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| **Title** | **Behavioural Finance** |
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| **Lecturer** | **Juliane Thamm** | Tutor | Juliane Thamm |
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|  | Code | AG916 | Semester | 2 | Weeks | 6 – 11 | Credits | 10 |  |
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|  | **Assessment** |  | Examination | 70% |  | Coursework | 30% |  | Test |  |  |
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|  | Finance | Option |  | Int. Banking & Fin. | Option |  | Investment & Fin. | Option |  | Int. Accounting & Fin. | Option |  |
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## CLASS AIMS

The aim of the class is to provide students with 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 ideas. Students will engage with up to date research and develop a critical view of existing and new finance theories and models. This class aims to introduce students to the rapid evolving area of behavioural finance. Students will develop an understanding of behavioural finance and an appreciation of its possible implications and applications. This class introduces students to behavioural finance and provides them with an understanding of the main flaws of “traditional” finance theory from a behavioural finance viewpoint. It will allow students to develop the ability to discuss issues arising from violations of the rationality assumption and will enable them to evaluate new theoretical models based on research in psychology. The course will allow students to appreciate the role of new developments in finance and their possible implications for established views of the functioning of financial markets.

## LEARNING OUTCOMES

The class provides opportunities for students to develop and demonstrate knowledge, understanding and skills in the following areas:

**i) Knowledge Based Outcomes:**

 On completing this course students will be able to:

* evaluate the reasons for the existence of behavioural finance
* critique the main ideas of behavioural finance
* analyse the role of the assumption of rationality and violations thereof
* differentiate the roles of various decision making heuristics
* critique the main new models arising from behavioural finance
* evaluate selected applications of behavioural finance in corporate finance

discuss the implications of behavioural finance for existing finance theory

**ii) Skills Outcomes:**

 On completion of this class students should be able to:

* evaluate complex theoretical ideas and empirical evidence
* judge evidence for and against a range of theories
* develop and clearly communicate arguments

**TEACHING AND LEARNING**

Students will be expected to read the core research papersfor the class and most of the additional references that will be provided. The lectureswill explore particular aspects of the reading and attempt to help put material into context, but will not be a substitute for the reading. During lectures students will be required 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 workshopsto 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.

**ASSESSMENT**

An individual assignment will account for 30 per cent and the final examination for 70 per cent of the assessment. The assignment will be an individual review of a research paper, 900 words in length. The final examination will take place in the April/May diet of examinations and will take two hours. For the exam, students will have to answer two essay questions from a selection of four. Completion of both the assignment and the exam is required to pass the class. Any reassessment will be via a re-sit exam of the same format as the main exam.

**READING**

This class is based predominately on research papers which will be outlined on the class MyPlace page.

The following book also offers excellent background to our course (it is available via the library):

L. Ackert & R. Deaves, Behavioral Finance, South-Western Cengage Learning, 2010.

**Further Reading:**

These are suggested background / review sources:

A. Shleifer: Inefficient Markets – An Introduction to Behavioural Finance, Oxford University Press, 2000

H. Shefrin: Beyond Greed and Fear, Harvard University Press, 2000

H. Shefrin: Behavioural Corporate Finance, McGraw-Hill, 2007

R.H. Thaler: Quasi Rational Economics, Russell Sage Foundation, 1991

J. Goldberg & R. von Nitsch: Behavioural Finance, FinanzBuch Verlag 1999

R.J. Shiller: Irrational Exuberance, Princeton University Press, 2000

D. Kahneman, P. Slovic & A. Tversky: Judgement Under Uncertainty: Heuristics and Biases, Cambridge University Press, 1982

**Web Resources**

Additional reading (journal articles, websites) may be provided online via MyPlace, where the class has its own pages.

**Useful Websites:**

Additional sites may be highlighted via MyPlace where appropriate.

## LECTURE PROGRAMME

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| **Session** | **Lecture Title/Subject/Content** |
| **1** | Course overview & questionnaire; “new ideas” v “traditional” models (EMH); Limited arbitrage/non-rational agents |
| **2** | Rationality – Savage axioms, von Neumann & Morgenstern, Ramsay; Violations of Savage axioms/results of questionnaire/Selected psychology evidence/New Theories: prospect theory |
| **3** | New finance models: DHS, BSV, and Hong & Stein/Behavioural Biases and Investment/Psychological barriers in financial markets |
| **4** | Behavioural Portfolio Theory/Behavioural Corporate Finance |
| **5** | The Adaptive Markets Hypothesis; Summary & Review/Q&A for exam preparation |