COURSE SYLLABUS

YEAR COURSE OFFERED: 2014
SEMESTER COURSE OFFERED: Fall
DEPARTMENT: Finance/Management
COURSE NUMBER: 4310
NAME OF COURSE: Behavioral Finance
NAME OF INSTRUCTOR: Dale Rude

Learning Objectives

Course conceptual tools will help you to accumulate “enough” wealth to live comfortably throughout your life. Because the stock market is important for building wealth, our focus will be on operating characteristics of a) the stock market and b) you as a decision maker within it. We will examine four major questions.

1) How should retirement systems be designed to minimize organizational costs and maximize employee welfare?
2) Can the stock market be predicted? Our focus will be on long term success. It is extremely difficult to accurately predict the stock market long term.
3) Can one identify people or techniques that accurately predict the market? Due to great variations in market returns, evaluation of predictors and prediction methods is difficult.
4) What decision processes are used by investors and how do they lead investors astray? We are “programmed” to seek patterns in information and to extrapolate from limited information. Thus, we find it easy to believe that we have found “the method” for predicting the market. Unfortunately, this is very risky because the market is extremely unforgiving.

On a more formal level, behavioral finance is a) the study of how systematic departures from rationality affect financial markets and the welfare of investors and b) a new field focused on the interface between finance and the fields of psychology and management. Three general topics comprise the field. The first major topic is the decision behavior of individuals acting within a market context such as the stock market. A major focus is systematic errors that investors make. The second is real world market anomalies, which are difficult to explain with market models such as the efficient market hypothesis. Third are applications of psychological principles to predict market movement. The emphases for the class are a) understanding individual decision behavior within a market context (85%), b) market anomalies (10%) and c) applying psychological principles to modify market model parameters (5%). All are important factors in the design of retirement systems and individual investment portfolios.
and insert description of the skill set that the student should demonstrate proficiency in after completion of the course

**Major Assignments/Exams**

- "Have you read?" quiz-Stanley 6 points
- "Have you read?" quiz-Malkiel chapters 6 points
- "Have you read?" quiz-Ferri chapters 6 points
- Exam 1 50 points
- Exam 2 50 points
- Exam 3 50 points
- Career Project 20 points
- Utility Project 20 points
- Horse Race Project 20 points
- Team Project 100 points

328 points

**Required Reading**


One of the following:


**Recommended Reading**

**List of discussion/lecture topics**

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Notes</th>
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<tbody>
<tr>
<td>August 24</td>
<td>Introduction to Class</td>
<td>Statistics Notes</td>
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<td>Career Project assigned</td>
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<td></td>
<td>Review of Statistics</td>
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<td>August 31</td>
<td>Stanley &amp; Danko quiz 9/2</td>
<td>Stanley &amp; Danko</td>
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<td>Lens Model</td>
<td>Intro, 1,2,3,5,8</td>
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<td>Utility Task</td>
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<td>Horse Race Task</td>
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<td>September 7</td>
<td>Lens Model continued</td>
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<td></td>
<td>Introduction to market efficiency</td>
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<td>September 14</td>
<td>Market Efficiency</td>
<td>Malkiel (RWDWS) 1-6,11,12</td>
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COURSE SYLLABUS

Malkiel quiz 9/16
List of team members due 9/16.
Utility project due 9/18

September 21
Paradigms/Anomalies
Team project proposal due 9/23.
Team meeting 9/23
Horse race project due 9/23.

September 28
Paradigms/Anomalies Continued
Exam 1 9/30

October 5
Biases and Heuristics
Team meeting

October 12
Biases and Heuristics continued
Career Project due 10/15
Ferri 1-3, 12, 15

October 19
Biases and Heuristics continued
Team meeting 10/21
Exam 2 10/23

October 26
Stock picker performance
Team project results summary due 10/28.

November 2
Prospect theory
Overconfidence; Memory & Hindsight Biases
Complete draft of team project due 11/5.

November 9
Team project presentations.
Team project is due November 13.

November 16
Winner's curse, commitment theory

November 23
Course Implications for Investors
Thanksgiving, no class 11/27.

November 30
Exam 3 12/4