

# **Consumer and Investor Protection**

**Department of Economics**

## **Economics 490 - Spring 2026 – MSPE Students**

**Economics Elective Course (4 Credits)**

**Tuesday and Thursday**

**3:30 pm – 4:50 pm**

**David Kinley Hall – Room 113**

**Instructor:** Martin K. Perry, Ph.D., J.D. (Call me Marty)  
**Email:** [mkperry@illinois.edu](mailto:mkperry@illinois.edu)  
**Questions:** By email  
**Office Hours:** Room DKH 117 at 5:00 pm on Thursday  
**Appointments by arrangement:** Office or by Zoom

**Course Information:** This is a four-credit elective course. The prerequisite is Intermediate Microeconomic Theory (Econ 302). This course contributes to the Economics Learning Outcomes of (i) Critical Thinking and (ii) Specialized Knowledge and Practical Application.

**Readings:** There is no required or recommended textbook. Instead, we will use readings that I have developed from statutes, legal cases, and other readings. I will email these readings to everyone as we prepare for each new section of the course.

**Lecture Notes:** I have written lecture notes for most of the sections of the course. I will email those lecture notes to everyone AFTER the lectures on each section.

**Course Description:** The topics are divided into ten sections listed below. The first section provides the Constitutional authority for the regulation of corporations by federal and state governments, and the limitations on that regulation derived from provisions in the Bill of Rights. The second section examines price regulation by federal and state agencies and discusses deregulation of the telecommunications and airline industries. The third section introduces Common Law fraud by sellers of goods and then discusses the modern regulation of false and misleading advertising by the Federal Trade Commission. The fourth section examines product liability for manufacturers, an important part of tort law. We examine the duty of manufacturers to provide products free of manufacturing or design defects that would harm consumers, and the duty of manufacturers to warn consumers about the unavoidable defects or side effects of their products. The fifth and sixth sections then discuss the federal regulation of product safety by the National Highway Traffic Safety Administration (automobiles) and the Consumer Product Safety Administration. The course then shifts to investor protection. In the seventh section, we will discuss the Securities and Exchange Commission rules against false and misleading statements by corporations to their shareholders and investors in general. The eighth section illustrates various types of accounting fraud using famous cases from the Dotcom Bubble in 2000-01. In the ninth section, we will talk about liability for insider trading. The tenth section examines recent cases of Ponzi

Schemes that caused many investors to lose billions of dollars. Finally, the eleventh section discusses the recent cases on cryptocurrency and money laundering.

**Grading:** The maximum number of points for the course is 400. The Midterm Exam will be worth 100 points, and the Final Exam will be worth 200 points. Finally, there will be a required Research Paper worth 100 points. This paper is the additional requirement for MSPE students to obtain the fourth credit for the course.

The following is a tentative schedule for the Midterm and Final Exams. The day and time for the Final Exam is set by the University. We can change the day for the Midterm based on where we are in the lectures.

**Midterm Exam:** Tuesday, March 3 - tentative date, In Class  
(100 points) Sections 1-3, and maybe Section 4  
March 13 is the deadline for dropping the course without a W grade.

**Final Exam:** Wednesday, May 13, 8:00 AM – 11:00 AM  
(200 points) CUMULATIVE, but heavier emphasis on Sections 5-11

The questions on both examinations will be multiple choice questions. The Midterm Exam will have 20 questions worth five points each, for a total of 100 points. The Final Exam will have 40 questions worth five points each, for a total of 200 points. During the class before the Midterm Exam, I will hold a review session. On the last day of class (May 5), I will hold a review session for the Final Exam.

Both examinations will be open book. You can use the Readings and my Lecture Notes, your own notes, and any notes from your fellow students. If you decide to go totally paperless, you may also use your laptop during the exams. I will bring power strips for the exams. There will be NO extra credit assignments, either during the semester or after the Final Exam.

**Grading: One Research Paper (100 Points)**

The Research Paper should have a maximum length of 6 pages, using one-inch margins, 12 point font, and 1.5 line spacing. The references can be cited by listing their links. The paper will be due on Monday, May 18, after the Final Exam. This will give me time to read them before the grades have to be posted by May 22.

