

Business Education in a Liberal Arts College: A Real-Option Advantage

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Abstract. The purpose of this paper is to emphasize the advantage of gaining business education in a liberal arts educational context. This paper shows that an investment in a liberal arts education can be regarded as a “real option”, and that a liberal arts education becomes more valuable in a changing, uncertain world. For this purpose, first, the paper discusses how a liberal arts education instills in students the flexibility of properly adapting to a rapidly changing, uncertain world. Then, the paper discusses “real options”, which is a byproduct of the “financial option pricing theory”, according to which the value of an “option” increases continuously as uncertainty increases. This means that in a changing and uncertain world, management may have valuable flexibility to respond profitably to unexpected events. Such management flexibility expands an investment’s options value. Similarly, successful liberal arts students, who gain flexibility through a liberal arts education, keep their options open in a rapidly changing, uncertain world. In other words, in the same way that real options adds value to a rigid project valuation method, a liberal arts education adds value to a specialized education.

Keywords: liberal arts education, business education, real option, uncertain world, changing world.

1. Introduction

This paper relates two separate lines of literature – liberal arts education and real options – to show the advantage of gaining business education in a liberal arts educational context. Section 1 discusses that in a liberal arts education, students gain exposure to a variety of subjects, which gives them an array of resources to understand issues across the spectrum of human knowledge and activity as well as to see any particular issue from a wide array of relevant perspectives and the ways in which issues relate to one another. That is, liberal arts education instills in students the flexibility of properly adapting to a rapidly changing, uncertain world. Section 2 discusses “real options”, which is a byproduct of the financial option pricing theory, according to which the value of an “option” increases continuously as uncertainty increases. This means that in a changing and uncertain world, management may have valuable flexibility to respond profitably to unexpected events. Such management flexibility expands an investment’s options value. This is in contrast to the rigid net present value (NPV) method of

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determining the value of an investment, where no consideration of the value of flexibility is included in determining the value of an investment. Section 3 concludes the paper by emphasizing that liberal arts students gain flexibility and learn to keep their options open in a rapidly changing, uncertain world. In other words, in the same way that the flexibility included in real options adds value to the rigid net present value (NPV) method, the flexibility included in a liberal arts education adds value to a specialized education.

2. Liberal Arts Education

Three reasons exemplify the value of a liberal arts education. First, its intrinsic value, or the distinction of learning for its own sake, the sheer joy associated with exploring the life of the mind, and asking the great questions that give meaning to life. Second, the cultivation of those intellectual virtues that are requisite for success beyond the academy, e.g., a liberal arts education as essential to a flourishing career. Third, character formation and the development of a sense of vocation, the connection to a higher purpose or calling.¹

A liberal arts education's foremost quality is that it is as an end in itself. That is, it is of value for its own sake independently of its preparing students for eventual employment. As an end in itself, a liberal arts education contrasts strongly with the increasingly common notion of education as primarily a means to an end. A liberal arts education not only asks about higher ends and ultimate values, but it is itself its own end. Becoming engaged with a range of disciplines and meaningful questions is an intrinsic good.

Through the liberal arts, students explore profound and evocative questions, engaging issues that appeal to their curiosity and desire for knowledge and

... deepening the restless urge to see how ideas fit together and relate to life. Our broader society lacks a rich culture of conversation that would embrace, rather than cast aside, such questions. But complex questions such as these are essential to a deeper understanding of the world and ourselves. To understand our world as it is and to understand our world as it should be are values in and of themselves. Liberal arts education involves the exploration of nature, knowledge of the social world, engagement with art and literature, contemplation, dialogue, friendship, and love. (Roche 2013, page 5)

The second value of a liberal arts education is its practical application. A liberal arts education helps students develop an array of intellectual virtues, the

1. For this literature, see Camochan (1994), Chopp, Frost, and Weiss (2014), Cohen and Brawer (2008), Collett (1996), Drake (2012), Fassbinder, Nocella II, and Kahn (2012), Freedman (2003), Koblik and Graubard (2000), Kroll (2013), Oakley (1992), Pascarella (2005), Pascarella and Terenzini (2005), Repko (2012), Roche (2010a, 2010b, 2013), Roth (2015), Sarat (2004), Shephard and Hammonds (2011), Smith (2002), Winter, McClelland, and Stewart (1981), and Zakaria (2015). This section is based on Roche (2013).