

Finance/Management 4310  
Managerial Decision Making  
Spring Semester, 2005  
Course Website: <http://www.bauer.uh.edu/drude/>

Instructor: Dale Rude, 310J Melcher  
713/743-4673, 713/743-4652 (Fax)  
drude@uh.edu  
Office Hours: TTH, 12-12:45 P.M.  
and by appointment.

Textbooks and Other Reading Material

Notes available from course web site.

Malkiel, B. G. (2003). A random walk down Wall Street (8<sup>th</sup> edition). New York: W. W. Norton and Company.

Nofsinger, J. R. (2005). The psychology of investing (2<sup>nd</sup> edition). Upper Saddle River, NJ: Prentice Hall.

Plous, S. (1993). The psychology of judgement and decision making. New York: McGraw-Hill Inc.

Stanley, T. J., & Danko, W. D. (1996). The millionaire next door. New York: Pocket Books.

Official Course Description

FINA/MANA 4397: Behavioral Finance Cr. 3. (3-0). Prerequisites: FINA 3332 and DISC 3331 or equivalent. Examination of individual decision behavior within a financial market context. Evaluation of psychological explanations for market movements and anomalies. Emphasis on the application of psychological principles to decision making behavior.

Course Content

Course conceptual tools will help you to accumulate “enough” wealth to live comfortably throughout your life. Because the stock market is important for building wealth, our focus will be on operating characteristics of a) the stock market and b) you as a decision maker within it. We will examine three major questions.

1) Can the stock market be predicted? Our focus will be on long term success. It is extremely difficult to accurately predict the stock market long term.

2) What decision processes are used by investors and how do they lead investors astray? We are “programmed” to seek patterns in information and to extrapolate from limited information. Thus, we find it easy to believe that we have found “the method” for predicting the market. Unfortunately, this is very risky because the market is extremely unforgiving.

On a more formal level, behavioral finance is a) the study of how systematic departures from rationality affect financial markets and the welfare of investors and b) a new field focused on the interface between finance and the fields of psychology and management. Three general topics comprise the field. The first major topic is the decision behavior of individuals acting within a market context such as the stock market. A major focus is systematic errors that investors make. The second is application of psychological principles to predict market movement. Third are real world market anomalies, which are difficult to explain with market models such as the efficient market hypothesis. The emphases for the class are a) understanding individual decision behavior within a market context (85%), and c) applying psychological principles to modify parameters within market models (5%), and c) market anomalies (10%).

### The Secrets to Success in this Course

1. This is not a “listen, memorize, and fill in multiple choice circles” class. Instead, it is a “learn by doing and application testing” class. To be successful, attend class and perform all assignments.

2. The most basic of any job’s requirements are to read, write, and follow instructions. Do so in this class.

3. Produce an excellent team project by a) choosing an interesting problem, b) writing to my high standards, and c) being a good team member (carrying your share of the load and meeting team deadlines).

4. Prepare problem assignments before class. The problems are excellent practice for exam questions.

5. Know the learning objectives forwards/backwards/inside/out for exams. Be able to apply concepts and theories to new situations.

6. Put forth a strong effort as you prepare for the exams.

### Some Administrative Details

1. Why are two departments listed in the course designation? This class is cross listed as both FINA4310 and MANA4310. You may take this class as a finance elective or as a management elective but not as both.

2. Course prerequisites are a) FINA 3332 Principles of Financial Management and DISC 3331 Statistical Analysis for Business Applications I or b) comparable courses (student makes special request). Students who have not completed these courses (or equivalent courses) will be dropped from the class. Relevant statistical concepts include statistical significance, mean, standard deviation, dummy coding, correlation, and multiple regression.

3. There will be a nonrefundable laboratory fee for the class that will be collected by the instructor. This is important because a core tenet of behavioral finance is that decisions be made with money riding on the outcome. A variety of classroom games and auctions will be played for real money. You may win or lose money during these demonstrations. You will be paid your winnings and pay for your losses from the laboratory fees according to the rules of the demonstration. During the class, more money will be paid out to students than is paid in by them. However, some students will pay more money than they receive and some demonstrations will result in net losses to students in aggregate.

4. If you pay an optional \$1 fee (to cover printing costs), written assignments will be accepted as Word email attachments and are due by midnight on the due date. Otherwise assignments will be submitted in hard copy and are due by 5 p.m. on the due date.

5. The most efficient way to communicate with me is by email (I check email message several times per day). If convenient, summarize your questions or problem in an email.

6. The last day for discussing your grades on Stanley & Danko and Malkiel quizzes, exam 1 and the utility & horse race projects with your instructor is April 26. After that day, only team project and exam 2 grades will be open for discussion.

7. Students who are repeating the class will be required to redo all class assignments including the team project.

8. The Bauer College has a policy that requires all of its instructors to be evaluated by their students. The results of these course evaluations are important to provide feedback to instructors on how their performance can be improved. In addition, these evaluations are carefully considered in promotion, salary adjustment, and other important decisions. We openly encourage students to provide feedback to the instructors and to the CBA through the evaluation process.