After consulting with me, you will be able to choose a topic for your paper from the topics in the course. The topic of the paper will be a legal case or complaint about a corporation over their products or statements. You can NOT write your paper about a case that we discussed in class. Ideally, your paper should be based on a new case or complaint since the ones that we discussed in class. Alternatively, your paper may be based on a policy issue from the course material. Later in the course, I will provide lists of cases and policy issues that can be topics for your paper. You can also find cases from the webpages of the federal agencies that we discuss in class. And there will surely be some new cases arise in the business news.

# **Topics on Consumer Protection**

## **Section 1: Introduction**

### **Constitutional Limits on the Regulation of Corporations**

U.S. Constitution – Selected Provisions	Page 2
United States Federal Courts	Page 7
Delaware Incorporation Law – Selected Provisions	Page 12
Smyth v. Ames (1898)	Page 17
Due Process and State Regulation of Prices	
West Coast Hotel Co. v. Parrish (1937)	Page 21
Due Process and State Regulation of Labor Contracts	
U.S. v. Carolene Products (1938)	Page 27
Rational Basis Test and Federal Regulation under Commerce Clause	
U.S. v. Darby (1941)	Page 33
State and Federal Minimum Wages	Page 40
Virginia State Board v. Council (1976)	Page 41
First Amendment Protection for Corporate Commercial Speech	

## **Section 2: Price Regulation**

### **Rate of Return Regulation Telecommunications and Airlines**

#### **Rate of Return Regulation**

Smyth v. Ames (1897)	Page 2
Calculating the Fair Value of Property	
FPC v. Hope Natural Gas (1944)	Page 8
Rate of Return on Original Cost of Property	

#### **Telecommunications Deregulation**

MCI Communications v. AT&T (1983)	Page 11
Competition in Long Distance Services	
U.S. v. AT&T (1982)	Page 23
Breakup of the Bell System in 1984	
National Cable Assn. v. Brand X (2005)	Page 41
Information Services under the Telecommunications Act of 1996	

#### **Airline Deregulation (Google Gerald N. Cook)**

A Review of History, Structure, and Competition in the U.S. Airline Industry	
Journal of Aviation/Aerospace Education and Research, Fall 1996 (Vol. 7, No. 1)	
Gerald N. Cook, Embry-Riddle Aeronautical University	
Airline Networks: A Comparison of Hub-and-Spoke and Point-to-Point Systems	
Journal of Aviation/Aerospace Education and Research, Winter 2008 (Vol. 17, No. 2)	
Gerald N. Cook and Jeremy Goodwin, Embry-Riddle Aeronautical University	
American Airlines v. Wolens (1995)	Page 50
Revisions of Frequent Flyer Programs	

**Section 3: False Advertising**  
**Common Law Fraud and Caveat Emptor**  
**FTC False and Misleading Advertising**

<b>Common Law Fraud – Legal Formulations</b>	Page 2
Uniform Commercial Code: Contract Warranties and Remedies	Page 4
Laidlaw & Co. v. Organ (US Supreme Court, 1817)	Page 9
Caveat Emptor – Buyer Beware	
Barnard v. Kellogg & Co. (US Supreme Court, 1869)	Page 13
Custom Among Merchants and Caveat Emptor	
Johnson v. Davis (Florida Supreme Court, 1985)	Page 17
Duty to Reveal Latent Defects in Home Sales	
 <b>Federal Trade Commission Act (1914)</b>	 Page 22
Federal Trade Commission Statement on Deception (1983)	Page 33
FTC v. Colgate-Palmolive Co. (1965)	Page 49
Sterling Drug, Inc. v. FTC (US Ninth Circuit, 1984)	Page 54
False and Misleading Claims about Aspirin Products	
Kraft, Inc. v. FTC (US Seventh Circuit, 1992)	Page 70
Misleading Claims about Cheese Products	
FTC Rule 465 on the Use of Consumer Reviews and Testimonials (2024)	Page 82
FTC Rule 465 on the Use of Consumer Reviews and Testimonials	Page 87
Questions and Answers (2024)	
FTC Guides Concerning Use of Endorsements in Advertising (2023)	Page 99
AMG Capital Management v. FTC (US Supreme Court, 2021)	Page 121

