Pinto, who a very long time ago was Fannie's chief credit officer. Pinto claims that as of June 2008, 27 million "risky" mortgages had been issued - "and a lion's share was on Fannie and Freddie's books," as Wallison wrote recently. Never mind that his definition of "risky" is so all-encompassing that it includes mortgages with extremely low default rates as well as those with default rates nearing 30 per cent. These latter mortgages were the ones created by the unholy alliance between subprime lenders and Wall St. Pinto's numbers are the Big Lie's primary data point.

Allies? Start with congressional Republicans, who have vowed to eliminate Fannie and Freddie - because, after all, they caused the crisis! Throw in The Wall Street Journal's editorial page, which, on Wednesday, published one of Wallison's many articles repeating the Big Lie. It was followed Thursday by an editorial in The Journal making essentially the same point. Repetition is all-important to spreading a Big Lie.

In Wallison's article, he claimed that the charges brought by the Securities and Exchange Commission against six former Fannie and Freddie executives last week prove him right. This is another favourite tactic: He takes a victory lap whenever events cast Fannie and Freddie in a bad light. Rarely, however, has his intellectual dishonesty been on such vivid display. In fact, what the SEC'S allegations show is that the Big Lie is, well, a lie.

Central to Wallison's argument is that the government's effort to encourage home ownership among low- and moderate-income Americans is what led to the crisis. Fannie and Freddie, which were required by law to meet certain "affordable housing mandates," were the primary instruments of that government policy; their need to meet those mandates, says Wallison, is what caused them to dive so heavily into those "risky" mortgages, and because they were powerful forces in the housing market, their entry into subprime dragged along the rest of the mortgage industry.

But the SEC complaint makes almost no mention of affordable housing mandates. Instead, it charges that the executives were motivated to begin buying subprime mortgages - belatedly, contrary to the Big Lie - because they were trying to reclaim lost market share, and thus maximize their bonuses.

As Karen Petrou, a well-regarded bank analyst, puts it: "The SEC'S facts paint a picture in which it wasn't high-minded government mandates that did Fannie and Freddie wrong, but rather the monomaniacal focus of top management on market share." Fannie and Freddie, rather than leading the

housing industry astray, got into riskier mortgages only after the horse was out of the barn. They were becoming irrelevant in the most profitable segment of the market - subprime. And that they couldn't abide.

Three years after the financial crisis, the United States would be well served by a real debate about the role of government in housing. Should the government be helping low- and moderate-income Americans own their own homes? If so, is there an acceptable level of risk? If not, how do we recast the American dream?

To have that debate, though, we need a clear understanding of what role the government's affordable housing goals did - and did not - play in the crisis. And that is impossible as long as the Big Lie holds sway.

Which, now that I think of it, may be the whole point of the exercise.

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Part 1. Value 35 points. All answers should be based on the article "CAE's Diversification Plans are Paying Off" by Peter Hadekel

1.(a) Traditionally CAE has served the domestic and military aviation worlds through flight simulation training. From the Hadekel article describe how Chandler's principles of Scale and Scope are being used at CAE for its aviation customers.

1.(b) What economic limitations does CAE face in its expansion of the scale of its business?

2. Recently CAE has expanded its business to simulations in the Medical and Mining fields

(a) Provide an argument that expansion into these fields is merely an expansion of the scope of their simulation business

(b) Provide an argument that expansion into these fields is an example of poor diversification

© In your opinion does this business expansion help or hinder CAE in maintaining its First Mover status in the simulation industry

(d) Suggest what changes would have to be made to their Research and Development procedures before expanding into Health Care and Mining. What changes would be needed in their management structure?

3. If Jay Barney were to comment on this changed business strategy, describe what he would probably say about how Value, Rarity, Imitability and Organization apply in this case.

4. CAE is a mature company in terms of Age and Size. By moving into Mining and Health Care/Medical simulations, what stage of its Evolution is CAE entering. How would Greiner explain what is happening?

Article rank 11 Nov 2011 The Gazette phadekel@videotron.ca

HADEKEL CAE'S diversification plans are paying off

But building new businesses from the ground up is tough, especially in an uncertain economy where your aviation customers, both civil and military, are being hit by stronger economic headwinds.

On a conference call, Parent sounded upbeat about the challenging environment and the strategy he's following.

"I'm pretty happy with the progress we have made," he said. "In 2009, we had zero (revenue from the new markets) and next year we will be getting \$120 million in this business and we'll be profitable.

"Of course we've made acquisitions to achieve that, but if you look at both segments, health care and mining, they are both attractive."

Even though the two markets are very different from aviation, they share some common traits, he said. "They are mission critical, the same as in aviation. The need for safety and efficiency is the same."

From a management point of view at CAE, there's not as much of a culture shift as one might expect, he added. Sure the human body's circulatory system is not the same as the hydraulic system in an aircraft, but engineers can apply some of the same core principles in designing a simulator.

"Our engineers need to get the subject matter, and we get that from the people we acquire and partner with."

The corporate shift is occurring against an uncertain economic backdrop. The military side of the business could be at risk if debt problems in the U.S. and Europe result in more cutbacks to defence spending.

One analyst, Benoit Polrier at Desjardins Securities, said military revenues in the quarter were below expectations. But he pointed out that the company has a solid order backlog and continues to see a "broad pipeline" of opportunities, despite the budgetary pressures on its main defence customers.

Total backlog on the military side climbed to \$3.6 billion, up from \$3.5 billion in the first quarter.

"In defence, we were pleased to have won some key contracts in the second quarter in a challenging environment," Parent said. "We recognize the uncertainty has not gone away" but several factors give him confidence the defence business will hold up.

One is global diversification: about a third of military revenue is generated in the U.S., another third in Europe and the rest in high-growth markets like India, Southeast Asia and the Middle East where armed forces are modernizing.

The largest Western defence markets have already experienced significant cuts to spending and are still rationalizing their budgets but the reverse is true for emerging markets.

"We are on the right side of the equation," Parent says. "We see an explicit desire by defence forces and governments to maintain mission readiness at a lower cost by moving more training hours from aircraft to simulators as means of achieving recurring savings."

Meanwhile, on the civil side, commercial aviation activity still looks healthy despite the worsening global economic outlook, Parent said.

"Air travel grew again in September with airline revenue and passenger-kilometres up 5.7 per cent. Commercial aircraft order backlogs have reached nearly 9,000 aircraft or about 7 years at current delivery rates."

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Article rank 11 Nov 2011 The Gazette PETER HADEKEL

Selling expertise to diverse markets

"The strategy: adapting aviation technology to medical training."

How do you steer a company into new markets while continuing to manage your existing business in tough times?

That's a question you might ask Marc Parent, the chief executive at CAE Inc. The Montreal-based company supplies simulators and training programs to the aviation industry and wants to diversify into new markets: health care and mining.

On Thursday, as CAE reported second-quarter earnings of 15 cents a share that were in line with expectations, the diversification plan looked on track.

Quarterly revenue in those new markets climbed to \$20 million following the acquisition of a U.S. medical technology company in August. Parent is now forecasting revenue for the two new market segments of \$120 million next year, as well as profitability.

The eventual goal is to grow them to equal the size of the civil and military aviation units, although there's no specific time frame to do so.



The company wants to use its expertise in flight simulators and training to provide the same kind of technology to train doctors and nurses. In the mining sector, its technology can be adapted for geological imaging and mine system planning.

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