



APPLIES TO ACADEMIC YEAR 2016/2017

FIN 3617 Behavioural Finance

Programme

Bachelor of Finance (3. year), Exchange Program

Responsible for the course

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Department

Department of Finance

Term

According to study plan

ECTS Credits

7,5

Language of instruction

English

Introduction

Over the past decades, the field of finance has developed a successful paradigm based on the notions that investors and managers are rational and that the market is efficient. In recent years, however, anecdotal evidence as well as theoretical and empirical research has shown this paradigm to be insufficient to describe various features of actual financial markets. In this course, we explain financial market phenomena by incorporating institutional, social, cognitive, and emotional biases to the traditional paradigm. This broader perspective is called behavioral finance.

The objective of this course is to give students an understanding of investor and managerial behavior and its impact on financial market outcomes. The participants should be able to identify most common obstacles to making rational decisions, to debias their own decisions, and to understand the risks and opportunities associated with biased decisions. The course spans all major fields of finance, including household finance, asset pricing, and corporate finance.

Learning outcome

Acquired Knowledge

Students will acquire an understanding of the following topics:

- What is behavioral finance?
- How do people make investment decisions?
- How does investor behavior affect asset prices?
- How do firms respond to investor behavior?

Acquired Skills

After taking this course students will be able to:

- Recognize behavioral biases in decision making
- Debias financial decisions
- Identify implications for asset pricing
- Understand effects on corporate behavior

Reflection

The acquired theoretical and practical knowledge provided by the course enables the student to understand the role of behavioral influences across various settings in financial markets. The student develops a behavioral framework that can be applied to financial decision-making, asset pricing, and corporate behavior.

Prerequisites

SØK 3520 Microeconomics or EXC 3520 Microeconomics and BØK 3423 Finance, or equivalent.

Compulsory reading

Collection of articles:

Collection of articles. Will be available in Library Databases.

1. Gur Huberman and Tomer Regev (2001). Contagious Speculation and a Cure for Cancer: A Non-event that Made Stock Prices Soar. *Journal of Finance* 56, 387-396.

2. Barber, B. M., Lee, Y. T., Liu, Y. J., & Odean, T. (2009). Just how much do individual investors lose by trading?. *Review of Financial Studies* 22, 609-632.
3. Choi J, Laibson D, Madrian B., (2010), Why Does the Law of One Price Fail? An Experiment on Index Mutual Funds. *Review of Financial Studies* 23, 1405-1432.
4. Benartzi, Shlomo, and Thaler, Richard H. (2007). Heuristics and Biases in Retirement Savings Behavior, *Journal of Economic Perspectives* 21, 81-104.
5. Barber, Brad and Terrance Odean (1999). The courage of misguided convictions: The trading behavior of individual investors. *Financial Analyst Journal* November/December, 41-55.
6. Ulrike Malmendier and Geoffrey Tate (2008). Who makes acquisitions? CEO overconfidence and the market 's reaction. *Journal of Financial Economics* 89, 20-43.
7. Nicholas Barberis (2013), Psychology and the Financial Crisis of 2007-2008, in *Financial Innovation: Too Much or Too Little?*, Michael Haliassos ed., MIT Press.
8. Frazzini, Andrea (2006). The disposition effect and under-reaction to news. *Journal of Finance* 61, 2017-2046
9. Cohen, Lauren, Andrea Frazzini (2008). Economic links and predictable returns, *Journal of Finance* 63, 1977-2011.
10. Cooper, Michael, Huseyin Gulen, and Michael Schill (2008). Asset growth and the cross section of stock returns, *Journal of Finance* 63, 1609-1651.
11. Cohen, Lauren, Dong Lou (2012). Complicated firms, *Journal of Financial Economics* 104, 383-400.
12. Bali, Turan, Nusret Cakici, and Robert Whitelaw (2011). Maxing out: Stocks as lotteries and the cross-section of expected returns, *Journal of Financial Economics* 99, 427-446.
13. Lamont, Owen and Richard Thaler (2003). Anomalies: The law of one price in financial markets. *Journal of Economic Perspectives* 17, 191-202.
14. Markus K. Brunnermeier, and Stefan Nagel (2004). Hedge funds and the technology bubble. *Journal of Finance* 59, 2013-2040.
15. Lamont, Owen (2012). Go down fighting: Short sellers vs. firms. *Review of Asset Pricing Studies* 2, 1-30.
16. Eli Ofek and Matthew Richardson, (2003). DotCom mania: The rise and fall of internet stock prices. *Journal of Finance* 58: 1113-1137
17. Karl B. Diether, Christopher J. Malloy and Anna Scherbina (2002). Differences of opinion and the cross-section of stock returns. *Journal of Finance* 57, 2113-2141
18. P. Raghavendra Rau, Michael J. Cooper and Orlin Dimitrov (2001). A rose.com by any other name. *Journal of Finance* 56, 2371-2388
19. Malcolm Baker and Jeffrey Wurgler (2000). The equity share in new issues and aggregate stock returns. *Journal of Finance* 55, 2219-2258
20. Malcolm Baker and Jeffrey Wurgler (2002). A catering theory of dividends. *Journal of Finance* 59, 1125-1165.

Recommended reading

Course outline

- Behavioral finance vs. traditional finance
- Behavioral finance and investor behavior
- Behavioral finance and asset pricing
- Behavioral finance and corporate behavior

Computer-based tools

Spreadsheets (Excel) are used for certain practical applications and examples. Students should be familiar with their use.

Learning process and workload

The course includes a combination of lectures, cases, and presentations by students.

Specific information regarding any aspect of the course or student evaluation will be provided in class. It is the student's responsibility to obtain any information provided in class that is not included on the course homepage/itslearning or in the text book.

Students will be expected to actively participate in all in-class discussions (related to case studies, course concepts, applications of behavioural finance in the industry, etc.).

The following is an indication of the time required:

Activity	Workload
Lectures, case discussions, student presentations	42
Preparation for lectures	78
Preparation of class-work assignments	40

Preparation for the final exam	40
Total recommended workload	200

Use of hours

Use of hours (instructor)

42 hours – Lectures, case discussions, student presentations

3 hours – Coordination of learning activities

45 hours – Total

Examination

This is a course with continuous assessment (several exam components) and one final exam code. Each exam component is graded by using points on a scale from 0-100. The components will be weighted together according to the information below in order to calculate the final letter grade for the examination code (course). Students who fail to participate in one/some/all exam elements will get a lower grade or may fail the course.

The final grade in the course will be based on the following components and weightings:

- 40% class work (case discussions and student presentations)
- 60% 3-hour written final exam.

You will find detailed information about the point system and the cut off points with reference to the letter grades on the course site on itslearning. Specific information regarding student evaluation beyond the information given in the course description will be provided in class. This information may be relevant for requirements for term papers or other hand-ins, and/or where class participation can be one for several elements of the overall evaluation.

Examination code(s)

FIN 36171 – Process evaluation, counts 100% towards the final grade in the course FIN 3617 Behavioural Finance, 7,5 ECTS.

Examination support materials

Interest tables and BI approved exam calculator. Examination support materials at written examinations are explained under examination information in the student portal @bi. Please note use of calculator and dictionary in the section on support materials (https://at.bi.no/EN/Pages/Exa_Hjelpemidler-til-eksamen.aspx).

Re-sit examination

Re-sit examination is offered at the next scheduled course.

At re-sit it will be required that the entire evaluation process is conducted again, and that students who do not achieve points in one or more exam components will get a lower grade or fail the course. Previously conducted examination components will not be part of the assessment for a new character.

Additional information