

Behavioral Finance 5IE380– syllabuses review for inspiration

Lenka Dvořáková

1. Introduction

The review of presented syllabuses aims to find inspiration regarding learning outcomes, course structure, key topics and literature sources, to be further used for innovation of subject Behavioral Finance (5IE380). Presented syllabuses overlap in certain areas of focus, but show slightly different level of detail and therefore literature sources. Nevertheless, I find those very inspirational and valuable, especially from the structure and suggested literature point of view. Moreover, these syllabuses also serve as good templates for study guide structure.

2. Notre Dame de Namur University – Behavioral Finance

Detailed 5 page syllabus describing course learning outcomes, workload, assignments, and topics, matched with chapters of recommended coursebook.

a. Course description

Behavioral finance introduces the theories developed by research into cognitive biases, individual emotions and other psychological effects of decision making. It explores the applications of these theories in finance, investment, and management and suggests approaches through which the models can be put to effective use. Traditional (or standard) finance builds its theories on the presumption that everyone is rational. However it's clear that in real life many are not. An accumulating body of research challenges this fundamental presumption, suggesting instead that decisions are motivated by a complex array of non-rational psychological factors. This course will explore decision making in the real world.

b. Learning outcomes

1. Demonstrate the ability to make decisions and identify issues that are caused/resolved by behavioral finance.
2. Research, prepare and present behavioral finance problems.
3. Apply critical thinking skills to analyze the various aspects of behavioral finance.
4. Analyze a situation using behavioral finance and document in writing your findings.
5. Describe, discuss and analyze behavioral finance issues in light of the hallmarks.

c. Course topics

- Psychology and Finance, Mortgage collapse and psychology
- Overconfidence, Pride and Regret
- Risk Perceptions, Decision Frames
- Mental Accounting, Forming Portfolios
- Representativeness, Social Interaction
- Emotions, Self Control and Decision Making

d. Literature

- Psychology of Investing, Nofsinger, 5th edition, Prentice Hall, 2014, ISBN-13: 978-0132994897

3. UCLA Anderson School of Management – Behavioral Economics: The Psychology and behavior of individuals, organizations and markets

Syllabus especially valuable for its detailed and long readings list, matched with every course topic.

a. Course description

In this class, we will attempt to reunite the disciplines of psychology and economics, which began drifting apart about a century ago. In particular, we will consider how predictions of economic behavior differ when several assumptions that simplify economic models are replaced with psychologically realistic assumptions based on empirical observations from the lab and from the world. We will pay special attention to the way in which these modified assumptions affect markets, management, and public policy.

b. Course topics

- Introduction to Behavioral Economics
- Heuristics and Biases
- Markets That Move (and are moved by) Beliefs
- Risk Preferences
- Prospect Theory
- Applications of Prospect Theory
- Time Preferences
- Markets for Self-Control and Safety
- Markets with Consumer Inattention
- Changing Behavior
- Peer Effects and Status Concerns

- Gift Exchange and Taking Data Seriously

c. Literature

There are two required books:

- Thaler, R: [Nudge](#)
- Kahneman, D: [Thinking Fast and Slow](#)

The remaining readings includes mix of traditional papers such as:

- Kahneman, D., and A. Tversky (1979): “Prospect Theory: An analysis of decision under risk,” *Econometrica*, 47: 263-291

and new perspectives in papers such as:

- Barberis, N. (2013): “Thirty Years of Prospect Theory in Economics: A Review and Assessment,” *Journal of Economic Perspectives*, 27(1): 173-196

Complete overview of literature is available [here](#), page 3-4.

4. Australian School of Business – Behavioural Finance

Very detailed (41 p.) course outline, especially valuable for the literature list, matched with every lecture, providing full references and direct links for downloads. Also, the structure of the course together with assignments, learning goals and outcomes are very well presented.

a. Course description

In this course, we will examine how people make predictable and repeatable mistakes in financial decision-making. We will describe the nature of these mistakes and their origin, using insights from psychology, neurosciences and experimental economics on how the human mind works. We will then discuss how incorporating these mistakes into our finance theories can markedly improve standard finance models studied in other courses. We will also consider how understanding the functioning of the human mind allows us to design a better world –in particular, better stock markets, retirement and healthcare systems. As such, this course is markedly multidisciplinary, lying at the intersection of financial economics and cognitive sciences, with both experimental and theoretical components.

b. Learning outcomes

- selection of the most important ones:
 - Understand how cognitive biases predictably and consistently affect our decisions, and how our intuitions on how the mind works are faulty.
 - Understand how these biases affect the decisions of finance practitioners.

- Understand experimental methods in cognitive sciences
- Apply this understanding to traditional models and techniques as taught in other courses.
- Apply this understanding to help promote more efficient financial decisions for different categories of actors (e.g., individual investors, professional traders).
- Suggest new experimental designs to test new behavioral hypotheses

c. Course topics

- Introduction - What's Behavioural Finance?
- Limits to Arbitrage
- Experiments
- Cognitive Biases—Preferences, Prospect Theory, Framing effects, Non-consequentialism
- Cognitive Biases - Neurofinance
- Cognitive Biases—Beliefs
- Applications

d. Literature

The Readings section comprises of very broad list of papers, both older and modern ones, organized by lectures topics. For each lecture, there is required readings and optional readings. Full list is available [here](#), starting page 17.

5. References

- Australian School of Business – Behavioural Finance – *full syllabus accessible [here](#).*
- UCLA Anderson School of Management – Behavioral Economics: The Psychology and behavior of individuals, organizations and markets - *full syllabus accessible [here](#).*
- Notre Dame de Namur University – Behavioral Finance - *full syllabus accessible [here](#).*



EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

**MS
MT**
MINISTERSTVO ŠKOLSTVÍ,
MLÁDEŽE A TĚLOVÝCHOVY