Behavioral Finance

HvA International Business School
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CREATING TOMORROW

Module guide 2016 - 2017
International Business School

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Course site	https://dlwo.dem.hva.nl	

Contents

1. Module overview

This guide gives you an overview of Behavioral Finance. More detailed information can be found on the DLWO (https://dlwo.dem.hva.nl)

1.1 Content

Behavioral finance links finance theory and practice to human behavior. The course begins by building upon the established, conventional principles of finance that students have already learned in their principles course. Ahetr that we move into psychological principles of behavioral finance, including heuristics and biases, overconfidence, emotion and social forces. Students learn how human behavior influences the decisions of individual investors and professional finance practitioners, managers, and markets. In other words, "The economist may attempt to ignore psychology, but it is sheer impossibility for him to ignore human nature. … If the economist borrows his conception of man from the psychologist, his constructive work may have some chance of remaining purely economic in character. But if he does not, he will not there-by avoid psychology. Rather, he will force himself to make his own, and it will be bad psychology." (Clark 1918). Another goal is that students gain a strong understanding of how social forces impact people's choices. Students learn the implications of behavioral finance on retirement, pensions, education, debiasing, and client management. We will spends a significant amount of time examining how behavioral finance can be used effectively by practitioners today. Our approach provides opportunities for students to utilize theory and complete applications in every chapter.

1.2 Learning goals

#	You can:
1.	Describe or explain behavioral finance theories, but more importantly, the students understand the need from alternative theories; paradigm adjustments vs paradigm switch.
2.	Apply behavioral finance theories to current day financial situations.
3.	Do research: set up experiments and surveys that capture behavioral finance phenomana.
4.	Use inferential statistics to distinguish structure from randomness within obtained data.
5.	
6.	

Appendix 1 defines the relationship of the learning goals within this module with your programme's profile competences.

1.3 Coherence with other modules

"Behavioral Finance is the study of how psychological phenomena impact financial behavior." (Shrefrin, 2005). The course builds on the more fundamental finance courses, like corporate finance, accounting and stock and bond valuation courses. All courses within the minor are related to the course Behavioral Finance, only from a different perspective. The difference is that the theory/methodology is not the main object of study, but the practioners actions, behavior and psychology while using the the theory/methodology. In other words, the difference between behavioural and traditional approaches to finance lies in the explicit recognition of the need to ground theoretical innovations of financial decision-making in an understanding of how decisions are actually made. For example, it is not surprising that the Black-Scholes formula works in "explaining" price if it is programmed into a spreadsheet traders use. The more relevant question is its use sensible.

1.4 Study materials & recommended further reading

Required study materials:

Study books					
Title	**Author(s)**	**Publisher**	**Year**	**Edition**	**ISBN**
Behavioral Finance: Psychology, Decision-Making, and Markets	Lucy Ackert Richard Deaves	Cengage Learning	2010	1st Edition	ISBN-10: 0324661177 ISBN-13: 97803246611 70

Other study materials		
Title	**Author(s)**	**Where to find this material?**
The Art of Thinking Clearly	Rolf Dobelli	Harper Collins Publishers, 2014

Students are strongly advised the obtain the customised AUAS version of Ackert & Deaves.

1.5 Questions and who to contact

Questions about the module's content and study materials can be addressed to your lecturer(s) during the lessons. The consultation hours of the individual lecturers as well as their office location can be found in the lecturers' profile on the DLWO.

2. Set-up of this module

2.1 Teaching methodology

Teaching method will be class-room lectures with active participation of the students. I make use of the Responsive Classroom approach, which is an innovative way of teaching developed by the Northeast Foundation for Children (NEFC). What does the Responsive Classroom approach look like? The Responsive Classroom approach builds social and emotional growth into an academic curriculum so that students' education becomes truly well rounded--shaping every aspect of their lives. I incorporate practices designed to make the classroom more stimulating, challenging, safer, and happier. Elements of this approach offer students a level of autonomy that involves them more in their own learning and helps them feel better about their classroom and their place in it. Students partake in shaping the rules of the classroom, and I engage students in discussions that help them understand what will happen when they forget or choose not to follow classroom rules. To increase motivation and help get students excited about learning, I also give them some structured, developmentally appropriate choices about what and how they will learn.

