

DEPARTMENT OF ACCOUNTING AND FINANCE
AG429 Behavioural Finance
2021/22 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.

CLASS OUTLINE AG429

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 40%

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.

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

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CLASS OUTLINE AG429

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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:

<https://www.strath.ac.uk/sees/studentpolicies/policiesindex/>

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.

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.

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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

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	No lecture due to bank holiday <i>Please check myplace for homework</i>	
wk 3	Workshop Rationality – Savage axioms, von Neumann & Morgenstern, Ramsay	<i>Savage (1954), Ramsey (1931), von Neumann & Morgenstern (1944)</i>
wk 4	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 5	Deadline for submission of article review Workshop New finance models: DHS, BSV, and Hong & Stein	<i>Daniel, Hirshleifer & Subramanyam (1998), Barberis, Shleifer & Vishny (1998), Hong & Stein (1999)</i>
wk 6	Lecture Behavioural Corporate Finance (+ review of workshop discussions)	<i>Shefrin (2007), Baker et al (2006)</i>
wk 7	Lecture Behavioural Biases and Investment / Psychological barriers in financial markets	<i>Massa & Siminov (2005), Dorn & Huberman (2005), Aggarwal & Lucey (2005)</i>
wk 8	Workshop Further applications of behavioural finance ideas / neuroeconomics / professional traders	<i>Statman (2005), Lo et al (2005), Shiv et al (2005)</i>
wk 9	Reading week – lecturer available for discussions Deadline for submission of essay	
wk 10	Workshop Persuasion in Finance/ The Adaptive Markets Hypothesis	<i>Mullainathan & Shleifer (2005), Lo (2004), Lo (2005)</i>
wk 11	Lecture Synthesis of workshops & reading week Review & Q&A for exam preparation	

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UNIVERSAL MARKING GUIDE (ASSESSMENT DESCRIPTOR)

%	Descriptor
80 – 100	<p><u>Outstanding demonstration of learning outcomes:</u></p> <ul style="list-style-type: none"> • wide, appropriate knowledge and understanding (and where appropriate effective project work) including insight and originality • evidence of reading and thought beyond course/assignment materials • appropriate use of references and exemplars • an outstanding standard of writing and communication and/or presentation
70 – 79	<p><u>Excellent demonstration of learning outcomes:</u></p> <ul style="list-style-type: none"> • wide, appropriate knowledge and understanding (and where appropriate effective project work) including insight or originality • evidence of reading and thought beyond course/assignment materials • appropriate use of references and exemplars • an excellent standard of writing and communication and/or presentation
60 – 69	<p><u>Comprehensive demonstration of learning outcomes:</u></p> <ul style="list-style-type: none"> • wide appropriate knowledge and understanding (and where appropriate effective project work) with only occasional lapses in detail • evidence of reading and thought beyond course/assignment materials • a high standard of writing and communication
50 – 59	<p><u>Satisfactory demonstration of learning outcomes:</u></p> <ul style="list-style-type: none"> • sound knowledge and understanding of essential material (and where appropriate essential project skills) • general accuracy with occasional mistakes and/or uncoordinated use of information
40 – 49	<p><u>Adequate demonstration of learning outcomes:</u></p> <ul style="list-style-type: none"> • basic knowledge and understanding (and where appropriate basic project skills) • omissions and/or weaknesses of presentation and/or logic and/or evidence
30 – 39	<p><u>Limited demonstration of learning outcomes:</u></p> <ul style="list-style-type: none"> • some relevant information and limited understanding (and where appropriate some project work completed under supervision) • omissions and/or weaknesses of presentation and/or logic and/or evidence • lack of familiarity with the subject of assessment and/or assessment vehicle

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20 – 29	<u>Inadequate demonstration of learning outcomes:</u> <ul style="list-style-type: none">• a few key words, phrases or key ideas• extensive omissions and/or weaknesses of presentation and/or logic and/or evidence• serious errors• inadequate evidence of learning or inadequate project work
1 – 19	<u>Weak performance in learning outcomes</u> <ul style="list-style-type: none">• serious errors• extensive omissions and/or weaknesses of presentation and/or logic and/or evidence• deficient evidence of learning or deficient evidence of project work
0	No relevant work submitted for assessment

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