9. The Center for Students with Disabilities (743-5400) provides a wide variety of academic support services to all currently-enrolled UH students who have any type of mental or physical disability of either a temporary or permanent nature. These services include assistance with course accommodations, adaptive equipment, individualized exam administration, taped textbooks, wheelchair repair, library needs, registration, handicapped parking, accessible housing and transportation, as well as many other needs. To receive accommodation on exams or assignments, students with disabilities must make arrangements prior to the exam or prior to the assignment due date.

10. A tentative grading scale is presented below. The final grading scale will be no higher than this, but may be lower.

93+ A	73-75.99 C
90-92.99 A-	70-72.99 C-
87-89.99 B+	67-69.99 D+
83-86.99 B	63-65.99 D
80-82.99 B-	60-62.99 D-
77-79.99 C+	59.99 and below F

11. Tentative point allocations

"Have you read?" quiz-Stanley & Danko	5 points
"Have you read?" quiz-Malkiel chapters	5 points
Exam 1	75 points
Exam 2	75 points
Career Project	20 points
Utility Project	15 points
Horse Race Project	20 points
Anomaly Presentation/Paper	20 points
<u>Team Project</u>	<u>100 points</u>
	325 points

Ways to Earn Points

1. "Have You Read?" Quizzes/Reaction Papers. "Have you read?" quizzes will be given on the days that 1) the Stanley and Danko book and 2) the Malkiel book chapters are discussed. No makeup "Have you read?" quizzes will be given. Students who miss those quizzes can earn associated points by writing reaction papers. The topic of reaction papers will be the student's observations and reactions regarding the reading material. Reaction papers that only summarize the content of the reading will receive no more than one half of the allotted points. Reaction papers should show that all of the assigned material has been read. Minimum length for the reaction papers will be three full pages plus the title page. Maximum length is five pages plus the title page. Grades will be based upon the quality of the reaction papers and upon meeting the guidelines for format of the assignment. Reaction papers are due one week after the quiz has been administered and will not be accepted after that due date.

2. Exams. Two exams, consisting of essay and short answer questions, will be administered. A list of learning objectives for each quiz will be made available. The purpose of these objectives is to help you focus your attention on the material which the instructor believes is most important. Over 90% of the quiz points will come from quiz questions based upon the learning objectives. The remaining points, if any, will come from questions concerning material not covered by the learning objectives. .

3. Individual Projects. There will be no penalty the first time when you submit a late project if you submit it before the end of one week from due date. It will not be accepted after one week from the due date. The second time you turn in a late project, five points will be deducted.

Career Project. You will describe your career objectives, summarize your job relevant accomplishments, research a potential employer, and interview someone who has a job you would like to hold. It is worth 20 points.

Utility Project. You will analyze the utility bill problem. It is worth 15 points.

Horse Race Project. In the lens model project, you will analyze your horse race task results. It is worth 20 points.

4. Anomaly Presentation/Paper. You will analyze and summarize a market anomaly in a three to five page paper and present it to the class. The analysis will include a description of the anomaly (including the behavioral basis for the anomaly), briefly summarize relevant empirical evidence, and assess market implications for using the anomaly to profit in the market.

5. Team Project. In teams of three, you will choose a behavioral finance topic, collect data, analyze them, write a report summarizing your findings, and orally present them. The team project is worth 100 points.

6. Feedback Memo for Extra Credit. Students can earn from zero to three extra credit points by submitting a feedback memo regarding the structure, conduct, and/or content of the course. Number of points earned will depend upon the quality of critique (e.g., thoughtfulness, utility to your instructor) and meeting minimum length requirements. Memos that focus only on positive aspects of the course will receive no more than 1 point.

Topics covered might include (but need not be restricted to) any of the following:

- a) your experience in the class-how useful, interesting and/or appropriate the course was for you, what you learned.
- b) assignments-number, structure, timing, fairness of grading
- c) exams-format, coverage, fairness
- d) conduct of class sessions-pace, level, activities
- e) readings-number, usefulness
- f) class notes and sample assignments,
- g) course theories and concepts-number, appropriateness, omissions, usefulness
- h) motivational strategies used by the instructor-appropriateness, effectiveness, and
- i) overall structure of class-clarity, usefulness.

