

DEPARTMENT OF ACCOUNTING AND FINANCE
AG510 Behavioural Finance
2023/24 SEMESTER 1

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Please do not hesitate to contact me if you have any problems with the lectures or workshops. Office hours will be posted on myplace giving the times when I am available. These are drop in times and no appointments are required.

CLASS DESCRIPTION

The class builds on your knowledge of finance and your understanding of finance theory developed through the core classes in years 1 to 3. This class introduces behavioural finance and provides an understanding of the main flaws of “traditional” finance theory from a behavioural finance viewpoint. It will allow you to develop the ability to competently discuss issues arising from violations of the rationality assumption and to enable you to evaluate new theoretical models based on research in psychology. The course will build appreciation of the role of new developments in finance and their possible implications for established views of financial markets.

CLASS AIMS

The aim of the class is to provide an understanding of the main ideas of behavioural finance. A particular emphasis is placed on understanding the roles of non-rational actions and the development of new financial models that incorporate these. Students will engage with up to date research and develop a critical view of existing and new finance theories and models.

LEARNING OUTCOMES

The following learning outcomes will contribute to your self-analysis and reflection in your Student’s Personal Development Planning (SPDP). These learning outcomes will be assessed using the methods explained in the “Assessment” section in this Outline.

Alternative formats of teaching materials are available on request. Please contact Jillian D’Agostino in the departmental office of Accounting and Finance.

Subject-specific knowledge and skills

On completing this class, the students will be able to:

- A1 Evaluate the reasons for the existence of behavioural finance
- A2 Critique the main ideas of behavioural finance
- A3 Analyse the role of the assumption of rationality and violations thereof
- A4 Differentiate the roles of various decision making heuristics
- A5 Critique the main new models arising from behavioural finance
- A6 Evaluate selected applications of behavioural finance in corporate finance
- A7 Discuss the implications of behavioural finance for existing finance theory

Cognitive abilities and non-subject specific skills

In the course of this class students will be able to:

- B1 discuss complex theoretical ideas and empirical evidence
- B2 judge evidence for and against a range of theories
- B3 develop and clearly communicate arguments

ASSESSMENT

The assessment for the course is split between two individual assignments and a final exam in the December diet. The individual assignments will be in the form of an article discussion and an essay to be submitted at the start of week 5 and 9 respectively. Completion of the assignments and the exam is required to pass the class. The weightings for the course assessment are as follows:

Individual assignments:
one essay 30%; one article discussion 20%
Final Examination 50%
TOTAL 100%
PASS MARK 50%

It is a requirement for course completion to submit all parts of the class assessment. Non-submission of any part will result in an overall mark of zero being awarded for the class.

The Department of Accounting and Finance is requiring to on campus, in person examinations in all modules. To support you in your exam preparation in this module we will provide students with a past exam essay question to attempt in the week 10 lecture under exam conditions. An outline answer will be discussed in the lecture together with information on the marking framework. The module leader will explain how to interpret an examination question and how to answer to maximise marks. Please also see the relevant section on the AG429 myplace page for further advice.

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PENALTIES FOR LATE SUBMISSION

The Business School follows the university's late penalty policy:

https://www.strath.ac.uk/media/ps/cs/gmap/academicaffairs/policies/Policy_and_Procedure_for_the_Late_Submission_of_Coursework.pdf

It is a requirement for course completion to submit all parts of the class assessment. Non-submission of any part will result in an overall mark of zero being awarded for the class.

FEEDBACK

The standard turnaround time for all feedback and marking within SBS is 15 working days from assessment submission. The University policy on Assessment and Feedback is available here: [Assessment and Feedback Policy \(strath.ac.uk\)](#)

COMPENSATION SCHEME

The Business School follows the University's compensation policy, which can be found here:

https://www.strath.ac.uk/media/ps/cs/gmap/academicaffairs/policies/Policy_on_Compensation_Scheme.pdf

TEACHING AND LEARNING

Students will be expected to read the core research papers for the class and most of the additional references that will be provided. The **lectures** will explore particular aspects of the reading and attempt to help put material in context, but are not a substitute for the reading. During lectures students will be asked to be active, completing exercises and discussing issues with fellow students.

