



FI5613 – Behavioural Finance

MODULE TYPE/SEMESTER: Option (20 credits), Semester 2

MODULE CO-ORDINATOR: Dr Christian Engels

TEACHING STAFF: Dr Christian Engels
Dr Maria Chiara Iannino

CONTACT DETAILS: ce50@st-andrews.ac.uk
mci@st-andrews.ac.uk

AIM: This module is designed to introduce students to key concepts in behavioural finance and to convey sufficient knowledge to understand the difference between conventional financial theory and behavioural approaches. In particular, the module is focused on the specific features of decision-making processes that constitute deviations from rational models, illuminating the resulting biases they can introduce for financial markets, their institutions and other participants. It further seeks to develop the students' abilities to critically engage with contemporary research in behavioural finance.

METHOD OF TEACHING AND LEARNING:

Eleven weeks of teaching, incorporating lectures and seminar-style discussions.

LEARNING OUTCOMES:

By the end of the module, students will be able to:

- Understand key differences between conventional finance theory and behavioural finance
- Understand important behavioural factors in decision-making and their consequences
- Assess behavioural decision-making in empirical settings
- Forecast biased decision-making arising from behavioural factors and evaluate alternatives
- Understand key areas of contemporary research in behavioural finance

INDICATIVE WEEKLY TOPIC OUTLINES:

Part 1: Origins of Judgement

- Week 1: Psychology and Behavioural Economics: A Very Short Introduction
- Week 2: Heuristics and Biases

Part 2: How Choices Are Made:

- Week 3: Expected Utility Theory
- Week 4: Prospect Theory, Framing and Mental Accounting
- Week 5: Overconfidence and Emotional Foundations

Part 3: Investor Behaviour

- Week 6: Asset Pricing, Market Efficiency and Agency Relationships
- Week 7: Implications of Heuristics and Biases for Financial Decision-Making
- Week 8: (In)efficient Markets: Behavioural Explanations for Anomalies

Part 4: Topics in Behavioural Finance (subject to change)

- Week 9: Behavioural Corporate Finance and Managerial Decision-Making
- Week 10: Understanding Retirement Savings Behaviour
- Week 11: Debiasing, Education and Client Management

ASSESSMENT:

- Class test: 30%, assessing material in Weeks 1-3 of the module, broadly covering a short introduction to behavioural finance and foundations of traditional finance
- Portfolio of reading diary (2 entries, each 800 words): 40%. Free to choose entries on any Behavioural Finance topic (within reason, but the reading list is a good starting point)
- 2000-word essay: 30%, addressing specific Behavioural Finance problems and questions

PROVISIONAL READING LIST:

Main references:

Ackert, L. F., Deaves, R. (2010). *Behavioral finance: Psychology, decision-making and markets*. South-Western, Cengage Learning.

Indicative selection of additional sources:

- Lindqvist, E., Östling, R., & Cesarini, D. (2020). Long-run effects of lottery wealth on psychological well-being. *The Review of Economic Studies*, 87(6), 2703-2726.
- D'Acunto, F., Prabhala, N., & Rossi, A. G. (2019). The promises and pitfalls of roboadvising. *The Review of Financial Studies*, 32(5), 1983-2020.
- Edmans, A., Fernandez-Perez, A., Garel, A., & Indriawan, I. (2022). Music sentiment and stock returns around the world. *Journal of Financial Economics*, 145(2), 234-254.
- Kumar, A. (2009). Who Gambles in the Stock Market? *The Journal of Finance*, 64(4), 1889-1933.
- Lasse Heje Pedersen (2022). Game on: Social networks and markets, *Journal of Financial Economics*, Volume 146, Issue 3, 1097-1119.

- Barberis, Mukherjee, Wang (2016). Prospect theory and stock returns: An empirical test. *The Review of Financial Studies*, vol. 29(11), pp. 3068-3107.
- Brown, Wei, Wermers, R. (2014). Analyst recommendations, mutual fund herding, and overreaction in stock prices. *Management Science*, vol. 60(1), pp. 1-20.
- Daniel Kahneman (2011) “Thinking, Fast and Slow”, Penguin

Organisation of courses may be subject to change without notice.