

**MN5613 – Behavioural Finance****MODULE TYPE/SEMESTER:** Option (20 credits), Semester 2**MODULE CO-ORDINATOR:** Dr Christian Engels**CONTACT DETAILS:** ce50@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: Welcome and Overview

- Week 1: A Very Short Introduction to Behavioural Finance

Part 2: Foundations of Finance

- Week 2: Expected Utility Theory
- Week 3: Asset Pricing, Market Efficiency and Agency Relationships

### Part 3: Foundations of Behavioural Science

- Week 4: Prospect Theory, Framing and Mental Accounting
- Week 5: Heuristics and Biases
- Week 6: Overconfidence and Emotional Foundations

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

- Week 7: Implications of Heuristics and Biases for Financial Decision-Making
- Week 8: Behavioural Explanations for Anomalies
- 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.
- Housel, M. (2020). *The psychology of money*. Harriman House.

#### Indicative selection of peer-reviewed articles:

- Brown, J. R., Farrell, A. M., & Weisbenner, S. J. (2016). *Decision-making approaches and the propensity to default: Evidence and implications*. *Journal of Financial Economics*, 121(3), 477-495.
- 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 robo-advising*. *The Review of Financial Studies*, 32(5), 1983-2020.
- Barberis, N., Mukherjee, A., & Wang, B. (2016). *Prospect theory and stock returns: An empirical test*. *The Review of Financial Studies*, 29(11), 3068-3107.
- Brown, N. C., Wei, K. D., & Wermers, R. (2014). *Analyst recommendations, mutual fund herding, and overreaction in stock prices*. *Management Science*, 60(1), 1-20.
- 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.
- Frydman, C., & Wang, B. (2020). *The impact of salience on investor behavior: Evidence from a natural experiment*. *The Journal of Finance*, 75(1), 229-276.

- Choi, H. S., & Laschever, R. A. (2018). *The credit card debt puzzle and noncognitive ability*. *Review of Finance*, 22(6), 2109-2137.
- Song, C. (2020). *Financial illiteracy and pension contributions: A field experiment on compound interest in China*. *The Review of Financial Studies*, 33(2), 916-949.

*Organisation of courses may be subject to change without notice.*