

DEREE COLLEGE SYLLABUS FOR: EC 4009 BEHAVIOURAL ECONOMICS AND FINANCE							
(Same as FN 4009 BEHAVIOURAL ECONOMICS AND FINANCE)							
(Fall 2021)							
UK LEVEL: 6 UK CREDITS: 15 US CREDITS: 3/0/3							
PREREQUISITES:	None						
CATALOG DESCRIPTION:	The impact of cognitive biases, bounded rationality, framing, heuristics, and emotions on decision-making processes on everyday life and on financial markets. Divergence from the Homo Economicus archetype and explanation of market “anomalies”.						
RATIONALE:	Economics is based on the assumption that economic agents are rational and that markets are “efficient”. The work of behavioral economists and psychologists, though, suggests that this framework is inadequate since it cannot explain various empirical patterns that we observe in the operation of markets such as the dividend puzzle or the equity premium puzzle. This course uses a multi-disciplinary approach to analyze herding, over-reaction and under-reaction, overconfidence, sunk-cost bias, loss aversion, heuristics, mental accounting, and the house-money effect. It expands students’ knowledge providing behavioral explanations to economic and financial conundrums and real world phenomena.						
LEARNING OUTCOMES:	As a result of taking this course, the student should be able to: <ol style="list-style-type: none"> 1. Demonstrate understanding of behavioral theories and how they relate to the contemporary economic environment. 2. Critically evaluate recent empirical research in behavioral economics and finance. 3. Discuss behavioral explanations of observed inefficiencies in a variety of markets. 4. Recognize phenomena and heuristic biases that affect economic decisions. 						
METHOD OF TEACHING AND LEARNING:	In congruence with the learning and teaching strategy of the college, the following tools are used: <ul style="list-style-type: none"> ➤ Classes consist of lectures, case studies, experiential exercises, and in-class discussion of related material. ➤ Office Hours: Students are encouraged to make full use of the office hours of their instructor in order to consult and discuss issues related to the course content. ➤ Use of the Blackboard learning platform: in order to enhance the teaching and learning process, instructors may use the site to post their announcements, upload related course material, lecture notes, assignment instructions and additional resources. 						
ASSESSMENT:	<table border="1" style="width: 100%;"> <tr> <td colspan="2">Summative:</td> </tr> <tr> <td>1st assessment: Term project (group project 3,800-4,200 words; presentation of group project; reflective essay on group project – individual, 300-400 words)</td> <td style="text-align: center;">50%</td> </tr> <tr> <td>Final assessment: In-class written examination (Two-hour, closed-book, essay questions, comprehensive)</td> <td style="text-align: center;">50%</td> </tr> </table>	Summative:		1 st assessment: Term project (group project 3,800-4,200 words; presentation of group project; reflective essay on group project – individual, 300-400 words)	50%	Final assessment: In-class written examination (Two-hour, closed-book, essay questions, comprehensive)	50%
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1 st assessment: Term project (group project 3,800-4,200 words; presentation of group project; reflective essay on group project – individual, 300-400 words)	50%						
Final assessment: In-class written examination (Two-hour, closed-book, essay questions, comprehensive)	50%						

Formative:

Formative assignments; group project progress reports	0%
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The formative assignments prepare students for the examination and ensure that students are actively engaged during the term.

The 1st assessment tests Learning Outcomes 3 and 4.

The final assessment tests Learning Outcomes 1, 2, 3, and 4, with emphasis on 1 and 2.

The final grade for this module will be determined by averaging all summative assessment grades, based on the predetermined weights for each assessment. If students pass the comprehensive assessment that tests all Learning Outcomes for this module and the average grade for the module is 40 or higher, students are not required to resit any failed assessments.

INDICATIVE READING :

REQUIRED READING:

Ackert, L., and Deaves, R. (2010). Behavioral finance: Psychology, decision-making, and markets. Cengage Learning

Journal articles, accessible through the Library, as assigned by the instructor.

