

Finance/Management 4310
Behavioral Finance
Fall Semester, 2016

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Office Hours: TTh, 12:15-12:45 P.M,
Th 5:15-5:45 p.m. and by appointment.

Textbooks and Other Reading Material

Notes available from Blackboard.

Ackert, L. F., & Deaves, R. (2010). Behavioral finance: Psychology, decision-making, and markets. Mason, Ohio: Southwestern-Cengage Learning. Do not buy this book in hardcover (cost \$238.95). Instead buy the following four e-chapters (\$8.49 per chapter): 5 (Heuristics and Biases), 6 (Overconfidence), 8 (Implications of Heuristics and Biases for Financial Decision Making), and 9 (Implications of Overconfidence Biases for Financial Decision Making).

Ferri, Richard (2006). All about index funds. New York: McGraw-Hill.

Malkiel, B. G. (2015). A random walk down Wall Street (12th edition). New York: W. W. Norton and Company.

One of the following:

Stanley, T. J., & Danko, W. D. (1996). The millionaire next door. New York: Pocket Books.

Stanley, T. J. (2004). Millionaire women next door. Kansas City, MO: Andrews McNeels Publishing.

Stanley, T. J. (2009). Stop acting rich. New York: John Wiley & Sons.

Official Course Description

FINA/MANA 4310: Behavioral Finance Cr. 3. (3-0). Prerequisites: FINA 3332 and DISC 3331 or equivalent. Examination of individual decision behavior within a financial market context. Evaluation of psychological explanations for market movements and anomalies. Emphasis on the application of psychological principles to decision making behavior.

Course Content

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.

The Secrets to Success in this Course

1. This is not a “listen, memorize, and fill in multiple choice circles” class. Instead, it is a “learn by doing and application testing” class. To be successful, attend class and perform all assignments.

2. The most basic requirements of any job are to read, write, and follow instructions. Please do so in this class.

3. Prepare problem assignments before class. Problem assignments are not graded in this class. When problems are assigned, however, work through them in preparation for class. The problems are excellent practice for exam questions.

4. When examples are presented in class, jot some of the details down in your notes to aid you when reviewing for the exams.

5. Put forth a strong effort as you prepare for the exams. Know the learning objectives forwards/backwards/inside/out for exams. Be able to apply concepts and theories to new situations. When preparing, make up new problems and apply the course concepts. Study with other members of the class.

6. Produce an excellent team project by a) choosing an interesting problem, b) writing to my high standards, and c) being a good team member (carrying your share of the load and meeting team deadlines).

Some Administrative Details

1. The most efficient way to communicate with me is by email (I check email message several times per day). If convenient, summarize your questions or problem in an email. Put the class number (FINA 4310 or MANA 4310) in the heading of emails you send to me. If I receive an email from an unknown source, I delete it without reading it.

2. Why are two departments listed in the course designation? This class is cross listed as both FINA4310 and MANA4310. You may take this class as finance elective or as a management elective but not as both.

3. Course prerequisites are a) FINA 3332 Principles of Financial Management and DISC 3331 Statistical Analysis for Business Applications I or b) comparable courses (student makes special request to the Office of Student Services). Students who have not completed these courses (or equivalent courses) will be dropped from the class. Relevant statistical concepts include mean, standard deviation, dummy coding, correlation, sum of the absolute differences, and autocorrelation.

4. There will be a nonrefundable laboratory fee for the class that will be collected by the instructor. This is important because a core tenet of behavioral finance is that decisions be made with money riding on the outcome. A variety of classroom games and auctions will be played for real money. You may win or lose money during these demonstrations. You will be paid your winnings and pay for your losses from the laboratory fees according to the rules of the demonstration. During the class, more money will be paid out to students than is paid in by them. However, some students will pay more money than they receive and some demonstrations will result in net losses to students in aggregate.

5. A tentative grading scale is presented below. The final grading scale will be no higher than this, but may be lower.

93+ A	73-76.99 C
90-92.99 A-	70-72.99 C-
87-89.99 B+	67-69.99 D+
83-86.99 B	63-65.99 D
80-82.99 B-	60-62.99 D-
77-79.99 C+	59.99 and below F

6. Tentative point allocations

"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	60 points
Exam 2	60 points
Exam 3	60 points
Utility Project	20 points
Horse Race Project	20 points
<u>Team Project</u>	<u>100 points</u>
	338 points

7. Submit assignments via Blackboard. Submit assignments as Word attachments. Excel submissions will not be accepted for the utility project.

