

Musk buys Twitter¹

This Month in the Economy Exercise

Instructor's Guide

This Month in the Economy Exercises

These teaching packs are designed for 30-minute (online or offline) sessions that can be included within any lecture or tutorial class. They are designed to be suitable for university students, but could easily be adapted for higher or lower levels. Every month, we will publish at least one exercise that you can use to engage your students with current events. The main aims of these exercises are to give students practice in relating economic ideas to the real world and their own lived experiences.

Newspaper articles or videos are used as the entry point to an economic topic, which the instructor then expands upon before the students are broken into small groups to engage in an activity. Teaching more concrete knowledge about actual economies gives students motivation, helps them anchor theory to something in the real world, gives them a basis of knowledge to build on, and will help students to develop the skills required to work as economists in the real world. All the materials you need are provided for you. These teaching packs are published as creative commons (CC BY) and can be freely used and adopted.

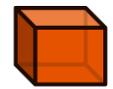
Musk buys Twitter

In this teaching pack, we look at the acquisition of Twitter by Elon Musk. In particular, we focus on what it means to take a company private and how the deal was financed.

¹ We want to thank Irene de Vries for her input, advice and feedback. The remaining mistakes and inconsistencies are, of course, our own.

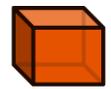
Lesson plan

Learning Outcomes		
<ul style="list-style-type: none"> • Understanding how a public company can be taken into private ownership • Understanding the impact of the acquisition • Develop financial literacy and understanding of corporate governance 		
Prior to session		
Readings: <ul style="list-style-type: none"> • https://www.seattletimes.com/business/how-twitter-will-change-as-a-private-company/?amp=1 • https://www.reuters.com/markets/us/how-will-elon-musk-pay-twitter-2022-10-07/ 		
Plan of Activities		
Duration	Teacher Activity	Student Activity
4 min	Introduce the topic and the learning objectives (slides 1-2). Ask the students a question, checking if they are aware of this case and how many are active users of Twitter.	
3 min	Present slides 3-4 giving a brief summary of the things that have happened.	
3 min	Present slide 5: first, explain many of the goods behind the consumption bundle (after clicking the slide once). Then ask students to guess how many billions these luxury goods are worth. After some students give their guesses, make another click to show the answer, i.e. 8.4 billion. Far from the worth of the deal.	Guess how many billions you think the bundle of luxury goods is worth.
3 min	Small exercise (slide 6): Ask the students "How does one buy public companies like Twitter?". This can be done by setting up a	Contribute to the word cloud.



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	<p>word cloud using e-tools such as Slido or Mentimeter to engage as many students as possible. Set it up so the students can input several keywords. If you want to keep it simple, it can also just be asked directly to the audience.</p>	
2 min	<p>Define the terms takeover, acquisition, merger, and buyout (slide 7).</p>	
3 min	<p>Ask the students where the money of the deal came from to check if the students remember what they read in the article. Was it from his own pockets?</p> <p>Show the various sources of financing behind the Twitter deal came from (slide 8).</p>	<p>Raise hands and give input on where the money could have come from.</p>
2 min	<p>Briefly show how the deal was done through setting up a holding company (X) which is the entity that bought all the shares, which is ultimately controlled by Musk (slide 9).</p>	
5 min	<p>Instruct the students to get in small groups to discuss:</p> <ul style="list-style-type: none">• Who has benefitted from the takeover?• Who has lost out from the takeover?• Should large platforms have different ownership and governance rules to other companies?	<p>Discuss and reflect with peers on the given questions with regards to Twitter going private and its implications.</p>
5 min	<p>Ask the students to write a "tweet" capturing the effect the Twitter acquisition will have on either:</p> <ul style="list-style-type: none">• The economy• The public sphere	<p>Create a tweet in groups, or individually if preferred, on the effects of the Twitter deal. Choose one of the aspects to focus on.</p>



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	<ul style="list-style-type: none">• Its workers• You personally	
Total: 30 min		

Student preparation work

To give students a deeper insight into the topic, they can read a selection of two articles. First, one from [the Seattle Times](#) for understanding how Musk is taking Twitter private and the changes in the company in general as a result of the acquisition. The second article is from [Reuters](#), which looks further into how the deal was financed to give students more nuance about how such purchases happen.

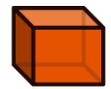
Presentation by the instructor

First, the lesson's learning objectives are briefly explained to help them understand what is expected of them and what to focus on (slide 2).

