Behavioral Finance

Course Objectives

Behavioral Finance deals with the influence of psychology on various aspects of financial markets, including the behavior of individual and institutional investors. This will help the students to minimize or eliminate the psychological bias in investment decision process.

Syllabus

Conventional Finance, Prospect theory and Market Efficiency- Agency theory- Behavioural Science Foundation- Investor Behaviour- Money Management- Expertise and Implicit learning- Neuro-finance.

Expected Outcome

Upon successful completion of this course, the students will be able to understand the psychological bias in investment decisions.

References

1. Ackert, Lucy F., Deaves, Richard (2010). Behavioral Finance. South-Western Cengage Learning

2. Sulphey M.M, Behavioural Finance, PHl Learning.

3. Arnold, Glen (2010). Investing: the definitive companion to investment and the financial markets. 2nd ed. Financial Times/ Prentice Hall.

4. Gold, M. Investing in pseudo-science: the `active versus passive` debate // The Journal of Financial Research, Spring

5. Gitman, Lawrence J., Michael D. Joehnk , Fundamentals of Investing. Pearson / Addison Wesley

6. LeBarron, Dean, Romeesh Vaitilingam. Ultimate Investor, Capstone

7. Nofsinger, John R. The Psychology of Investing. 3rd ed. Pearson/Prentice Hall

8. Sharpe, William, F. Gordon J. Alexander, Jeffery V.Bailey. Investments, International edition. Prentice –Hall International.

9. Rabin, Matthew, Risk Aversion and Expected-Utility Theory: A Calibration Theorem, Econometrical, 2000.

COURSE PLAN

1 Conventional Finance, Prospect theory and Market Efficiency: The Pricing of Risk-Market Efficiency-Agency Theory-Prospect Theory-Challenges to Market efficiency- Behavioural Vs Neo Classical Finance-Irrational preference and Cumulative Prospect Theory.

2 Behavioural Science Foundation: Perception, Memory, and Heuristics- representatives and Related Biases- Irrationality and adaptation- Miscalibration- Other strains of overconfidence-Brief history of rational thought-Pascal-Femat to friedman-Savage- Pre requisites for Rational choice and Quasi Rational Choice

First Internal Examination

3 Investor Behaviour: Financial Behaviour stemming from Familiarity, Financial Behaviour stemming from Representativeness-Over confidence and Excessive Trading- Under diversification and Excessive Risk Taking- Investor Decision cycle-Decision making under risk and uncertainty- Expected utility theory- Decision making in Historical prospective-Allais and Elsberg’s paradoxes-Errors in Decision making.

4 Corporate Finance: Mispricing and Goals of Managers- Irrational Managers or Irrational Investors. Investor psychology-Forecasting Bias-Emotional Decision Making- Errors in Decision making- Behavioural corporate finance and Managerial decision making- Investing style and Behaviour Finance.

Second Internal Examination

5 Money Management: Anomaly Attenuation-style peer Groups and style investing Multivariate approach- Style rotation- Neurofinance and the trader’s Brain- Expertise and Implicit learning-Expertise and Emotion- Gender, Personality Type, and Investor Behavior- Investor Personality Types- Neuroeconomics- rational Managers and Irrational investors

Final Examination