8. The last day for discussing your grades on Stanley, Ferri, and Malkiel quizzes, exams 1 & 2, and the utility & horse race projects with your instructor is the last day of class. After that day, only team project and exam 3 grades will be open for discussion.

9. The Bauer College has a policy that requires all of its instructors to be evaluated by their students. The results of these course evaluations are important to provide feedback to instructors on how their performance can be improved. In addition, these evaluations are carefully considered in promotion, salary adjustment, and other important decisions. We openly encourage students to provide feedback to instructors and the Bauer College through the evaluation process.

10. The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to the instructor in a timely manner.

11. The University of Houston Academic Honesty Policy is strictly enforced by the C. T. Bauer College of Business. A discussion of the policy is included in the University of Houston Student Handbook, <http://www.uh.edu/dos/hdbk/acad/achonpol.html>. Students are expected to be familiar with this policy. No violations of this policy will be tolerated in this course.

Ways to Earn Points

1. "Have You Read?" Quizzes/Reaction Papers. "Have you read?" quizzes will be given on the days that 1) the Stanley book and 2) the Malkiel books chapters are discussed. No makeup "Have you read?" quizzes will be given. Students who miss those quizzes can earn associated points by writing reaction papers. The topic of reaction papers will be the student's observations and reactions regarding the reading material. Reaction papers that only summarize the content of the reading will receive no more than one half of the allotted points. Reaction papers should show that all of the assigned material has been read. Minimum length for the reaction papers will be three *full* double-spaced pages (66 lines of text) plus the title page. Maximum length is five double-spaced pages (110 lines of text) plus the title page. Grades will be based upon whether you shared your reactions and upon meeting the guidelines for format of

the assignment. Reaction papers are due one week after the quiz has been administered. After that date, you will be penalized one half of the points you earn. (For example, if you earn 6 points on your reaction paper, your grade will be 3 points.)

2. Exams. Three exams, consisting of essay and short answer questions, will be administered. A list of learning objectives for each exam will be made available. The purpose of these objectives is to help you focus your attention on the material which the instructor believes is most important. Over 90% of the exam points will come from exam questions based upon the learning objectives. The remaining points, if any, will come from questions concerning material not covered by the learning objectives. During exams, students who leave the classroom, will not be allowed to continue the exam. During exams, all cell phones, pagers, etc. will be turned completely off.

3. Individual Projects. There will be no penalty the first time when you submit a late project if you submit it before the end of one week from due date. If submitted after one week from the due date, three points will be deducted. The second time you turn in a late project, three points will be deducted.

Utility Project. You will analyze the utility bill problem. It is worth 20 points.

Horse Race Project. In the lens model project, you will analyze your horse race task results. It is worth 20 points.

4. Team Project. In teams, you will choose a behavioral finance topic, collect data, analyze them, write a report summarizing your findings, and orally present them. The team project is worth 100 points.

5. Feedback Memo for Extra Credit. Students can earn from zero to three extra credit points by submitting a feedback memo regarding the structure, conduct, and/or content of the course. Number of points earned will depend upon offering thoughtful suggestions for improvement and meeting minimum length requirements. Memos that focus only on positive aspects of the course will receive no more than 1 point.

Topics covered might include (but need not be restricted to) any of the following:

- a) your experience in the class-how useful, interesting and/or appropriate the course was for you, what you learned.
- b) assignments-number, structure, timing, fairness of grading
- c) exams-format, coverage, fairness
- d) conduct of class sessions-pace, level, activities
- e) readings-number, usefulness
- f) class notes and sample assignments,
- g) course theories and concepts-number, appropriateness, omissions, usefulness
- h) motivational strategies used by the instructor-appropriateness, effectiveness, and
- i) overall structure of class-clarity, usefulness.

