<u>SEMESTER VII</u>

DISCIPLINE SPECIFIC CORE (DSC) COURSES

DSC 19: BEHAVIORAL 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		
Behavioral Finance DSC-19	**4**	**3**	**1**	**0**	**Class XII**	**NA**

Course Objectives

- To introduce the students to the role of human behaviour in financial decision making with the aim to provide a comprehensive view of the psychological foundations and their applications to Corporate Finance and understanding Investor Behavior.

Learning Outcomes

After studying this course the student will be able to:

- Establish a strong foundation of the basic concepts of Behavioral Finance.
- Understand the psychological biases and heuristics which affect financial decision making.
- Understand the application of Behavioral finance in Corporate Finance, Individual and Institutional Investor Trading Behavior.

Unit 1: Foundation and Key Concepts **(9 Hours)**

Introduction to Behavioural Finance – Overview, Evolution, Key Themes, and Applications. Traditional versus Behavioural Finance: Limits to Arbitrage – Market Efficiency, Fundamental Risk, Noise Trader Risk, Implementation Costs. Theoretical and Empirical underpinnings of Behavioral Finance – Prospect Theory, Framing Effects, Heuristics and Biases, and Affect Theory. Emotional Finance: Concept, Emotional Finance in Practice – Risk, Momentum, Bad News Anomaly.

Unit 2: Psychological Concepts and Behavioral Biases **(12 Hours)**

Heuristics or Rules of Thumb, Disposition Effect, Prospect Theory and Behavioral Finance, Overconfidence, Representativeness Heuristics, Familiarity Bias, Limited Attention, Ambiguity aversion, Loss aversion, Framing, Self-deception, Mental Accounting, Self-control, Regret avoidance, Availability bias, Anchoring bias, Optimism and Wishful Thinking, Overreaction and Underreaction, Self-attribution, Endowment Effect, Herd Behavior, Hindsight bias, Winners' Curse, Cognitive Dissonance, Status Quo bias.

Unit 3: Behavioural Corporate Finance (12 Hours)

Financing Decisions: Financing Decisions of an Optimistic Manager, Financing Decisions of an Overconfident Manager, Trade-off Model: Incorporating Manager-Shareholder Conflicts, Trade-off Model: Incorporating Bondholder-Shareholder Conflicts. Capital Budgeting and Other Investment Decisions: Effects of managerial overconfidence and optimism on the capital budgeting decisions, Factors Affecting the Impact of Managerial Biases, Theories of Investor Biases, Theories of Managerial Biases.

Unit 4: Investor Behavior (12 Hours)

Individual Investor Trading: Rational Explanations, Behavioral Explanations; Aspects of Individual Investor Trading – Disposition Effect, Local Bias, Learning over Time; Implications of Individual Investor Trading – Asset Prices, Cost of Time. Individual Investor Portfolios: Biases and Diversification. Cognitive Abilities and Financial Decisions: Investor Age and Investment Decisions?; Cognitive Abilities and the Three Puzzles. Institutional Investors: Holding and Trades of Institutional Investment Managers, Capital Flows to Institutional Investors. Culture in Finance: Impact of Culture. Social Interactions and Investing: Herding and Information Cascades.

Essential Readings:

- Baker, H. K., & Nofsinger, J. R. (Eds.). (2010). Behavioral finance: investors, corporations, and markets (Vol. 6). John Wiley & Sons. Publication
- Shleifer, Andrei. "Inefficient Markets-An Introduction to Behavioural Finance". Oxford University Press.
- Forbes, W. (2015). *Behavioural finance*. John Wiley & Sons.
- Ackert, L. F., & Deaves, R. (2011). Understanding behavioral Finance. Cengage Publication.

Additional Readings

- Barberis, N. (2003). A Survey of Behavioral Finance. *Handbook of the Economics of Finance*, *1*.
- Kahneman, D., & Tversky, A. (2000). "Choices, Values and Frames". Cambridge University Press

The latest published research papers and books should be used for teaching.

Examination scheme and mode:

Evaluation scheme and mode will be as per the guidelines notified by the University of Delhi.