**Section 4: Product Liability**  
**Negligence and Strict Liability**  
**Duty to Warn**  
**Class Action Mass Torts**  
**Volkswagen Class Action**

**Negligence - Duty for Manufacturing Defects and Inspection of Components**

MacPherson v. Buick Motor (NY Appellate Division, 1912) Page 2

MacPherson v. Buick Motor (NY Court of Appeals, 1916) Page 4

Negligence Standard for Manufacturing Defects

**Strict Liability – New Duty for Manufacturing Defects**

Suvada v. White Motor (Illinois, 1965) Page 9

Strict Liability Standard for Manufacturing Defects

**Negligent Design – Automobile Safety Design**

Larsen v. General Motors (MI, 1968) Page 14

Young v. Volkswagon (MD, 1974) Page 23

Negligence Standard for Design Defects

Grimshaw v. Ford Motor Co. (CA, 1981) Page 35

**Duty to Warn - Side Effects of Medical Products**

MacDonald v. Ortho Pharmaceutical (MA, 1985) Page 42

Duty to Warn about Known Risks

Vassallo v. Baxter Healthcare (MA, 1998) Page 53

Duty to Warn about Unknown Risks

Ideus v. Teva Pharmaceuticals USA, Inc. (Eighth Circuit, 2021) Page 59

Learned Intermediary

**Consumer Class Action Lawsuits**

Class Actions – Rule 23 Page 66

Multidistrict Litigation Page 68

Volkswagen Class Action Transfer Order Page 70

Racketeer Influenced and Corrupt Organizations (RICO) Page 73

Mail and Wire Fraud Page 78

Volkswagen “Clean Diesel” Marketing Settlement Page 80

**Volkswagen “Clean Diesel” Sales and Marketing Practices PDF Attachment**

Amended Consolidated Consumer Class Action Complaint (August 2, 2016)

Introduction:	Pages 1-6	16-21
Factual History	Pages 134-204	149-219
Class Certification	Pages 206, 212-215	221, 227-235
Defendants	Pages 216-220	227-236
RICO Claim	Pages 227-238	242-253
Fraud Claim	Pages 241-243	256-258

## **Section 5: Automobile Safety**

National Highway Traffic Safety Administration Statutory Authority	Page 2
Firestone Tires Engineering Analysis Report and Recall Steel Belted Tires	Page 13
General Motors - Deferred Prosecution Agreement Ignition Switch	Page 17
Takata Airbag Products Liability Settlement Airbag Release	Page 37
General Motors – Recall and Class Action Lawsuit V8 Engines 2019-2024	Page 40

## **Section 6: Consumer Product Safety**

Consumer Product Safety Commission Statutory Authority	Page 2
Regulation - Ban of Lead-Containing Paint Product Bans	Page 27
Regulation - Requirements for All Terrain Vehicles Industry Standards	Page 30
The Consumer Product Safety Act: A Legal Analysis (2018) Congressional Research Service	PDF Attachment
In the Matter of Zen Magnets (October 26, 2017) Small Rare Earth Magnet Sets Read Sections I, II, V, and VI Skim Section III on Evidence Skip Section IV	PDF Attachment
Zen Magnets v. CPSC (Tenth Circuit, August 4, 2020) Read Section I Skip Sections II and III Skim Section IV on the Commissioner Statements Read Section V	PDF Attachment
Texas Association of Manufacturers v. CPSC (March 1, 2021) Phthalates in the Plastics for Children Toys Read Section I, pages 2-9 Section II, pages 17-19 Section III, pages 24-28 Section IV and V, pages 30-31	PDF Attachment

# Topics on Investor Protection

## Section 7: Corporate Statements

SEC Statutes and Regulations (1934 and Williams Act 1968)	Page 2
False and Misleading Statements or Omissions	
Basic, Inc. v. Levinson (U.S. Supreme Court, 1988)	Page 8
Announcements about Merger Negotiations	
Trump Casino Securities Litigation (Third Circuit, 1993)	Page 20
Statements in the Prospectus for Bond Issue	
Hewlett v. Hewlett-Packard (Delaware, 2002)	Page 29
Statements in a Proxy Contest for Shareholder Merger Vote	
Matrixx v. Siracusano (U.S. Supreme Court, 2011)	Page 43
Announcements about Potential Product Defects	
Hess v. Alibaba (Complaint, Southern District of New York, 2021)	PDF Attachment
Announcements in an Initial Public Offering for ANT Group	