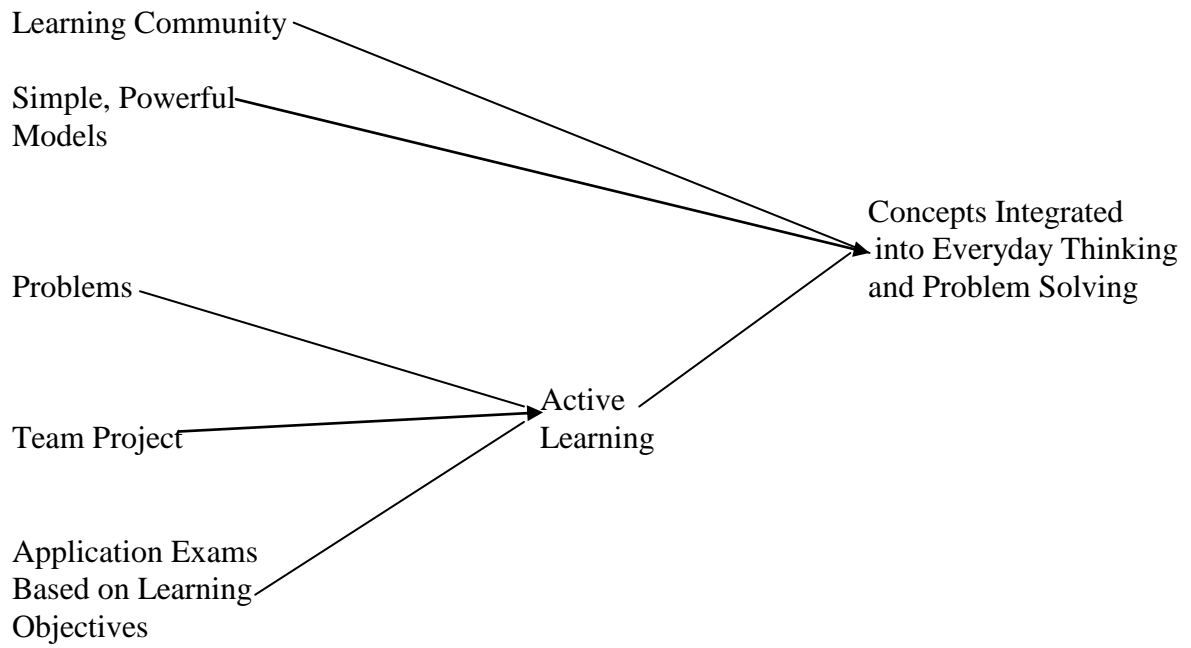
Minimum length: 3 full pages plus title page. Maximum length: 5 pages plus title page.

Due date: May 2.

### Behavioral Norms

1. Cheating is prohibited.
2. Please do not read newspapers or carry on discussions with the person next to you during class. These activities are disruptive to the people around you and me.
3. During office hours, you are welcome to drop by and spend as much time as you like. At other times, make an appointment in advance to see me rather than dropping by.
4. In some countries, students occasionally give instructors presents. This is not a U.S. custom. Please do not give me gifts.
5. Please call me Dale.

Learning Model Which Underlies FINA/MANA 4310



In a learning community, people feel comfortable encountering and experimenting with new ideas and concepts.

Tentative Schedule for Finance/Management 4310

Date	Topic	Assignment
January 17	Introduction to Class Teams Review of Statistics Utility Task	Statistics Notes
January 24	Lens Model Horse Race Task	Nofsinger 1
January 31	Lens Model continued <b>Stanley &amp; Danko quiz 2/1</b> <b><u>List of team members due 2/3.</u></b> <b>Utility project due 2/3</b> <b>Team meeting 2/3</b> Introduction to market efficiency	Stanley & Danko 1,2,3,5,8
February 7 1-6,11,12	Market Efficiency  <b>Malkiel quiz 2/8</b> <b><u>Team project proposal due 2/10.</u></b> <b>Team meeting 2/10</b> <b>Career Project due</b>	Malkiel
February 14	Paradigms <b>Horse race project due 2/17.</b>	Plous 7, 8
February 21	Anomalies <b>Team meeting 2/24</b>	
February 28	Biases and Heuristics <b>Team meeting 3/3</b>	Plous 10, 11, 13
March 7	<b><u>Team project results summary due 3/8.</u></b> <b>Exam I 3/10</b>	
March 14	<b>Spring Break, No class.</b>	
March 21	Biases and Heuristics continued <b>Team meeting 3/24</b> <b>Career project due 3/22</b>	Nofsinger 5,6,7, 8
March 28  Nofsinger 2	Stock picker performance Overconfidence; Memory & Hindsight Biases  <b><u>Complete draft of team project due 3/31.</u></b>	Plous 3,14,15,19
April 4	<b><u>Team project presentations.</u></b> <b><u>Team project is due on your presentation day.</u></b>	
April 11	Prospect theory	Plous 6, 9 Nofsinger 3, 4
April 18 6,9,21	Winner's curse, commitment theory	Plous,  Nofsinger 9
<b>April 25</b>	<b>Exam II 4/28</b>	

Last day of classes: Monday, May 2

Last day to drop a class without receiving a grade: Monday, February 14

Last day to drop a class: Tuesday, April 5

### Student Information Form

Name: \_\_\_\_\_ Student Number: \_\_\_\_\_

E-Mail Address: \_\_\_\_\_

Address: \_\_\_\_\_ Home Phone: \_\_\_\_\_

\_\_\_\_\_ Work Phone: \_\_\_\_\_

Current Educational Status:

Degree Program: \_\_\_\_\_ Expected Graduation Date: \_\_\_\_\_

Number of Hours Taking This Session: \_\_\_\_\_

Briefly describe your investment experience below (continue on back of page if more space is needed). How long have you been investing? What kinds of investments (e.g., stocks, bonds, mutual funds) do you have? Are your investments retirement accounts?

---

---

---

---

---

---

---

---

What do you plan to contribute to the class?

---

---

On the back of this sheet, list your five most loved CDs/albums of all time (no greatest hits collections, boxed sets, or live compilations).