RECOMMENDED READING:

Barberis, N., & Thaler, R. (2003). A survey of behavioral finance. Handbook of the Economics of Finance, 1, 1053-1128.

Benartzi, S. and Thaler, R., (2001), Naïve diversification strategies in define contribution savings plans, American Economic Review, 91, 79-98.

Carhart, M., (1997), On persistence in mutual fund performance, Journal of Finance, 1, 57-82.

De Bondt, W., (1993), Betting on trends: Intuitive forecasts of financial risk and return, International Journal of Forecasting, 9, 355-371.

De Bondt, W.F.M., and Thaler, R.H. (1985), Does the Stock Market Overreact? Journal of Finance, 40, 793-808.

Galariotis, E. C., Krokida, S. I., & Spyrou, S. I. (2016). Bond market investor herding: Evidence from the European financial crisis. International Review of Financial Analysis, 48, 367-375.

James, M. (2002). Behavioral Finance. Insights into Irrational Minds and Markets. West Sussex, England: John Wiley & Sons

Kahneman, D. (2013). Thinking Fast and Slow. Farrar, Straus and Giroux.

Kahneman, D. and Tversky, A. (eds.) (2000), Choices, Values, and Frames, Russell Sage Foundation and Cambridge University Press, New York

Kahneman, D., Slovic, P. and Tversky, A. (eds.) (1982), Judgment under Uncertainty: Heuristics and Biases, Cambridge University Press, New York

	<p>Kahneman, D. and Tversky, A., (1984), Choices, Values and Frames, American Psychologist, 39, 341–50.</p> <p>Kahneman, D. and A. Tversky, (1979) "Prospect Theory: An Analysis of Decision Making Under Risk," Econometrica</p> <p>Murstein, B. I., (2003), Regression to the mean: One of the most neglected but important concepts in the stock market, Journal of Behavioral Finance, 4, 234-237.</p> <p>Porter, D. P., and Smith, V., (2003), Stock market bubbles in the laboratory, Journal of Behavioral finance, 4, 7-21.</p> <p>Shafir, E., Diamond, P. and Tversky, A., (1997), Money Illusion, Quarterly Journal of Economics 112, 341–374.</p> <p>Shefrin, H. & Statman, M., (2003), The contributions of Daniel Kahneman and Amos Tversky, The Journal of Behavioral Finance, 4, 54-58.</p> <p>Shefrin, H. (2002). Beyond greed and fear: Understanding behavioral finance and the psychology of investing, Oxford University Press</p> <p>Shleifer, A. (2000). Inefficient markets: An introduction to behavioural finance. OUP Oxford.</p> <p>Thaler, R. (2016), Behavioral Economics: Past, Present, and Future. American Economic Review vol. 106 no. 7 pp. 1577-1600</p>
<p>INDICATIVE MATERIAL: (e.g. audiovisual, digital material, etc.)</p>	<p>REQUIRED MATERIAL: N/A</p> <p>RECOMMENDED MATERIAL: N/A</p>
<p>COMMUNICATION REQUIREMENTS:</p>	<p>Use of appropriate academic conventions as applicable in oral and written communication.</p>
<p>SOFTWARE REQUIREMENTS:</p>	<p>Word, Excel, PowerPoint</p>
<p>WWW RESOURCES:</p>	<p>www.behaviouralfinance.net</p>
<p>INDICATIVE CONTENT:</p>	<ol style="list-style-type: none"> 1. Prospect Theory 2. Loss Aversion 3. Sunk-cost Bias 4. Heuristics / Investor Biases 5. Overconfidence 6. Empirical Puzzles and Behavioral Explanations 7. Over-reaction / Under-reaction 8. Herding Behavior in Financial Markets 9. Investor Sentiment: Measurement & Empirical Evidence 10. Behavioral Finance Theories 11. Empirical Findings

