



BUSINESS SCHOOL
Te Kura Pakihi

COURSE OUTLINE

FINC444

Behavioural Finance

February - June 2024

Semester One, 2024

This course outline contains information specific to this paper. Please refer to the COMMERCE_PG_2024: Commerce Postgraduate Students site on Blackboard for more general information common to your papers.

Paper Description and Aims

This is a 20-point paper. The University says, “As a guide, based on a 20-point paper, this usually works out to a minimum of 18 hours of work per paper per week. Work is made up of formal contact time (lectures, workshops, etc.) and independent study (studying, revision, assignments, reading, etc.)” (Source: <https://www.otago.ac.nz/study/planning/workload.html>)

So, if you spend 3 hours per week in class, you are expected to spend 15 hours per week working out of class time.

Rough Guide to Hours

FINC444 is a 20-point paper. This implies about 240 hours of work per student for the semester. My guess is this allocation: 26 lectures (39 h); Bloomberg labs (6 hours); 2 group assignments (70 h); reading (80); mid-term revision (15 h); final revision (30 h).

Subject Matter

Behavioural finance helps us understand the psychological factors that influence investors’ financial decision-making processes and consequently affect the financial markets and asset prices. Recent research shows that the majority of stock market anomalies are driven by investors’ behavioural biases. For example, most factor-based investing (e.g., investing to capture momentum, high dividend yield, or small-size risk premium) is linked to behavioural finance theories. Several investment companies have specialised “behavioural funds”. Behavioural finance is also a significant component of all the CFA exams: Levels I, II, and III. The aim of this course is to provide insights from psychology to explain financial market behaviour.

Course Learning Resources

1. Required Textbook

Ackert, L & Deaves, R 2010, Behavioral Finance: Psychology, Decision-Making, and Markets, 1st edition, Cengage Learning.

2. Journal Articles

In addition to the required textbook, we will discuss the content of almost 10-15 journal articles in class. These are mandatory for this course and will be available on Blackboard (PDF format). The mandatory articles are also available for download through the Otago University network by using the direct link provided. Please ask Dr Cheema if you have difficulty accessing an article you would like to read.

3. Additional Textbook

Meir, Statman 2019, Finance for Normal People, 1st edition, Oxford University Press Book.

Y Nofsinger, John R 2012, The psychology of investing, 5th edition, Pearson Education, New Jersey.

Learning Outcomes

These are the goals of the instructor:

Learning Outcome	Assignments	Exams	Total
Understand and critically discuss the difference between behavioural finance and traditional finance.	✓	✓	
Understand and critically discuss the behavioural biases that affect investment decisions and the financial markets.	✓	✓	
Apply behavioural finance knowledge to promote more efficient financial decisions for investors and fund managers.	✓	✓	
Use behavioural finance knowledge to answer/solve social problems (e.g., Why do investors follow herds? Why do some people gamble? Why do people save so little for retirement? Why do some people take excessive risks? etc.)	✓	✓	
Examine how investors' sentiment affects stock markets.	✓	✓	
Demonstrate how educated investors and managers can overcome behavioural biases to improve corporate, financial and investment decisions.	✓	✓	
Examine the relationship between investors' trading patterns and anomalous returns.	✓	✓	
Use Bloomberg-based screening techniques to invest in behavioural assets and compare their performance with traditional funds.	✓	N/A	
To improve data handling skills and spreadsheet construction.	✓	N/A	
Total	30%	10%/60%	100%

Teaching Staff

Paper Coordinator

Name: Dr. Muhammad A. Cheema

Office: 5.14

Email: muhammad.cheema@otago.ac.nz

Office Hours: Mon and Fri 3-4 pm (5.14)

Bloomberg Hours: Thu 3-4 pm (BNZ Markets Bloomberg Lab)

Class Representatives

Class representatives are an important means of communication between students and staff. Contact details for your student class representatives can be found on the Blackboard page for this paper.

Course Delivery

Lecture Day/Time: Tuesday (14:00-14:50), Friday (10:00-11:50)

Room: TBA

Labs Day/Time: TBA

Blackboard

<https://blackboard.otago.ac.nz/> provides you with access to course materials, class notices, and resources. Blackboard is used to email the whole class, so it is important that you check your student email and *Blackboard* regularly.

Further information about student support, learning support and information, academic integrity and other University resources for students is available on the COMMERCE_PG_2024: Commerce Undergraduate Students site on Blackboard.

Student Webmail

We will use your student email account to email you information relevant to your programme. To forward your University email address to an email address that you use regularly:

1. Log into your Student Mail account (<http://www.otago.ac.nz/smlanding/>) using your student username and password.
2. Click the **Cog** button (top right corner).
3. Click on **Mail** under **Your App Settings**.
4. Under **Accounts** on the left-hand side, select **Forwarding**.
5. Under the Forwarding heading, type in the email address you want your email to be forwarded to. You can also choose to have a copy of these emails kept on your student email account, so please check the box if you would like this.
6. Click the **Save** button.

