

COURSE SYLLABUS

YEAR COURSE OFFERED: 2014

SEMESTER COURSE OFFERED: Fall

DEPARTMENT: Finance/Management

COURSE NUMBER: 4310

NAME OF COURSE: Behavioral Finance

NAME OF INSTRUCTOR: Dale Rude

The information contained in this class syllabus is subject to change without notice. Students are expected to be aware of any additional course policies presented by the instructor during the course.

Learning Objectives

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 four major questions.

- 1) How should retirement systems be designed to minimize organizational costs and maximize employee welfare?
- 2) 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.
- 3) Can one identify people or techniques that accurately predict the market? Due to great variations in market returns, evaluation of predictors and prediction methods is difficult.
- 4) 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 real world market anomalies, which are difficult to explain with market models such as the efficient market hypothesis. Third are applications of psychological principles to predict market movement. The emphases for the class are a) understanding individual decision behavior within a market context (85%), b) market anomalies (10%) and c) applying psychological principles to modify market model parameters (5%). All are important factors in the design of retirement systems and individual investment portfolios. (Please remove blue text

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and insert description of the skill set that the student should demonstrate proficiency in after completion of the course)

Major Assignments/Exams

"Have you read?" quiz-Stanley	6 points
"Have you read?" quiz-Malkiel chapters	6 points
"Have you read?" quiz-Ferri chapters	6 points
Exam 1	50 points
Exam 2	50 points
Exam 3	50 points
Career Project	20 points
Utility Project	20 points
Horse Race Project	20 points
Team Project	100 points
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	328 points

Required Reading

- Ackert, L. F., & Deaves, R. (2010). Behavioral finance: Psychology, decision-making, and markets. Mason, Ohio: Southwestern-Cengage Learning.
- Ferri, Richard (2006). All about index funds. New York: McGraw-Hill.
- Malkiel, B. G. (2011). A random walk down Wall Street (9th edition). New York: W. W. Norton and Company.
- One of the following:
- Stanley, T. J., & Danko, W. D. (1996). The millionaire next door. New York: Pocket Books.
- Stanley, T. J. (2004). Millionaire women next door. Kansas City, MO: Andrews McNeels Publishing.
- Stanley, T. J. (2009). Stop acting rich. New York: John Wiley & Sons.

Recommended Reading

List of discussion/lecture topics

August 24	Introduction to Class Career Project assigned Review of Statistics	Statistics Notes
August 31	<u>Stanley & Danko quiz 9/2</u> Lens Model Utility Task Horse Race Task	Stanley & Danko Intro, 1,2,3,5,8
September 7	Lens Model continued Introduction to market efficiency	
September 14	Market Efficiency	Malkiel (RWDWS) 1-6,11,12

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Malkiel quiz 9/16

List of team members due 9/16.

Utility project due 9/18

September 21

Paradigms/Anomalies

Team project proposal due 9/23.

Team meeting 9/23

Horse race project due 9/23.

September 28

Paradigms/Anomalies Continued

Exam 1 9/30

October 5

Biases and Heuristics

Team meeting

October 12

Biases and Heuristics continued

Career Project due 10/15

Ferri 1-3, 12, 15

October 19

Biases and Heuristics continued

Team meeting 10/21

Exam 2 10/23

October 26

Stock picker performance

Team project results summary due 10/28.

November 2

Prospect theory

Overconfidence; Memory & Hindsight Biases

Complete draft of team project due 11/5.

November 9

Team project presentations.

Team project is due November 13.

November 16

Winner's curse, commitment theory

November 23

Course Implications for Investors

Thanksgiving, no class 11/27.

November 30

Exam 3 12/4
