

## **MBAS 553: Behavioural Finance**

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| Workload       | : 4 hours per week. - Total credits: 4                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Examination    | : 3 hours; 30 marks continuous evaluation and 70 marks final examination                                                                                                                                                                                                                                                                                                                                                                                 |
| Objectives     | <ol style="list-style-type: none"><li>1. Understand foundations of rational finance and Behavioural Finance and challenge of BF.</li><li>2. Understand the various forms of bias and their implications in investing.</li><li>3. Address the implication of overconfidence and social forms on Financial division market.</li><li>4. Suggest guideline to overcome psychological Biases.</li><li>5. Understand the concept of value Investing.</li></ol> |
| Course outcome | <p>On completion of this course students will be able to:</p> <ol style="list-style-type: none"><li>1. Understand the behavioural finance, rational finance</li><li>2. Understand the market efficiency</li><li>3. Understand the Self Deception, Emotional factors and social forces in investment.</li><li>4. Understand strategies of well known value investment</li></ol>                                                                           |
| 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 Bernoulli's 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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