FACULTY OF MANAGEMENT STUDIES

Integrated MBA(IMBA) – Five Years (Sem-VI)
Effective from Academic Year 2022-23

Subject Code: 1MS3010634	Subject Title: Behavioral Finance

1. Course Objectives and Outline:

This course is designed to provide an overview of an exciting and fast growing area in finance, which takes as its premise that investment decision-making and investor behaviors are not necessarily driven by 'rational' considerations but by aspects of personal and market psychology. Behavioral research in finance is a large and growing field due to increase in integration of global stock markets. The efficient market hypothesis in finance is grounded in neoclassical microeconomics and argues in favor of market activity generating prices consistent with intrinsic value. Behavioral finance applies the scientific method (rejecting hypotheses for which there was no supporting evidence) to understand the impact of cognitive forces, including motivation, emotions, impulses, fear, regret, loss aversion, and genuine uncertainty upon financial market outcomes. This course can be integrated with the empirical research work in the field of behavioral finance. In particular, academic papers can be discussed, and students should have some mathematical and statistical sophistication (e.g., hypothesis testing and how to interpret regression results). The emphasis of this course is to equip students to develop the context of behavioral finance and application of behavioral finance in real world. Specifically, this course has three main objectives. Firstly, to examine how the insights of behavioral finance theories shed light on the behavior of individual investors and finance professionals in investment decision-making, secondly, to explore the possibility to improve investment performance and corporate performance by recognizing the cognitive biases and applying appropriate 'debiasing' techniques. Finally, to investigate the implications of behavioral finance for the construction of good corporate governance mechanisms.

This course enables students with following concepts:

- History of behavioral finance research
- Methodology of behavioral research
- A review of expected utility theory and an introduction to prospect theory
- Investment Decision Cycle: Judgment under Uncertainty
- Utility/ Preference Functions: Expected Utility Theory
- Information Processing: Bayesian Decision Making, Heuristics and cognitive biases
- Investing Styles and Behavioral Finance

2. Teaching Scheme (Hours per week)

Lecture (Hrs.)	Tutorial	Practical	Credit	Evaluation Scheme (Marks)		Total
				University Assessment	Internal Assessment	
4	-	-	4	60 Marks	40 Marks	100 Marks

3. Syllabus

Module No.	Contents	Total Hours	Weight
1	Rational Expectations Paradigm and the Behavioral Challenge, Foundations of Rational Finance, Expected Utility Theory, Modern Portfolio Theory, Capital Asset Pricing Model, Agency Theory, Prospect Theory, Framing, & Mental Accounting, Efficient Market and Inefficient Market Hypothesis	12	25%
2	Heuristics and Biases, How the Human Mind Works, Irrationality and Adaptation, Self-deception and Forms, Forms and Causes of Overconfidence, Emotional Factors and Social Forces, Neuroscientific and Biological Perspective, Adaptive Market Hypothesis, Implications of Heuristics and Biases for Financial Decision-Making	12	25%
3	Investor Behavior, Influence of Emotions, Behavioral Portfolio Theory, Market Outcomes, Size Effect and Seasonality, Market Anomalies, Value Investing, Evidence and Prospects of Value Investing, Strategies of Well Known Value Investors, Challenges to Market Efficiency	12	25%
4	Behavioral Corporate Finance, Capital Budgeting, Capital Structure, Dividend Policy, Mergers and Acquisitions, Agency Conflicts and Corporate Governance, Building a Smart Organisation, Neurofinance and the Trader's Brain	12	25%

4. Course Pedagogy

The pedagogy of the subject involves Lectures, Assignments, Projects, Case Discussions, Research, Presentations. Students will be given group tasks and assignments. The flipped classroom add more value to the course where students read the concept in advance.

5. Suggested Readings

a. Books

1 Behavioural Finance; by Chandra, Prasanna; McGraw-Hill Education
2 Behavioural Finance; by Sulphey M. M.; Prentice Hall India Learning Private Limited
3 Behavioural Finance; by Singh, Shuchita and Bahi, Shilpa; Vikas Publishing House
4 Understanding Behavioral Finance; by Ackert, Lucy; Cengage Learning India
5 Behavioral Finance and Wealth Management; by Pompian, Michael M; Wiley: New Jersey
6 Inefficient Markets: An Introduction to Behavioral Finance; by Shleifer, Andrei; Oxford University Press

b. Journals/Magazines

- Journal of Behavioral Finance, publication of the Institute of Behavioral Finance By Taylor & Francis.
- Journal of Behavioral and Experimental Finance by Elsevier.
- Review of Behavioral Finance by Emerald Insight
- International Journal of Behavioural Accounting and Finance by Inder Science Press.

6. Evaluation Scheme

Sr. No.	Component	Weight
1	**University Examination**	**60%**
2	**Internal Assessment** -Depending on the need and objectives of the subject, internal assessment should include minimum three of the following sub-components; *Class Test, Quiz, Assignments, Case Presentation, Class Participation, Projects, Team/Individual Assignments.* -The weightage of a sub-component should not exceed 50% of internal assessment component weight. -The bifurcation of sub-components shall be communicated by the instructor before commencement of the academic sessions.	**40%**