INTERNATIONAL MANAGEMENT INSTITUTE, BHUBANESWAR
FN617: BEHAVIOURAL FINANCE
CREDIT: 1.5 CREDITS
SESSION DURATION: 60 Minutes

Term: V
Year: 2020

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Course Introduction:
Expected utility theory is the building block of modern finance which assumes that investors are rational. The asset pricing models such as CAPM, Mean – Variance Portfolio Theory and Efficient Market Hypothesis are the major contribution of modern finance in explaining how assets are priced in the financial market , how investors are making investment decision and how financial markets are functioning etc. However, empirical studies show that in reality the assumptions of modern finance theory are often broken, and investors and financial markets are found to be irrational and inefficient respectively. Behavioural finance emerged in 1990s as a complement to modern finance in explaining how actually investors, market participants and mangers behave and the impact of their behaviour on financial market.

Course objectives: The objective of the course is to make the student understood the difference between classical finance theory and behavioural finance and their importance in financial decision making. After the course the students will know

- Theoretical, empirical foundation of modern finance theory and Challenges
- Main ideas and assumptions of prospect theory
- Behavioural biases of Individual and professional investors
- Behavioural biases and market anomalies
- Behavioural biases of corporate managers

Learning Outcome: After the course students would be able to

- Compare the expected utility theory and prospect theory (LO 1)
- Explain the challenges of efficient market hypothesis (LO2)
- Understand and forecast the key behavioural biases in investing (LO 3)
- Describe the process of behavioural biases contribution to asset pricing models (LO 4)
- Describe the impact of behavioural biases on the decision-making process of the corporate managers (LO 5)

Course Pedagogy: The framework of learning will be through classroom lectures, cases and exercises in the class.

Prerequisite: Exposure to corporate finance, investment management and financial market

Course Readings:
Text:
Behavioural Finance; Psychology, Decision -Making, and Markets, Lucy F. Ackert and Richard Deaves South Western Cengage Learning , Henceforth (LR)
Financial Management & Policy –
References:
Behavioural Finance - William Forbes, Wiley Publishing
Behavioural Finance; Insights into irrational minds and markets, James Montier, John Wiley and Sons Ltd
Behavioural Finance – Prashanna Chandra, McGraw Hill Publishing

Course Evaluation Criteria:

Quiz -1	15% (LO1 to LO 3)
Quiz- 2	15% (LO 4 to LO 5)
End Term Exam	40% (LO1 to LO 5)
Class Participation (CP)	10% (LO1 to LO 5)
Project	20% (Either of LO 3, LO 4 or LO 5)

Session No.	Topic	Learning Outcomes	Reading
1-3	**Foundation of Conventional Finance** • Expected Utility Theory • Asset Pricing and Market Efficiency • Challenges to Market Efficiency	LO1	Chapter 1,2 & 4 (LR)
4-5	**Foundation of Behavioural Finance** • Prospect Theory • Framing • Mental Accounting	LO 2	Chapter 3 (LR)
6-8	**Behavioural Finance: A psychological Prospective** • Cognitive limitations and Heuristics • Overconfidence • Emotion	LO 3	Chapter 5, 6 & 7 (LR)
9-11	**Behavioural Finance and Financial Decision Making of the Individuals** • Heuristics and Sub-optimal financial decision making • Overconfidence and sub-optimal behaviour of investors • Emotion and Financial Decision Making	LO 3	Chapter 8,9 & 10 (LR)
11-13	**Behavioural Finance and Market Outcomes** • Value vs. Growth • Momentum and Reversal	LO 4	Chapter 13 & 14 (LR)
14-15	**Behavioural Finance and Corporate Finance** • Rational Managers and Irrational Investors • Behavioural Corporate Finance and Managerial Decision Making	LO 5	Chapter 15 & 16 (LR)

Guidelines for project: Each student needs to mandatorily undertake a project and make a presentation at the end of the term. Since it is a group project, the contribution of each member needs to be clearly delineated although it is expected that each member should know the project thoroughly. The final report needs to be submitted before the presentation with the following components:

- Title page (format same as that of SIP report)
- Index
- Introduction about the topic (about 500 words)
- Data Source
- Methodology and model used
- Discussion of result
- Conclusion

Plagiarism:

We are committed to upholding the highest standards of academic integrity and honesty. Plagiarism is the use of or presentation of ideas, works that are not one's own and which are not common knowledge, without granting credit to the originator. You may refer the already available content just for your reference and to get the basic ideas. Only 20% of such content is acceptable, above that comes under the definition of Plagiarism which is unacceptable in IMI and will be treated seriously. All such cases will be referred to the appropriate body of the Institute for suitable disciplinary action.