## Section 8: Accounting Fraud

SEC Regulations (Staff Accounting Bulletin #104)	Page 2
Revenue Recognition	
In the Matter of The Coca-Cola Company (Complaint, 2005)	PDF Attachment
Channel Stuffing	
SEC v. Worldcom Inc. (Complaint, 2002)	Page 4
Capital Expensing	
SEC v. Xerox Corporation (Complaint, 2002)	Page 13
Allocation of Lease Revenue	
SEC v. Enron (Ken Lay and Jeff Skilling)	PDF Attachment
Special Purpose Entities and Other Fraudulent Practices	
Sarbanes-Oxley Act (2002) - New Auditing and Reporting Requirements	
Recent Cases	
Gimpel v. The Hain Celestial Group (2025)	
Channel Stuffing	

## **Section 9: Insider Trading**

SEC Statutes and Regulations (1934 and Williams Act 1968)	Page 2
SEC v. Texas Gulf Sulphur (Second Circuit Court of Appeals, 1968)	Page 6
Dirks v. SEC (U.S. Supreme Court, 1983)	Page 20
Salman v. United States (U.S. Supreme Court, 2016)	Page 26
Liability for a Tippee for Breach of Fiduciary Duty	
U.S. v. O'Hagan (U.S. Supreme Court, 1997)	Page 33
Liability for Breach of Duty of Confidentiality	
Litton v. Lehman Brothers (Second Circuit Court of Appeals, 1992)	Page 40
Liability for Corporate Advisors	
U.S. v. Raj Rajaratnam (2011)	PDF Attachment

## **Section 10: Ponzi Schemes and Securities Fraud**

SEC v. Madoff (Complaint, 2008) – Investment Fund Scam	PDF
Attachment	
SEC v. Bankman-Fried (Complaint, 2022) – Cryptocurrency Scam	PDF
Attachment	
SEC v. GPB Capital Holdings (2025) – Private Equity Scam	PDF
Attachment	

## **Section 11: CyptoCurrency and Money Laundering**

SEC v. Howey Co. (1946) – Definition of security
SEC v. Ripple Labs (2023) – XRP digital token
SEC v. Binance (2024) – Cryptocurrency trading platform
SEC v. Coinbase (2024) – Cryptocurrency trading platform
US. V. TD Bank Holding Company (2024) – Bank Money Laundering
US v. Ross William Ulbricht (2014) – Silk Road
US v. Sterlimgov (2023) – Bitcoin Fog



## **Academic Assistance**

Students are encouraged to utilize the many resources we have throughout campus to assist with academics. We recommend that you seek them out starting early in the semester, not just in times of academic need, in order to develop good study habits and submit work which represents your full academic potential. Many resources are found on the Economics Website including details about the Economics Tutoring Center, Academic Advising, and other academic support options:

<https://economics.illinois.edu/academics/undergraduate-program/academic-student-support>

## **Academic Integrity**

According to the Student Code, 'It is the responsibility of each student to refrain from infractions of academic integrity, from conduct that may lead to suspicion of such infractions, and from conduct that aids others in such infractions.' Please know that it is my responsibility as an instructor to uphold the academic integrity policy of the University, which can be found here: <https://studentcode.illinois.edu/article1/part4/1-401/>

Academic dishonesty may result in a failing grade. Every student is expected to review and abide by the Academic Integrity Policies. It is your responsibility to read this policy to avoid any misunderstanding. Do not hesitate to ask the instructor(s) if you are ever in doubt about what constitutes plagiarism, cheating, or any other breach of academic integrity.