2.2 Assignments

At the end of the course students produce group paper, which researches biases, framing or heuristics within the financial status quo. (To be sure that the students are grade fairly, peer assessment will take place within groups). In relation to their research, students should be aware that the behavioural tradition enriches our understanding of financial decision-making by incorporating at least three elements of psychological insight into financial decisions. First, the presence of biases in investors decision-making. For example, optimism, conservatism in adapting one's judgement to contradictory evidence and "overreaction" to exciting, but rare, events. Second, the usage of mental "frames" to simplify complex decisions or learning "heuristics" to characterise and simplify data used in decision making. Third, the presence of time-inconsistency in choice, inducing a need to distinguish between the "planner" and "doer" of some proposed course of action.
The research methods should mainly be inductive not deductive. Data collection should based either on experiments, questionnaires or observations. The student groups will present their papers to the rest of the class.

2.3 Exams

Their will be a written exam at the end of the semester on the above stated literature.

2.4 Assessment

The assessment methods used in this module are summarised below. The table also shows how the grade for this module will be calculated.

#	Description	Form	Learning goal(s) #	Lecture week	Weight (%)
1	Assessment	written/verbal	all	Before week 11	30%
3	Written Exam	written	all	After week 12	70%
6					
					100%

2.5 Resit

If the average grade obtained for this module is below 5.5 you must do a resit. Which resit(s) you must do depends on which part(s) is/were insufficient. The different situations are illustrated in the table below.

Situation:		The resit will consitst of the following test(s):	Your average module grade after resit will be calculated using the following weights:	The resit(s) will be scheduled in:
1	• Average grade for the whole module ≥ 5.5	No resit needed	N.A.	N.A.
2	• Average grade for the whole module < 5.5			TBD

2.6 General regulations

1   You are required to prepare for lessons. If you come to class unprepared, the lecturer has the right to deny you access to the lesson. What is requested of you in terms of lesson preparation is stated below and/ or on the DLWO for this module.

2   You must bring a laptop to school for each class. It is your responsibility to make sure that the battery lasts throughout each lesson. If you fail to bring a laptop to class and/or if the battery does not last throughout class, this is regarded as not being prepared. A lecturer then has the right to deny you (further) access to that lesson.

3   The assignments will not be graded if the level of English is inadequate or if other non-compliance with the IBS Reporting Guidelines is verified. If that is the case, you have to hand in your assignment again in the appointed resit period.

2.7 Lesson plan

In the table below, please state the topics, activities, assignments and/or exams that are scheduled for each lesson and the materials students have to study prior to the meeting. If necessary provide additional explanation as well. *Please consider a total of 3 contact hours per week.*

Lecture week	Prepare	Lesson (Chapter number and name topic)
1		1 Foundation of conventional finance; Expected utility.
2		2 Foundations of conventional finance; Asset pricing theory and market efficiency.
3		3 Prospect theory, framing and mental accounting.
4		4 Limits to arbitrage, anomalies and investor sentiment.
5	Read chapter before lesson	5 Heuristics and biases. & 6 Overconfidence.& 7 Emotion.
6		8 Investor behavior stemming from heuristics and biases
7		9 The impact of overconfidence on investor decision-making.& 10 Emotion-based investor behavior.
8		11 Selfishness or altruism? & 12 Social forces and behavior.
9		13 Behavioral explanations for anomalies. &14 Aggregate stock market puzzles.
10		Presentations
11		Presentations
12		Presentations

Appendix 1 Relationship with your programme's profile competencies

In the first table below, please copy the learning goals as formulated in paragraph 1.2. Then, in the applicable profile competencies table(s), link each learning goal to one or more of the final competencies as defined in the programme's profile. Delete profile competencies table(s) that are not applicable to this module.

LG	You can	Level
1.	Describe or explain behavioral finance theories, but more importantly, the students understand the need from alternative theories; paradigm adjustments vs paradigm switch.	3
2.	Apply behavioral finance theories to current day financial situations.	3
3.	Do research: set up experiments and execute surveys that capture behavioral finance phenomana.	3
4.	Use inferential statistics to distinguish structure from randomness within obtained data.	3
5.		
6.		

LG	IBMS Profile Competencies
1.	Ethical and corporate responsibility International Finance & Accounting
2.	International Finance & AccountingT
3.	International Finance & Accounting
4.	International Finance & Accounting 3
5.	International Finance & Accounting
6.	International Finance & Accounting

LG	TMA Profile Competencies *(for Global Trade and Supply Chain Management modules)*
1.	
2.	
3.	
4.	
5.	
6.	

Appendix 2 Assessment model(s)

Will be announced.