MBAS 553: Behavioural Finance

Workload   : 4 hours per week. - Total credits: 4

Examination   : 3 hours; 30 marks continuous evaluation and 70 marks final examination

Objectives
1. Understand foundations of rational finance and Behavioural Finance and challenge of BF.
2. Understand the various forms of bias and their implications in investing.
3. Address the implication of overconfidence and social forms on Financial division market.
4. Suggest guideline to overcome psychological Biases.
5. Understand the concept of value Investing.

Course outcome

On completion of this course students will be able to:

1. Understand the behavioural finance, rational finance
2. Understand the market efficiency
3. Understand the Self Deception, Emotional factors and social forces in investment.
4. Understand   strategies of well known value investment

Pedagogy   : Lectures, assignments, practical exercises, discussions, seminars.

Module 1: Rational Markets Hypothesis and Challenge of Behaviouralist.

Intellectual Underpinnings, The rise of Rational Market Hypothesis, Impact on wall street and the choices, The Challenge of Behaviouralist, Synthesis and Future Horizons.

Module 2: Foundations of Rational Finance.

Introduction, Neoclassical, Economics, Rational Preferences, Utility maximization, Relevant information; Expected Utility Theory, Modern Portfolio Theory, Capital Asset Pricing Model, Efficient Markets Hypothesis, Agency Theory, From Rationality to Psychology.

Module 3: Heuristics and Biases.

How the Human mind Works: The Two Systems, Familiarity and related Heuristics, Anchoring, Irrationality and Adaption, Hyperbolic Discounting.

Module 4: Self Deception.

Introduction, Miscalibration, Forms of Over confidence, Causes of Over confidence, Other forms of self- Deception, Implications of Over confidence for financial decision making, Factors Impeding correction, How much do the experts know, the Success equation: Untangling skill and Luck in business.

Module 5: Prospect Theory, Framing and Mental Accounting.

Error in Bernoullis Theory, Prospect Theory, SP/A Theory, Framing, Mental Accounting, From theory to practice.

Module 6: Challenge to market efficiency.

Theoretical foundations of EMH, Empirical for EMH, Theoretical Challenges for EMH, Noise trading and limits to Arbitrage, Keynes Beauty contest and guess- a number game, Assessment of EMH.

Module 7: Emotional factors and social forces.

The substance of emotion, Theories of Emotion, evolutionary perspective of emotions, Emotion styles, Emotions and investing- Fairness, Reciprocity and trust, Conformity, Brain-Emotion and reasoning, social influence: Social influence on investment and consumption.

Module 8: Investor Behaviour.

Portrait of an individual investor, what the heuristics and biases mean for financial decision making, implications of: emotions and mental accounting. Behavioural portfolio theory, psychographic models, basic ingredients of sound investment philosophy, guidelines for overcoming psychological biases.

Module 9: Market outcomes.

Size effect and seasonality, Momentum and reversal, post- earnings announcement drift, value premium, premium puzzle, excessive volatility, Bubbles, Behavioral Asset Pricing Model.

Module 10: Value Investing.

Central tenets of value investing, Evidence and prospects of value investing, Strategies of well known value investors, academic research on value investing.

Reference Books:

1. Chandra Prasanna(2016): *Behavioral Finance,* Tata Mc Graw Hill Education(India) Private Limited, Chennai.
2. Acket Lucy F and DeavesRichard(2011): *Understanding Behavioral Finance,* CENGAGE Learning.
3. Wood, Arnold Ed(2010), *Behavioral Finance and Investment Management,* Charlottesville, Virginia: Research Foundation of CFA Institute.
4. Pompian M(2006): *Behavioral Finance and Wealth Management:* How to build optimal portfolio's That account for Investor Biases, New Jersey: John Wiley and Sons.
5. Peterson Richard(2007): *Inside the investors Brain:* The power of mind over money, Hoboken, N.J.: John Wiley and Sons.

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