The lectures will alternate with discussion **workshops**. Questions will be assigned prior to the workshops to guide the reading of the research papers and encourage discussion. Students will be expected to do their own research and thinking prior to the workshop and to come prepared to discuss the issues with fellow students. This discussion will take place in small groups of students. The group discussions are the learning process, so printed solutions will only be a guideline as to what issue may be considered for discussion. In any case, the nature of the material means that in most cases there is not a single acceptable answer. The important thing is being able to argue a case and present evidence to back an argument. Furthermore, students will be expected to actively participate in the discussion of the ideas put forward in the research papers and complete an exam linked to issues from the discussions.

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There will also be two sessions reserved for individual reading, the lecturer will be available to discuss individual queries during those times.

ACHIEVEMENT OF LEARNING OUTCOMES

The achievement of learning outcomes is necessary to successfully complete the class, both in terms of your learning development and in your class assessment. It is important, therefore, that you are confident about achieving these outcomes as the class progresses.

PRE-REQUISITES

Year 1-3 finance core classes.

REQUIRED READING

The class will focus primarily on research papers, the required readings will be indicated in the study materials and on myplace.

Other recommended reading:

These books may be helpful additional reading but are not required purchases! Please also consult the growing collection of books on the subject in our library.

Ackert, L.F. and Deaves, R. (2009) *Behavioral Finance: Psychology,*

Decision Making, and Markets. Mason (OH): South-Western Cengage Learning

Goldberg, J. and von Nitsch, R. (1999) *Behavioural Finance.* München:

FinanzBuch Verlag

Kahneman, D. and Slovic, P. and Tversky, A. (eds.) (1982) *Judgement Under*

Uncertainty: Heuristics and Biases. Cambridge: Cambridge University Press

Shefrin, H. (2000) *Beyond Greed and Fear.* Harvard (MA): Harvard University

Press

Shefrin, H. (2017) *Behavioural Corporate Finance.* 2nd edn. New York (NY):

McGraw-Hill

Shiller, R.J. (2000) *Irrational Exuberance.* Princeton (NJ): Princeton University

Press

Shleifer, A. (2000) *Inefficient Markets – An Introduction to Behavioural Finance.*

Oxford: Oxford University Press

Thaler, R.H. (1991) *Quasi Rational Economics.* New York (NY): Russell Sage

Foundation

WEB-SITES

Alternative formats of teaching materials are available on request. Please contact Jillian D'Agostino in the departmental office of Accounting and Finance.

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Reference will be made to the class website in the lectures and lecture slides can be accessed through the web page. You will also be directed to any relevant additional online resources.

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LECTURE PROGRAMME (main themes)

	Lecture/workshop topics	Selected reading - <i>tbc</i>
wk 1	Lecture Course overview “new ideas” v “traditional” models (EMH) Limited arbitrage / non-rational agents	<i>Shleifer & Vishny (1997), Mitchell et al (2002), Fama (1998), Hirshleifer (2001),</i>
wk 2	Workshop Rationality – Savage axioms, von Neumann & Morgenstern, Ramsay	<i>Savage (1954), Ramsey (1931), von Neumann & Morgenstern (1944)</i>
wk 3	Lecture Violations of Savage axioms / Selected psychology evidence New Theories: prospect theory	<i>Kahneman & Tversky (1979), Tversky & Kahneman (1981) Odean (1998), Barberis, Huang & Santos (2001)</i>
wk 4	Workshop New finance models: DHS, BSV, and Hong & Stein	<i>Daniel, Hirshleifer & Subramanyam (1998), Barberis, Shleifer & Vishny (1998), Hong & Stein (1999)</i>
wk 5	Deadline for submission of article review Lecture Behavioural Corporate Finance (+ review of workshop discussions)	<i>Shefrin (2007), Baker et al (2006)</i>
wk 6	Lecture Behavioural Biases and Investment / Psychological barriers in financial markets	<i>Massa & Siminov (2005), Dorn & Huberman (2005), Aggarwal & Lucey (2005)</i>
wk 7	Workshop Further applications of behavioural finance ideas / neuroeconomics / professional traders	<i>Statman (2005), Lo et al (2005), Shiv et al (2005)</i>
wk 8	Reading week – lecturer available for discussions	
wk 9	Deadline for submission of essay Workshop Persuasion in Finance/ The Adaptive Markets Hypothesis	<i>Mullainathan & Shleifer (2005), Lo (2004), Lo (2005)</i>
wk 10	Lecture Synthesis of workshops & reading week Review & Q&A for exam preparation	
wk 11	Self-study week Optional drop-in session for exam help	