Second, students are given a brief recap of the before and after Musk's deal (slide 3). Twitter has undergone huge changes, such as the blue/white tick. Musk also heavily laid off almost half the workforce, and many employees also decided to leave the company due to the changes made. Moreover, as of 27th October, Musk dissolved the board of directors and became the sole director of Twitter. According to the papers, he is likely to appoint a new board, which is also required by law, consisting of friends and investors that helped with the acquisition, and he has also stated he would appoint a new CEO.

The last essential change of the company is going from being a publicly traded company (since 2013) to being a private company. This involves being delisted from the New York Stock Exchange, and investors would be able to claim the value of their shares (slide 4). Going private entails less public/regulatory scrutiny, such as making [quarterly financial reports](#) of their performance. By being a private company, Musk can more easily do large changes to the platform, finances, and priorities, without worrying about public investors' opinions (such as stock prices crashing). In other words, going private gives Musk more control of the company. However, as will be shown later, Musk borrowed large sums from banks. Thus, Twitter may get more private scrutiny from the banks he borrowed from.

Putting the value of the deal, \$44 billion, into perspective (slide 5). A luxury consumption bundle including a mega yacht, an NBA and Formula 1 team, a jet, a private island, a Picasso painting, influencing a high-ranking politician, etc., is "only" worth around \$8.4 billion. This is inspired by the website "[How to spend Elon's fortune.](#)" The last Beijing Olympics, however, is estimated to have a price tag of around [\\$38.5 billion](#), but most of this is large infrastructure and public transport investments.



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Important terminology (slide 7)

In the news, the deal has been referred to as a [takeover](#), [buyout](#), [merger](#), and [acquisition](#). This also shows how all these terms are closely related and reflect parts of the nature of the deal. Takeovers, particularly friendly ones, such as this deal, are often structured as mergers and acquisitions.

The financing behind the deal (slide 8)

A total of 46.5 billion was needed to finance this deal (Twitter being worth 44 billion, so 2.5 billion going to related costs of the deal). However, even though Musk is worth \$191 billion he needed a range of different tools to finance the deal.

- 33.5 billion equity commitment:
 - 24 billion of this was from Musk himself, from which 4 billion was from his 9.6% ownership stake in Twitter that he already had and the rest he got from selling parts of his shares in Tesla.
 - The 2 billion from the unknown source category might also be from Musk and part of the equity commitment.
 - 7 billion came from other equity sources such as Oracle Corp (ORCL.N) co-founder Larry Ellison and Saudi Prince Alwaleed bin Talal
- 13.4 billion debt financing
 - Loans backed by his shares in Tesla as collateral with banks such as Morgan Stanley and Bank of America providing the debt financing.

Musk set up a corporate entity called X Holdings in Delaware to handle the deal, and as part of it, had it merge with Twitter. The holding company then buys out all of Twitter's stocks, and Musk, in turn, controls the holding company (slide 9).

Student exercise

The second half of the lesson is about getting students to actively discuss and reflect on the material. This is done by a 5-minute-long discussion in small groups of 3 to 4 people and a 5-minute-long exercise of concretising their opinion by creating a tweet on the topic. These exercises will also give students the opportunity to contribute with their own knowledge about the topic.

Questions to stimulate discussion:

- Who has benefitted from the takeover?
- Who has been harmed by the takeover?
- Should large online platforms have different ownership and governance rules to other companies?



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When explaining the exercise to students, one could give example answers to help students to start. For example:

- The previous shareholders of Twitter have been paid above the market rate for their shares, but no longer have any influence over the company.
- Elon Musk now has complete control over a company with global reach and influence.
- Publicly listed companies are required to be more transparent than privately owned companies, and it is easier to hold their leaders accountable.
- Many people who had previously been removed from Twitter can now come back. This allows them to spread their ideas or content more widely, which could benefit some users and harm others.
- Twitter is very important for online discussion and debate, and therefore it needs to be protected from the impulses of one person.
- Private ownership (including of companies) is enshrined in law, and therefore Elon Musk should be able to do whatever he wants with his property.
- Going private will enable Twitter to do huge changes, but whether they're good or not relies almost entirely on Musk's leadership. They will also face less public regulation and scrutiny.
- Public sphere: Musk now decides what the limits are in terms of free speech and information spread on a crucial platform.
- Business model for social media companies: role of advertisers, paying for use or paying with your data
- Workers' rights