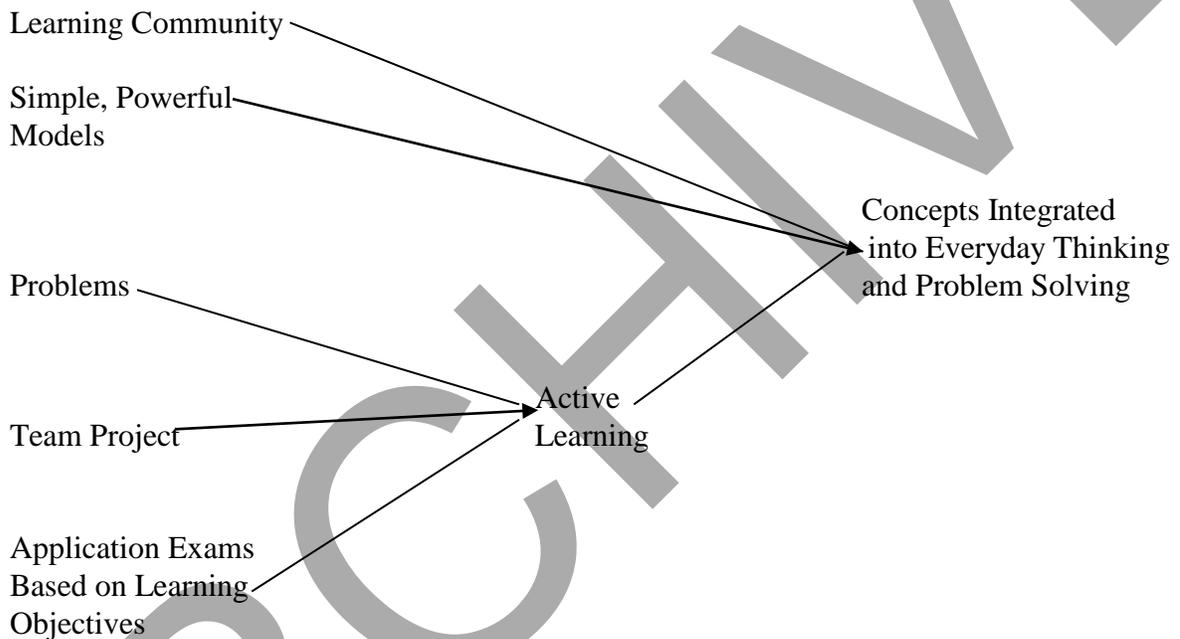
Minimum length: 3 full double-spaced pages (66 lines of text) plus title page.

Maximum length: 5 double-spaced pages plus title page. ***Due date is to be determined.***

Behavioral Norms

1. Cheating is prohibited.
2. Please do not read newspapers or carry on discussions with the person next to you during class. These activities are disruptive to the people around you and me.
3. During office hours, you are welcome to drop by and spend as much time as you like. At other times, make an appointment in advance to see me rather than dropping by.
4. In some countries, students occasionally give instructors presents. This is not a U.S. custom. Please do not give me gifts.
5. Please call me Dale.

Learning Model Which Underlies FINA/MANA 4310



In a learning community, people feel comfortable encountering and experimenting with new ideas and concepts.

Revised Schedule for Finance/Management 4310

Week of <u>Assignment</u>	Topic	
August 21	Introduction to Class Career Project assigned Review of Statistics	Statistics Notes
August 28	<u>Stanley & Danko quiz 8/30</u> Lens Model Utility Task Horse Race Task	Stanley & Danko: Intro, 1,2,3,5,8 Stanley-Stop Acting: 1-5,8,9 Stanley-Women: 1-7,12
September 4	Lens Model continued Introduction to market efficiency	
September 11	Market Efficiency <u>Malkiel quiz 9/13</u> <u>List of team members due 9/13.</u> <u>Utility project due 9/15</u>	Malkiel (RWDWS) 1-5,12-15
September 18	Paradigms/Anomalies <u>Team project proposal due 9/20.</u> <u>Team meeting 9/20</u> <u>Horse race project due 9/20.</u>	
September 25	Paradigms/Anomalies Continued <u>Exam 1 9/27</u>	
October 2	Biases and Heuristics <u>Team meeting</u>	
October 9	Biases and Heuristics continued	Ferri 1-3, 12, 15
October 16	Biases and Heuristics continued <u>Team meeting 10/18</u> <u>Exam 2 10/20</u>	
October 23	Stock picker performance <u>Team project results summary due 10/25.</u>	
October 30	Prospect theory Overconfidence; Memory & Hindsight Biases <u>Complete draft of team project due 11/3.</u>	
November 6	<u>Team project presentations.</u> <u>Team project is due November 10.</u>	
November 13	Winner's curse, commitment theory	
November 20	Course Implications for Investors <u>Thanksgiving, no class 11/24.</u>	
November 27	<u>Exam 3 12/1</u>	