Finance Elective Course Snapshot

Behavioral Finance

FIN 579 – 22093/4

Wednesdays @ 6pm

"It behooves us to reflect on the real determinants of market moves and how these market moves, in their effects, filter through the economy and our lives. Many of those real determinants are in our minds."

— Robert J. Shiller, Nobel prize winner (2013)

Financial outcomes are the result of *human* decisions: Stock prices emerge from the buying and selling decisions of thousands of individual investors. Corporate executives decide when a firm should raise new capital and how it should invest. A household's ability to comfortably retire, or prepare for unexpected events, depends on a lifetime of past decisions to save and borrow. Even hedge fund managers, investment advisors, and other professionals are only human.

Behavioral Finance is the study of human decision-making applied to multiple fields of Finance. This involves integrating classic models of behavior from Economics together with insights from Psychology about how we make judgments and arrive at decisions. Behavioral Finance acknowledges our imperfections and even irrationality, and provides us with insights on how to avoid mistakes in order to reach better outcomes for ourselves and our stakeholders – insights that even allow us to identify opportunities in financial markets. We will first gain an understanding of how our behavior can hold us back from attaining our individual financial goals. We will then examine how these individual decisions can add up to make markets inefficient, prices detached from fundamentals, and corporate decisions sub-optimal.

Investors

Appreciate common financial mistakes made by individual investors and households, while connecting to economic theory.

Markets

Identify market opportunities that are due to investors' behavioral patterns, but also understand the danger of bubbles and crashes.

Firms

Learn about the behavioral biases of corporate executives, and discuss case studies on M&A, capital raising decisions, and investment strategies.

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