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UNIVERSAL MARKING GUIDE (ASSESSMENT DESCRIPTOR)

https://www.strath.ac.uk/media/ps/cs/gmap/academicaffairs/policies/Assessment_and_Feedback_Policy.pdf

This marking scheme relates to the marking of individual assessments, and not to the aggregate marks returned for classes. There are two types of assessment:

Type A: Numerically based assessments, assessments with short answers

Where assessments are numerical in nature, or where there are questions with each answer attracting a small number of marks, the full 0-100 percentage point marking scale should be used. This type of assessment is common where there is a clear right and wrong answer (e.g. multiple choice examinations).

Type B: Other assessments

Where an assessment cannot be categorised as Type A, such that there is no clear right and wrong answer, and instead it may be the quality of analysis and argument that are assessed (e.g. essays), assessments should be marked using the Type B scale, which is a restricted percentage scale.

PG: Distinction	90 - 100	92, 100	<u>Exceptional demonstration of the learning outcomes</u> Exceptional in most or every respect, the work demonstrates all of the characteristics noted for First class in the Outstanding range below and is also well beyond the level expected of a highly competent student at their level of study, and could not be bettered for the level of study.
	80 - 89	84	<u>Outstanding demonstration of the learning outcomes</u> Outstanding in most respects, the work is what might be expected of a highly competent student at their level of study. <u>The work demonstrates most of the following attributes:</u> <ul style="list-style-type: none"> - A breadth of appropriate and focused knowledge, and a deep and critical understanding of the subject matter - An outstanding standard of synthesis and evaluation, and a critical and insightful analysis - Complexity of thought, creativity, insight and/or originality - Evidence of comprehensive reading and thought of significant complexity and well beyond, but still relevant to, course/assignment materials - Outstanding use of references and exemplars, well beyond, but still relevant to, course/assignment materials - An outstanding standard of writing and communication and/or presentation, that is clearly and logically structured
	70 - 79	72, 75, 78	<u>Excellent demonstration of the learning outcomes</u> Excellent in most respects, the work is what might be expected of a very competent student at their level of study. The work demonstrates <ul style="list-style-type: none"> - Wide, appropriate and focused knowledge and critical understanding of the subject matter - An excellent standard of synthesis and evaluation and/or shows critical and insightful analysis - Some complexity of thought, insight and/or originality - Evidence of comprehensive reading and thought beyond course/assignment materials - Excellent use of references and exemplars - An excellent standard of writing and communication and/or presentation, that is clearly and logically structured
PG: Merit	60 - 69	Low 2.1: 62 Mid 2.1: 65 High 2.1: 68	<u>Comprehensive demonstration of the learning outcomes</u> Very good or good in most respects for the level of study in displaying attainment of the learning outcomes, with marks at the higher end of this scale reflecting stronger and more consistent attainment of the learning outcomes. This work demonstrates: <ul style="list-style-type: none"> - A very good or good level of appropriate knowledge and critical understanding of the subject matter, with only occasional lapses in detail - Very good or good synthesis, analysis, reflection, understanding and/or critical evaluation - Evidence of reading and thought beyond course/assignment materials - Appropriate use of references and exemplars - A good standard of writing and communication and/or presentation, that is clearly and logically structured
PG: Pass	50 - 59	Low 2.2: 52 Mid 2.2: 55 High 2.2: 58	<u>Satisfactory demonstration of the learning outcomes:</u>