**Read the full Student Code at** <https://studentcode.illinois.edu/>

## **Students with Disabilities**

To obtain disability-related academic adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES you may visit 1207 S. Oak St., Champaign, call 333-4603 (V/TTY), or e-mail a message to [disability@illinois.edu](mailto:disability@illinois.edu). DRES Website: [www.disability.illinois.edu/](http://www.disability.illinois.edu/)

## **Community of Care**

As members of the Illinois community, we each have a responsibility to express care and concern for one another. If you come across a classmate whose behavior concerns you, whether in regards to their well-being or yours, we encourage you to refer this behavior to the Student Assistance Center (217-333-0050 or <http://odos.illinois.edu/community-of-care/referral/>). Based on your report, the staff in the Student Assistance Center reaches out to students to make sure they have the support they need to be healthy and safe. Further, we understand the impact that struggles with mental health can have on your experience at Illinois. Significant stress, strained relationships, anxiety, excessive worry, alcohol/drug problems, a loss of motivation, or problems with eating and/or sleeping can all interfere with optimal academic performance. We encourage all students to reach out to talk with someone, and we want to make sure you are aware that you can access mental health support at the Counseling Center (<https://counselingcenter.illinois.edu/>) or McKinley Health Center (<https://mckinley.illinois.edu/>).

For mental health emergencies, you can call 911 or walk into the Counseling Center, no appointment needed.

## **Disruptive Behavior**

Behavior that persistently or grossly interferes with classroom activities is considered disruptive behavior and may be subject to disciplinary action. Such behavior inhibits other

students' ability to learn and an instructor's ability to teach. A student responsible for disruptive behavior may be required to leave class pending discussion and resolution of the problem and may be reported to the Office for Student Conflict Resolution for disciplinary action.

### **Emergency Response Recommendations**

Emergency response recommendations can be found at the following website:

<http://police.illinois.edu/emergency-preparedness/>. I encourage you to review this website and the campus building floor plans website within the first 10 days of class. <http://police.illinois.edu/emergency-preparedness/building-emergency-actionplans/>.

### **Religious Observances**

The Religious Observance Accommodation Request form is available at <https://odos.illinois.edu/community-of-care/resources/students/religious-observances/>. Submit the form to the instructor and to the Office of the Dean of Students (helpdean@illinois.edu) by the end of the second week of the course; in the case of exams or assignments scheduled after this period, students should submit the form to the instructor and to the Office of the Dean of Students as soon as possible.

### **Family Educational Rights and Privacy Act (FERPA)**

Any student who has suppressed their directory information pursuant to Family Educational Rights and Privacy Act (FERPA) should self-identify to the instructor to ensure protection of the privacy of their attendance in this course. See <http://registrar.illinois.edu/ferpa> for more information on FERPA. Student information and records will not be released to anyone other than the student unless the student has provided written approval or as required by law.

### **Sexual Misconduct Reporting Obligation**

The University of Illinois is committed to combating sexual misconduct. Faculty and staff members are required to report any instances of sexual misconduct to the University's Title IX and Disability Office. In turn, an individual with the Title IX and Disability Office will provide information about rights and options, including accommodations, support services, the campus disciplinary process, and law enforcement options. A list of the designated University employees who, as counselors, confidential advisors, and medical professionals, do not have this reporting responsibility and can maintain confidentiality, can be found here: <http://www.wecare.illinois.edu/resources/students/#confidential>. Other information about resources and reporting is available here: <http://wecare.illinois.edu/>.

### **Student Support**

The Counseling Center is committed to providing a range of services intended to help students develop improved coping skills in order to address emotional, interpersonal, and academic concerns. Please visit their website to find valuable resources and services: <https://counselingcenter.illinois.edu/>.

**Counseling Center Information:** 217-333-3704

Location: Room 206, Student Services Building (610 East John Street, Champaign IL)

**McKinley Mental Health Information:** 217-333-2705

Location: 3rd Floor McKinley Health Center 1109 South Lincoln, Urbana, IL

**Emergency Dean:** The Emergency Dean may be reached at (217) 333-0050 and supports students who are experiencing an emergency situation after 5 pm, in which an immediate University response is needed and which cannot wait until the next business day. The Emergency Dean is not a substitute for trained emergency personnel such as 911, Police or

Fire. If you are experiencing a life threatening emergency, call 911. Please review the Emergency Dean procedures: <http://odos.illinois.edu/emergency/>

**Academic Dates and Deadlines**

Students should make note of important academic deadlines for making changes to their courses (add, drop, credit/no-credit, grade replacement, etc.).

<https://registrar.illinois.edu/academic-calendars>

Please check with your academic department regarding specific procedures and policies.