

Behavioral Finance: Course Syllabus

As of March 2, 2015

1. Course Information:

Times: Mons. & Weds. from 3:00-4:15PM

Location: Juridicum (303) 703

Instructor:

Name: Eunjung Yeo

Office Hours: Wed. 4:30~6:00 PM & by appointment

2. Course Description:

This course is an introduction and some applications to Behavioral Finance. Behavioral Finance uses psychology to explain so-called *anomalies* that we observe in the financial markets and in many decisions made in corporations. Especially, those anomalies are not consistent with the classical economic models of rational behavior. The field has two building blocks: *limits to arbitrage*, which argues that it can be difficult for rational traders to undo the dislocations caused by less rational traders; and *psychology*, which catalogues the kinds of deviations from full rationality we might expect to see. We discuss these two topics, presents a number of behavioral finance applications: to the aggregate stock market, to the cross-section of average returns, to individual trading behavior, and to

corporate finance. In behavioral models, we recognize that individuals (and markets) may behave irrationally, sometimes for extended periods of time. Using some of the more popular and accepted theories of human behavior from the fields of psychology and decision-making, we will characterize some prevalent features of irrational behavior in the financial markets and in the corporate finance. Students who have taken Financial Management, Principles of Economics are recommended for this course.

3. Course Material:

The main reference for this course will be the class slides, which will be posted on the <http://portal.cau.ac.kr/> before every class begins.

→ **Main textbook:** the *international edition* of Behavioral Finance: Psychology, Decision-Making, and Markets, Lucy Ackert & Richard Deaves, 2009. (박영사 수입)

→ Other useful textbooks: *Inefficient Markets: An Introduction to Behavioral Finance*, Andrei Shleifer, 2000.

Behavioral Corporate Finance: Decisions that Create Value, Hersh Shefrin, 2005.

4. Grading Policy:

Your grade will be based on a midterm (30%), a final (40%), 3 assignments (20%), attendance records (10%) and extra credits(+α) for class participation.

✓ Attendance at lectures is required and class participation is strongly encouraged. Class participation will be evaluated on extra credits. Total extra credits you receive throughout the course will be directly added

on your final exam score.

- Organize 3~4 member study groups. The purpose of organizing study groups is to read and discuss articles and materials with your group members, and to study together when you work on assignments.
- Hand in your own copy of assignment with your group members' & I will grade any member's copy randomly and apply the grade to your group
- Regrading of your exams/assignments will be welcomed, but NO SOLICITATION for higher grades after checking your final grade will be accepted!

5. Exam Policy:

The exams will consist of short essays, multiple-choice and some calculation problems. Neither any books nor any notes are permitted in the exams, and key notations or terminology of equations may be provided in the exam.

There will be NO MAKE-UPS, with the only exception of true and documented emergencies.

6. Case Study Presentation: 3rd assignment (group work)

- ✓ find any case related to behavioral finance (*not necessarily be your original work* :))
- ✓ presentation time: about 15 mins (depending on the number of groups in the class)
- ✓ pick your case → define the key concept and analyze your case to audience using graphs, tables → Q&A session

Course Outlines

Note: Course schedules are estimates and are subject to change.

Week 1: Introduction to the course

Week 2-3: Introduction to Behavioral Finance (Ch. 1, 2)

Week 4-5: Prospect Theory, Framing, and Mental Accounting (Ch. 3)

Assignment 1

Week 6-7: Challenges to Market Efficiency (Ch. 4)

Week 8: **Midterm Exam (covers everything through week 7)**

Week 9-10: Huristics and Biases (Ch. 5)

Week 11: Overconfidence (Ch. 6)

Week 12: Investor Behavior (Ch. 8)

Assignment 2

Week 13-14: Market Outcomes (Ch. 13, 14)

Week 15: Student Group Presentation: **Assignment 3**

Week 16: ***** Final Exam (covers all material) *****