BEHAVIORAL FINANCE
Module 2, Fall 2016

Syllabus

Instructor: Chang Y. Ha, Ph.D.
Office: PHBS 648
Class Hours: Mon./Thu. 3:30 pm – 5:20 pm
Office Hours: Mon./Thu. 1:30 pm – 2:30 pm & by appointment
Class Location: PHBS 313
Email: cyha@phbs.pku.edu.cn

COURSE DESCRIPTION

The main purpose of this course is to provide a broad view of the behavioral foundations and their applications to finance. Behavioral finance is a relatively new but quickly expanding field of 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 behavior, 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. After initial resistance from traditionalists, behavioral finance is increasingly becoming part of mainstream finance.

LEARNING OUTCOMES

• Understand the key concepts and ideas underlying behavioral finance.
• Learn analytical/empirical models to assess the behavioral effects on the markets and the participants thereof
• Develop the ability to apply those behavioral concepts and skills to own research to account for market anomalies.

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.

REQUIRED TEXTBOOKS

- *Behavioral finance: psychology, decision-making, and markets*, (South-Western Cengage Learning, 2010) Lucy F. Ackert and Richard Deaves


LECTURE ATTENDANCE

A significant amount of material will be covered in each class. Lectures will go beyond the scope of the textbooks for some topics, and thus you are strongly encouraged to attend each and every class. 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 unattended lecture. Absence in two or more lectures will result in a failure for the final grade.

HOMEWORK

There will be regular homework assignments, which will help the students review the basic concepts and practice to apply them to real world. **No late assignments or e-mail submissions will be accepted.** Homework must be submitted at the start of class on the due date. Some of the homework will be group-based.

PROJECT

Students will hand in a group project toward the end of the term. Students are expected to apply what they learn in class to real financial markets. Project group will be the same as the one for homework assignment. Each group may have up to 4 members, who are not allowed to change groups except under special circumstances.

EXAMINATIONS

There will be a mid-term exam and a comprehensive final exam. Absence from any exam will result in a grade of zero unless documented justification is provided (e.g., of an illness). Make-ups will NOT be given. Any student who cannot attend an exam must contact me at the earliest possible time **PRIOR TO** the exam.
ASSESSMENT

Midterm Exam 20%
Final Exam 30%
Term Project/Presentation 30%
Homework 10%
Class Attendance/Participation 10%

EMAIL POLICY

1. I only reply to PHBS email accounts that indicate the course name in the subject line.
2. I reply to emails during regular work hours in the week. I may or may not reply to emails at other times.

CLASS PARTICIPATION AND IMPROPER BEHAVIOR

There will be frequent classroom discussions and your participation/demeanor will be counted toward an overall participation score. Improper behavior such as coming late, leaving early, and snoring in class or inappropriate computer usage in class such as e-mailing, instant messaging, web surfing, and unrelated computer use will not be allowed during class time. It is distracting to both your classmates and the instructor.

STUDENT IDENTIFICATION REQUIRED FOR EXAMINATIONS

Student ID should be visible at all times during the examination. Students without photographic ID may not be allowed to sit the examinations.
It is the students’ responsibility to ensure that they are aware of the university rules concerning their degree and meet the assessment criteria in this subject. Failure to read this document, to receive announcements in class, or to sit examinations does not mean that further assessment is automatically granted.

ACADEMIC MISCONDUCT

Please familiarize yourself with what constitutes plagiarism, which breaks down the academic integrity policies set by PKU. I expect that the in-class examinations will be your own individual work effort. Students caught plagiarizing will be punished as severely as the school permits.

The following are some of the actions that have resulted in students being found guilty of academic misconduct in recent years:

1. taking unauthorized materials into an examination;
2. submitting work for assessment knowing it to be the work of another person;
3. improperly obtaining prior knowledge of an examination paper and using that knowledge in the examination;
4. failure to acknowledge the source of material in an assignment.

**Course Schedule (tentative, and optimistic)**

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<tr>
<th>Week</th>
<th>Topic(s)</th>
<th>Tests</th>
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<tbody>
<tr>
<td>1</td>
<td>Review of Traditional Finance</td>
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<td>2</td>
<td>Introduction to Behavioral Finance</td>
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<td>3</td>
<td>Challenge to Market Efficiency</td>
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<td>4</td>
<td>Prospect Theory, Framing, and Mental Accounting</td>
<td>Midterm exam.</td>
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<td>5</td>
<td>Heuristics and Biases, and Their Implications</td>
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<td>6</td>
<td>Overconfidence, and Their Implications</td>
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<td>7</td>
<td>Emotion and Social Influences</td>
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<td>8</td>
<td>Anomalies and Behavioral Explanations</td>
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<td>9</td>
<td>Stock Market Puzzles and Behavioral Factors</td>
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<tr>
<td>Final Exam</td>
<td>Final Exam (Cumulative)</td>
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Reading Lists


