Course Syllabus

EE434 Behavioral Finance

Semester 1/2021

Number of credits: 3 credits (3-0-6)

Course description:
Study concepts and frameworks of behavioral economics that are used to explain observations in the financial sector. Topics of the subject include the Prospect Theory and its implications for investment behaviors, empirical evidence in the financial sector that support the idea of behavioral economics, models that incorporate psychological and sociological factors in explaining asset returns, or other related topics that the lecturer finds suitable.

Prerequisite: EE311

Course Objective:
1. To provide students with an introduction to the field of behavioral finance.
2. To provide students with an introduction to the Prospect Theory.
3. To compare Prospect Theory, in the field of behavioral finance, with Expected Utility Theory, in the field of mainstream economics.
4. To provide students with an introduction to main anomalies in the field of finance.
5. To provide students with some main factors influencing decision making of human beings, including:
   5.1 Heuristics
   5.2 Emotion
   5.3 Social influence

Students are also encouraged to practice collaborative problem-solving and presentation skills in this class.

Teaching Materials and Resources:

Main textbook:

[A&D] Ackert, L. F. and R. Deaves (2010). **Behavioral finance: Psychology, decision-making, and markets**. Mason, OH: South-Western Cengage Learning.

Required Readings:

[B&T] Benartzi, S. and R. Thaler (2007). Heuristics and Biases in Retirement Savings Behavior. **Journal of Economic Perspectives** 21(3), pp. 81-104.
[BHW] Bikhchandani, S., D. Hirshleifer and I. Welch (1998). Learning from the Behavior of Others: Conformity, Fads, and Informational Cascades. **Journal of Economic Perspectives** 12(3), pp. 151-170.
[D&H] Daniel, K. and Hirshleifer, D. (2015). Overconfident Investors, Predictable Returns, and Excessive Trading. **Journal of Economic Perspectives** 29(4), pp. 61-88.
[D&T] DeBondt, W. F. and R. Thaler (1985). Does the Stock Market Overreact? **The Journal of Finance** 40(3), pp. 793-805.
[S&T] Siegel, J.J. and R. Thaler (1997). Anomalies: the equity premium puzzle. **Journal of Economic Perspectives** 11(1), pp. 191 – 200.

Supplementary Readings:

Mishkin, F. S. (2009). **The Economics of Money, Banking, and Financial Markets**, 9th Ed. Pearson/Addison Wesley.
Statman, M. (2019). **Behavioral Finance: The Second Generation**. CFA Institute Research Foundation.

Handouts or related materials: (if any) will be uploaded on BE moodle at least two days before each lecture.

Class Talks:
Students should arrange into 8 groups. There will be two talks on issues related to JEP articles and content in class. At each talk, each group summarizes related JEP articles, one page for each article, and submit to the lecturer. At each talk, each group present your own idea about the topic of the talk with Powerpoint (or something similar) not exceeding ten pages. The presentation can cover anything related to the topic. At each talk, four groups will be selected to present their own idea about the topic of the talk. After that, class will discuss about current development.

Evaluation:

Class Talks	20%
Mid-term examination	32%
Final examination	48%

Expected Learning Outcomes:

1. Morality and Ethics

Applicability	Expected Learning Outcomes
●	1.1 Students demonstrate integrity.
●	1.2 Students prioritize social and public benefits over personal ones.
●	1.3 Students are punctual and comply with the code of conduct of the institution and society at large.
●	1.4 Students are responsible and accountable to society, the nation, and the subject of economics.
○	1.5 Students realize the cultural and environmental value of the sustenainable society.

2. Knowledge

Applicability	Expected Learning Outcomes
●	2.1 Students know and understand modern economics principles and theories, and are up to date with new developments.
●	2.2 Students know and understand Thai and global economic structure, and the importance of major international economic events.
○	2.3 Students know and understand instruments of economic analysis.
●	2.4 Students know and understand applied fields in economics, including monetary, public, international, business, natural resource and environmental, industrial, agricultural, cooperative, political, developmental, and entrepreneurial economics as well as agribusiness.
●	2.5 Students are informed about related fields including sociology, business administration, education, law policy, and science.

3. Intellectual Development

Applicability	Expected Learning Outcomes
●	3.1 Students have developed individual critical thinking.
●	3.2 Students are sufficiently trained in research skills.
●	3.3 Students demonstrate an ability to analyze and synthesize data, as well as appropriately integrate economics concepts to understand causes of current economic problems in Thailand. Based on analsyis and

	synthesis, students demonstrate an ability to propose policy guidelines to resolve problems.

4. Interpersonal Skills and Responsibilities

Applicability	Expected Learning Outcomes
●	4.1 Students are responsible for assigned tasks and work in groups effectively.
●	4.2 Students have problem-solving skills.
○	4.3 Students show leadership skills and team spirit.
●	4.4 Students are always improving themselves.
○	4.5 Students have good interpersonal skills, adapting and working under different conditions.

5. Quantitative Analysis, Communication and Information Technology

Applicability	Expected Learning Outcomes
●	5.1 Students select and apply appropriate statistical and mathematical methods for data processing, interpretation, conclusions, and recommendations to resolve problems.
●	5.2 Students communicate effectively and select appropriate presentation methods.
○	5.3 Students use information and communication technologies appropriately to gather data as well as process, interpret, and present results.

Teaching Plan:

Behavioral finance is the study of the influence of psychological factors and sociological factors on the behavior of investors or financial analysts. We will start by comparing the Expected Utility Theory of the mainstream economics with the Prospect Theory of the behavioral economics. Then we look at some anomalies just before the midterm exam. After that, we look into main psychological and sociological factors that influence decision-making of human beings, according to behavioral economics. The planned topics are as follow:

No.	Topic	Readings
1	Outline + Review on the financial markets	Handouts
2	Review: The Expected Utility Theory	A&D ch.1
3	The Prospect Theory	A&D ch.3
4	Equity Premium Puzzle	A&D ch.14
	ClassTalk 1: Expected Utility Theory Vs Prospect Theory	**S&T**
5	Review: CAPM and Efficient Market Hypothesis	A&D ch.2
6	Challenges to the Efficient Market Hypothesis	A&D ch.4
7	Other stock market puzzles	A&D ch.14
	Midterm Exam:	
8	Midterm review + Core components of Behavioral Finance	Handouts
9	Heuristics and biases	A&D ch.5
10	Implications of heuristics and biases for financial decision-making	A&D ch.8
11	Overconfidence	A&D ch.6
12	Implications of overconfidence for financial decision-making	A&D ch.9
13	Emotional foundations	A&D ch.7
14	Implications of emotions for financial decision-making	A&D ch.10
	ClassTalk 2: Implications of heuristics and overconfidence	**B&T, D&H, D&T**
15	Social forces	A&D ch.11
16	Conformity	BHW
17	Class conclusion	Handouts
	Final Exam:	