SEMESTER IV

BEHAVIORAL FINANCE

1. Course Description

Programme: M. Com (Finance and Analytics) Max Hours: 75
Course Code: P24/COM/DSC/402 Marks: 100
Course Type: DSC Hours Per Week:5
No. of Credits: 5

2. Course Objective:

- To introduce the field of behavioural finance and underline its importance as a driving force in the global markets.
- To impart the psychological aspects and challenges underlying the issue of rational and irrational behaviour
- To demonstrate the impact of news and timing from the corporate angle and highlight the ramifications of effective news communication.

3. Course Outcomes:

At the end of the course, the student will be able to :

CO 1: Understand the basics and evolution of behavioural finance.

CO2:Understand about Investor Psychology

CO3:Understand about the psychological aspects and challenges underlying the issue of rational and irrational behaviour

CO4: Examine the Financial Market Anomalies

CO5: Analyse the Behavioral Corporate Finance

4. Course Content

MODULE - I: INTRODUCTION (15 Hrs)

Introduction to Behavioral Finance-Overview, History of Behavioral Finance; From standard finance to behavioral finance- Assumptions of Behavioral Finance- Building blocks of Behavioral Finance-Sentiment, Behavioral preference- limits of Arbitrage

MODULE II: UNDERSTANDING INVESTOR PSYCHOLOGY (15 Hrs)

Beliefs, Attitude, Learning, Herding, Momentum, Biases and Heuristics, Over-confidence and optimism, winners' curse, over reaction and under reaction and cross-cultural behavior.

MODULE III: INVESTOR PREFERENCES (15 Hrs)

Framing, Irrationality and violation of expected utility, mental accounting, Prospect theory and attention, Saving behavior.

MODULE IV: FINANCIAL MARKET ANOMALIES (15 Hrs)

Concept- Fundamental Anamolies, Accounting based anomalies, Calendar anomalies, Attention based anomalies: Value v/s Growth, size, equity premium, myopia in investment decision making.

MODULE V: BEHAVIORAL CORPORATE FINANCE (15 Hrs)

Introduction, Concept, Approaches to BCF – Market timing and catering approach, The Managerial Bias Approach, the irrational investor approach, Irrational manager's Approach. Behavioral biases of managers, Debiasing.

5. References

1. Chandra, Behavioral Finance Paperback, McGraw–Hill Education.
2. Sulphey M.M., Behavioral Finance Paperback, PHI Learning Private Limited
3. Michael Mauboussin, More Than You Know–Finding Financial Wisdom in Unconventional Places, Columbia Business School Publishing.
4. Williams Forbes, Behavioral finance, Wiley.
5. James Montier, The Little Book of Behavioural Investing: How not to be your own worst enemy, Little Books, Big Profits (UK).

Model Question Paper- End Semester Exam

BEHAVIORAL FINANCE

Course Code: P24/COM/DSC/402 Max Marks: 60

Credits: 5 Time: 2 ½ HOURS

SECTION - A

Answer the following **5 x 10 = 50**

1. Discuss about the evolution of Behavioral Finance from its roots in standard finance.

OR

2. discuss the key building blocks that differentiate Behavioral Finance from standard finance.
3. Write elaborately about various emotional biases.

OR

4. Elaborate on the various types of Heuristics.
5. Discuss about Prospect theory.

OR

6. What is mental accounting?
7. Fundamental Anomalies.

OR

8. Discuss about Calendar anomalies.
9. Explain about Market timing and catering approach in Behavioral Corporate Finance

OR

10. Discuss about Irrational manager's Approach.

SECTION B

Answer Any Five of the Following 5 x 2 = 10 Marks

11. write about any three assumptions of Behavioral Finance
12. Overconfidence
13. Winners' Curse
14. Framing,
15. Irrationality
16. Accounting Based Anomalies
17. Debiasing