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			<p>The work is satisfactory for the level of study and clearly meets the requirements for demonstrating the relevant learning outcomes. Marks at the higher end of this scale reflect stronger and more consistent attainment of the learning outcomes for this standard of work. This work demonstrates:</p> <ul style="list-style-type: none"> - Satisfactory knowledge and a reasonable understanding of the essential material - Weaknesses in the synthesis and/or analysis, reflection, understanding and critical evaluation of material, resulting in parts of the work being overly descriptive in nature - General accuracy with occasional mistakes and/or reduced focus on the main issue or lapses in detail - Limited evidence of reading and thought beyond course/assignment materials - A satisfactory standard of writing and communication and/or presentation, where there may be weaknesses in the clarity and/or structure of the work - Appropriate use of references and exemplars, though there may be minor flaws in the referencing technique
PG: Fail	40 – 49	Low 3 rd : 42, Mid 3 rd : 45, High 3 rd : 48	<p>ASSESSMENTS AT YEARS 1-4: <u>Limited demonstration of the learning outcomes.</u></p> <p>ASSESSMENTS AT YEAR 5 & PGT LEVEL: <u>Unsatisfactory demonstration of the learning outcomes.</u></p> <p>The work meets the minimum requirements for demonstrating the relevant learning outcomes for the level of study in years 1 to 4, but not at year 5 and PGT level. Marks at the higher end of this scale reflect stronger and more consistent attainment of the learning outcomes for this standard of work, although ultimately insufficiently at year 5 and PGT level. This work demonstrates:</p> <ul style="list-style-type: none"> - Basic knowledge and understanding - A weak argument which is not logically structured or which lacks clarity or is based on unsubstantiated statements - No relevant critical analysis - Insufficient evidence of reading and thought beyond course/assignment materials - Poor organisation and/or presentation - A lack of references and exemplars
PG: Fail	30 - 39	32, 35, 38	<p>ASSESSMENTS AT YEARS 1-4 <u>Marginal fail: Inadequate demonstration of the learning outcomes</u></p> <p>ASSESSMENTS AT YEAR 5 & PGT LEVEL: <u>Inadequate demonstration of the learning outcomes</u></p> <p>The work fails to meet the minimum requirements for demonstrating the relevant learning outcomes for the level of study. Marks at the higher end of this scale reflect stronger and more consistent attainment of the learning outcomes within this range of marks. This work demonstrates:</p> <ul style="list-style-type: none"> - An insufficient level of knowledge and understanding - A poorly structured, poorly developed, or incoherent argument, or no argument at all - An awkward writing style or poor expression of concepts - A lack of familiarity with the subject and/or assessment method - Insufficient evidence of reading and thought beyond course/assignment materials - A lack of references and exemplars
	20 - 29	20	<p><u>Clear fail: Weak demonstration of the learning outcomes</u></p> <p>The work is very weak or shows a decided lack of effort. The work demonstrates</p> <ul style="list-style-type: none"> - Very poor or confused knowledge and understanding, with reference to only a few key words, phrases or key ideas - No argument or one based on irrelevant and erroneous content - Irrelevant content and extensive omissions - Weaknesses of presentation and/or logic and/or evidence - Inadequate evidence of learning - Incomplete or inadequately presented references, if any
	1 - 19	10	<p><u>Minimal demonstration of the learning outcomes</u></p> <ul style="list-style-type: none"> - The work is extremely weak. The work demonstrates: No knowledge or understanding of the area in question - Incomplete, muddled, and/or irrelevant material - Irrelevant or little content, extensive omissions - Weaknesses of presentation and/or logic and/or evidence - Deficient evidence of learning - Incomplete or inadequately presented references, if any
	0	0	<p>No relevant work submitted for assessment</p>

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