DISCIPLINE SPECIFIC ELECTIVE COURSE 13 (DSE-13): BEHAVIOURAL FINANCE

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Behavioural Finance (DSE 13)	4	3	1	0	Class 12	None

Learning Objectives

The course aims at:

- Introducing the core principles of behavioural finance, psychological biases and emotions influencing financial decision-making.
- Identifying common biases (e.g., overconfidence, loss aversion) and their impact on investor behaviour and market outcomes.
- Examining how psychological factors contribute to market anomalies and inefficiencies that traditional finance models can't explain.
- Developing skills to apply behavioural finance concepts in real-world scenarios, including portfolio management, financial advising, and investor behaviour analysis.

Learning outcomes

By studying this course, the students will be able to:

- Recognize and explain key psychological biases and how they influence financial decision-making.
- Develop the ability to analyze and interpret market inefficiencies and anomalies using behavioural finance concepts.
- Apply behavioural finance theories to practical financial decisions, such as investment strategies, portfolio management, and retirement planning.
- Assess how emotions and psychological factors impact individual and institutional investor behaviour, and the broader implications for market dynamics.

SYLLABUS OF DSE-13

Unit 1: Introduction to the Practical Applications of Behavioural Finance (9 hours)

Meaning of behavioural finance, traditional finance vs. Behavioural finance, evolution of behavioural finance, key themes in behavioural finance, a brief history of behavioural finance and behavioural finance micro vs. Behavioural finance macro.

Success & failure in investing and understanding behavioural trends in markets.

Unit 2. Heuristics, Biases and Decision making (15 hours)

How the human mind works: the two systems, heuristics or rules of thumb, rationale for heuristics, categories of heuristics & their biases, familiarity and related heuristics, representativeness and related heuristics, anchoring and irrationality and adaptation.

Behavioural obstacles to investing.

Self-deception: Forms of overconfidence, causes of overconfidence, factors impeding overconfidence, other forms of self-deception, how much do the experts know, the success equation: untangling skill and luck in business.

Investor Behaviour: Portrait of an individual investor, What the heuristics and biases mean for financial decision-making, Implications of overconfidence for decision-making, Influence of emotions, Implications of mental accounting, Behavioural portfolio theory, Knowing yourself: Psychographic models, Basic ingredients of a sound investment philosophy, Strategies for overcoming psychological biases. Case studies

Unit 3: Market Anomalies, Puzzles and Value Investing (12 hours)

Market Outcomes: Size effect and seasonality, Momentum and long-term reversal, post-earnings announcement drift, the value premium, Equity premium puzzle, Excessive volatility, Bubbles and crashes and Behavioural asset pricing model.

Investment styles: Value and Growth investing. Behavioural obstacles to value investing.

Value Central tenets of value investing, Evidence and prospects of value investing, Strategies of some well-known value investors and Academic research on value investing.

Contrarian investing - The psychology of going against the crowd: Meaning, psychological constraints and conventional versus contrarian portfolio

Unit 4: Market Bubbles, Financial Crisis & Lessons (9 hours)

Growth trap: Introduction, behavioural anomalies behind investors chasing, fads and fancies, starting of the Indian equity cult, long-term stock returns, examples of growth trap, differentiating between good investment and good business, evidence and lessons for investors.

Bubble trap: Anatomy of financial crisis, how is a bubble formed?, human behavioral anomalies, how does one identify a bubble?, lessons for investors, why do past bubbles not guide us and conclusion.An account of the global financial crisis.

References

Essential

1. Baker, H. K., &Nofsinger, J. R. (2010). Behavioural Finance: Investors, Corporations, and Markets. Hoboken, New Jersey, United States of America: JohnWiley&Sons.(Chapter 1 and 4)