

# FIN 31

## Behavioral Finance

### Module 2, 2022-2023

#### Course Information

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Office Hours: Tue. & Fri. 14:00-15:00 and by appointment

**Teaching Assistant:** Yuchan Wu (2001212300@stu.pku.edu.cn)

**Classes:**

Lectures: Tuesday & Friday 15:30-17:20

Venue: #TBA

**Course Website:**

1. [https://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=FIN31\\_011](https://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=FIN31_011)

## 2. Course Description

### 1.1 Context

**Course overview:**

Behavioral finance is the study of how psychological phenomena impact financial behavior. It also explores how violations of various tenets sustaining the traditional finance paradigm could lead to what we observe in financial markets. The main purpose of this course is to provide a broad and extensive knowledge of the behavioral foundations of finance and financial economics and their applications. Behavioral finance is a relatively new but quickly expanding field of mainstream finance that seeks to provide explanations for people's economic decisions which are not exactly consistent with traditional economics and finance. It helps explain a number of seemingly irrational and inconsistent patterns found in investor decisions, financial markets, and corporate managerial behaviors, complementing the traditional paradigm. Starting with a review of the standard finance theories, in particular, the efficient market hypothesis, the course examines a variety of financial market phenomena that are hard to explain by traditional theories. We will then turn to more realistic settings of market dynamics and consider alternative theories of financial markets, aiming to better understand and shed some light on the observed behaviors of financial markets and their participants.

**Prerequisites:**

While there is no formal prerequisite, solid grasp of financial economics at master's level is instrumental. In addition, students are expected to be familiar with basic probability/statistics and econometrics at undergraduate level.

## 1.2 Textbooks and Reading Materials

- **Behavioral finance: psychology, decision-making, and markets** (South-Western Cengage Learning, 2010), Lucy F. Ackert and Richard Deaves
- **Inefficient markets: An Introduction to Behavioral Finance** (Oxford University Press, 2000), Andrei Shleifer. ISBN-10: 0198292279; ISBN-13: 978-0198292272.
- **Asset Pricing** (Princeton University Press, 2005), ISBN-10: 0691121370, ISBN-13: 978-0691121376.
- **Microeconomic theory** (Oxford University Press; 1st edition, 1995 (MWG)), Mas-Colell, Andreu, Whinston, Michael, and Jerry Green. ISBN-10: 0195073401, ISBN-13: 978-0195073409.

## 3. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment (YES with details or NO)
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	
	2.2. Students will be able to apply leadership theories and related skills.	
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	
	3.2. Our students will practice ethics in the duration of the program.	
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	
	5.3. Our students will demonstrate competency in critical thinking.	

## **2.2 Course specific objectives**

Students will be able to understand the main concepts underlying behavioral finance; and apply those concepts and skills to their own research. The course is designed such that they will be able to:

- identify systematic deviations from rational decision making by individuals;
- explain how cognitive limitations, including bounded rationality, affects investment decision making;
- keep themselves updated on the new developments of behavioral finance and facilitate their future research in this area.

## **2.3 Assessment/Grading Details**

Midterm Exam	25%
Final Exam	50%
Paper Presentation	15%
Class Attendance/Participation	10%

### **In-class participation:**

A significant amount of material will be covered in each class. Lectures will often go beyond the scope and depth of the textbooks. Therefore, you are strongly encouraged to attend each and every class and actively participate in the class discussions. If you are unable to attend a class, you must provide me with a written justification in advance. Also it is your responsibility to catch up on the missed lecture. Absence in two or more lectures will result in a failure for the final grade.

### **Exams:**

Midterm and final exam will be closed book. Cell phones are not allowed as calculators. A crib sheet may be allowed in both exams.

## **2.4 Academic Honesty and Plagiarism**

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

#### 4. Topics, Teaching and Assessment Schedule

Week	Topic(s)	Remarks
1	<ul style="list-style-type: none"> <li>Class overview</li> <li>Review of Traditional Finance Paradigm: Theoretical and Empirical Foundations</li> </ul>	
2	<ul style="list-style-type: none"> <li>Challenges to Market Efficiency</li> <li>Tests of Efficient Market Hypothesis</li> </ul>	
3	<ul style="list-style-type: none"> <li>Introduction to Behavioral Finance</li> <li>Prospect Theory</li> </ul>	
4	<ul style="list-style-type: none"> <li>Heuristics, Biases, and Their Implications: Framing, Familiarity, Anchoring, Mental Accounting, Reference Dependence, etc.</li> </ul>	
5	<ul style="list-style-type: none"> <li>Heuristics, Biases, and Their Implications: Framing, Familiarity, Anchoring, Mental Accounting, Reference Dependence, etc.</li> </ul>	Midterm Exam
6	<ul style="list-style-type: none"> <li>Irrational Investors and Investment Behavior: Overconfidence, Optimism, Over- (Under-) reactions, and Their Implications</li> </ul>	
7	<ul style="list-style-type: none"> <li>Behavioral Corporate Finance and Managerial Decision Making: Overconfidence, Optimism, Over- (Under-) reactions, and Their Implications:</li> </ul>	
8	<ul style="list-style-type: none"> <li>Asset Pricing Anomalies and Behavioral Explanations: Equity Premium Puzzle and Myopic Loss Aversion, Asset Price Bubbles, Momentum, Trading Volume and Excess Volatility Puzzle</li> </ul>	
9	<ul style="list-style-type: none"> <li>Asset Pricing Implications cont'd/Project Presentation</li> </ul>	
<b>Final Exam</b>	Final Exam: January 4, 2023	