Programme : MBA (Financial Services)
Course Code : FSO329
Course Title : Behavioural Finance
Number of Credits : 4
Effective from AY : 2020-21

Need of the Course	Behavioural finance helps to explain the difference between expectations of efficient, rational investor behavior and actual behavior. Advisors need to focus on behavioural aspects of wealth management, and develop a greater understanding of how biases can impact clients' investment decisions. Incorporating behavioural finance into their practice is key to enhancing the client experience. The need of the course is to provide insights of the application and significance of behavioural finance.
Description of the Course	The course will give students a good understanding of the linkage between financial markets and the real economy and discuss how the government uses fiscal and monetary tools to meet important public policy objectives. The course outlines the topics: Introduction to Behavioural Finance, Foundations of Rational Finance and Theories of Behaviour, Behavioural Biases, and Behavioural Aspects of Investing.
Objectives of the Course	1. To enable learners to discuss the significance of Behavioural Finance. 2. To enable learners to discuss the theories of Behavior. 3. To enable learners to apply the concepts of Behavioural Biases in Investing. 4. To enable learners to apply the concepts of Behavioural Aspects of Investing

Course Content		
Unit 1	**: Introduction to Behavioural Finance**	**06 Hours**
Evolution of Behavioural Finance – Key themes in Behavioural Finance: Heuristics – Framing – Emotions – Market Impact -Applications of Behavioural Finance: Investors - Corporations – Markets – Regulations – Important contributions in Behavioral Finance Literature – Criticisms of Behavioural Finance.		
Unit 2	**: Foundations of Rational Finance and Theories of Behaviour**	**12 Hours**
Foundations of Rational Finance: Expected Utility Theory – Modern Portfolio Theory – Capital Asset Pricing Model – Efficient Market Hypothesis – Agency Theory – The Influence of Psychology. Theories of Behavior and Individual Decision Making - Theory of planned behavior, Prospect theory, Disposition effect, Heuristics, Perception, Economic rationality model, Bounded rationality model.		

Unit 3	: Behavioural Biases	14 Hours
Cognitive biases and their significance, Specific biases – Overconfidence - How Overconfidence Affects Investor Decisions? – Overconfidence and Risk – Illusion of Knowledge – Illusion of Control – Disposition Effect – Disposition Effect and Wealth – Tests of Avoiding Regret and Seeking Pride – The Market for Houses – Selling Winners too soon and Holding Losers too long – Disposition Effect and News. Other Behavioural Biases - Representativeness, Anchoring, Mental Accounting, Herding, Loss Aversion, Framing, Availability bias, Conservatism, Confirmation, Self-serving Attribution Bias, Hindsight Bias, Illusion of control bias, Familiarity Bias, Limited Attention Bias, Outcome Bias, Recency Bias, Interaction between Biases.		
Unit 4	**: Behavioural Aspects of Investing**	**16 Hours**
Heuristics and Biases in Financial Decision Making – Influence of Emotions – Implications of Mental Accounting – Behavioural Portfolio Theory – Basic Ingredients of Sound Investment Philosophy – Guidelines for overcoming Psychological Biases - Market Outcomes: Size Effect and Seasonality, Momentum and Reversal, Post-Earnings Announcement Drift, The Value Premium, The Equity Premium Puzzle, Excessive Volatility, Bubbles, Behavioural Asset Pricing Model - Value Investing: Central Tenets of Value Investing, Evidence and Prospects of Value Investing, Academic Research on Value Investing.		
Pedagogy	: Lectures/ classroom discussion/ discussion using relevant research papers/ presentation/case study/ group project/ assignment or a combination of some of these. The sessions shall be interactive to enable peer group learning.	
Reference/Readings	1. Ackert, L. and Deaves, R. (2010). *Behavioral Finance – Psychology, Decision-Making and Markets.* South-Western Cengage Learning, United States. 2. Baddeley, M. (2019). *Behavioural Economics and Finance* (Second Edition). Routledge Taylor and Francis Group. 3. Burton, E. and Shah, S. (2013). *Behavioral Finance – Understanding the Social, Cognitive and Economic Debates*. Wiley, New Jersey. 4. Chandra, P. (2016). *Behavioural Finance.* McGraw Hill Education (India) Private Limited 5. Cruciani, C. (2017). *Investor Decision – Making and the Role of the Financial Advisor. A Behavioural Finance Approach.* Palgrave Macmillan. 6. Montier, J. (2007). *Behavioural Investing: A Practioner's Guide to Applying Behavioural Finance*. John Willey and Sons, Ltd. 7. Montier, J. (2008). *Behavioural Finance: Insights into Irrational Minds and Markets*. John Willey and Sons, Ltd. 8. Nofsinger, J. R. (2005). *The Psychology of Investing* (Second Edition). Pearson Prentice Hall.	
Course Outcome	Upon completion of this course, the students shall be able to: **CO1. Discuss** the significance of Behavioural Finance. **CO2. Discuss** the theories of Behavior. **CO3. Apply** the concepts of Behavioural Biases in Investing. **CO4. Apply** the concepts of Behavioural Aspects of Investing	