Course Content, Assessment and Course Requirements

All material presented is examinable (except where stated otherwise) by assignments and the final examination. All important assessment information, such as due dates and times, content,

guidelines, and so on will be discussed at lectures and, where appropriate, detailed on Blackboard. *Students are responsible for ensuring that they are aware of this information, keeping track of their progress, and catching up on missed classes.*

Course Content

Conventional finance and market efficiency. Challenges to market efficiency. Heuristics and biases. Overconfidence. Emotional foundations. Implications of behavioural biases on financial decision-making. Individual investors and emotions. Behavioural explanation for stock market anomalies. Behavioural factors and stock market puzzles. Rational managers and irrational investors. Behavioural corporate finance and managerial decision-making. Retirement savings behaviour and DC pensions. Behavioural investing. The psychology of climate change. Journal articles about investors' sentiment, stock market anomalies and investors' behaviour.

Assessments

- There are two group assignments worth (30%), one Mid-Term Exam at 10%, and one Final Exam at 60%. Total = 100%.
- You must hand in a fully self-contained hard copy assignment and email all required SAS/EXCEL work to the Gmail account quoted on the question sheet unless instructed otherwise.
- There is a **plussage** for the mid-term (so the mid-term exam grade is erased and replaced by the final exam grade if the final exam grade is superior to the midterm exam grade; in particular, this means you are not required to sit the midterm).
- The final exam covers the entire semester's work. **You must score greater than 50% in the final to pass the course.** University policy is that if you score lower (than 50% in FINC444) in the final, but your total marks would give a result of 50% or more, your result is returned as "FAIL CA" or something like that, with no number.
- The mid-term and final exams are designed to test your understanding of the material presented in class and assignment content.
- You have already been notified about how special exams work. In case you did not notice, let me remind you that you have five calendar days following the final exam in which to apply to the Registry for special consideration if you were physically/mentally/emotionally handicapped for the exam (it's actually five calendar days after the last exam for which you were handicapped). If the rules have changed since I wrote this, then the new rules apply, and it is your responsibility to be aware of the new rules.
- You should assume now that you will have three final exams in two days, including this one, and plan/begin studying accordingly.

Assignments

- Dates for assignments will be announced in class and on BlackBoard. Unless you have made prior arrangements with me, work turned in k days late will have its grade multiplied by $(\frac{1}{2})^k$ as a penalty, without exception. Handing in work late because of person-specific risks (e.g., you did not back up, your computer crashed, etc.) is no excuse because you can hedge those risks.
- Assignments may be done in teams of three students. The teams are of your choice for the assignments (subject to change).

- Assignments must be neatly prepared (typed or neatly handwritten) and presented on A4 paper. Every team must have a team leader as a point of contact for me (circle the name and supply an email address on the assignment cover sheet on BlackBoard). They should be stapled in the corner (not pinned, clipped, or bound). Colour laser printing is viewed with considerable prejudice.
- Assignments will include questions requiring full use of the BNZ Markets Bloomberg Lab.

Peer Evaluation Override

If any student feels that an equal allocation of grades in their group is not fair for any assignment, then please talk to Dr Cheema as soon as possible.

Academic Integrity & Course-Specific Guidance

Academic integrity means being honest in your studying and assessments. It is the basis for ethical decision-making and behaviour in an academic context. Academic integrity is informed by the values of honesty, trust, responsibility, fairness, respect, and courage. Students are expected to be aware of and act in accordance with the University's Academic Integrity Policy.

Academic misconduct, such as plagiarism or cheating, is a breach of Academic Integrity and is taken very seriously by the University. Types of misconduct include plagiarism, copying, unauthorised collaboration, submitting work written by someone else (including from a file sharing website, text generation software, or purchased work), taking unauthorised material into a test or exam, impersonation, and assisting someone else's misconduct. A more extensive list of the types of academic misconduct and associated processes and penalties is available in the University's Student Academic Misconduct Procedures.

It is your responsibility to be aware of and use acceptable academic practices when completing your assessments. To access the information in the Academic Integrity Policy and learn more, please visit the University's Academic Integrity website at www.otago.ac.nz/study/academicintegrity, or ask at the Student Learning Centre (HEDC) or the Library, or seek advice from your paper coordinator.

All students in groups suspected of alleged breaches of the University Ethical Policy Guidelines will be given blank grades for that work until investigated by the Department Head, Pro Vice Chancellor, or delegate. Given heavy workloads, there has in the past been a considerable delay involved in resolving alleged breaches and assigning individual grades.

Last FINC444 Lecture Friday 31 May 2024

University Exam Period 5 - 19 June 2024

Disclaimer

While every effort is made to ensure that the information contained in this document is accurate, it is subject to change. Changes will be notified in class and via Blackboard. Students are encouraged to check Blackboard regularly. It is the student's responsibility to be informed.