**Sir Padampat Singhania University, Udaipur**

**MBA**

**Detailed Syllabus**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Semester – III** | | **DSE** | | | |
|  | | **L** | **T** | **P** | **C** |
| **Behavioral Finance**  **MGM4345** | | 3 | 0 | 0 | 3 |
| Pre-requisites | NA | | | | |

**Course Objectives:**

* **To develop an understanding of finance and enable the students to evaluate the firm’s decision areas related to finance.**
* **To help students to understand the limitations of ‘rational’ models of investment decision-making.**
* **To introduce students an alternate framework for understanding price discovery in the markets.**
* **To help students identify persistent or systematic behavioral factors that influence investment behavior.**
* **To help students to understand dynamic asset allocation.**

**Course Outcomes**

|  |  |  |
| --- | --- | --- |
|  | **Course Outcome** | **Level\*** |
| **CO1** | **Explain the basic concept of behavioral finance** | **1** |
| **CO2** | **Illustrate various behavioral biases in investment behavior** | **2** |
| **CO3** | **Explain rationality in investment decisions** | **1** |
| **CO4** | **Analyze various factors which impact investment behavior** | **3** |
| **CO5** | **Explain risk-taking as important factor of investment behavior** | **1** |

**\***Level of Learning-Use the number from 1 to 5 for indicating the level. Level 1- Remember & Understand, Level 2- Apply, Level 3- Analyse, Level 4- Evaluate, Level 5- Create. Mention the highest level that will be attained in the particular Course Outcome.

**Course Contents:**

# Module I: Introduction: Introduction to Behavioral Finance

Concept, Nature, Scope, Objectives, Difference between standard finance and behavioral finance, Traditional view of financial markets, Anomalies of financial markets, Limitation of efficient market hypothesis, Behavioral financial market strategies, Behavioral indicators, Psychology: Social, Behavioral, Physiological, Applied, Educational, Cognitive psychology, Boom & bust cycles, Prospect theory, Loss aversion theory.

# 

# Module II: Behavioral biases theories

Heuristics, Overconfidence bias, Representativeness, Anchoring and adjustment bias, Cognitive dissonance bias, Availability bias, Self-attribution bias, Illusion of control bias, Conservation bias, Endowment bias, Optimism bias, Confirmation bias. Finance & emotions, Investors & types, Characteristics of extremely successful investor.

# 

# Module III: Rationality

Risk aversion and expected marginal utility, Rationality in investment decisions: Concept, Limitation, assumptions for rational decision-making model, Rational decision-making process, Dependency of rationality on time horizon, Herbert Simon and bounded rationality.

# Module IV: Factors impacting behavior of investors

Group Behavior: Conformism, Herding, Fatal attractions. Emotion and neuroscience. Factors influencing stock & stock market, External factors and investors behavior, Classification of external and internal factors influencing investors behavior,

# Module V: Dynamic Asset Allocation

CRRA investors, Behavioral clients, Mean reversion structured wealth management process, Risk ability, Risk awareness, Risk tolerance and investment style.

**Examination Scheme: Total – 100 marks**

Forcourses with Theory and/or Tutorial Components

|  |  |  |
| --- | --- | --- |
| **Components** | **Continuous Internal Assessment (A, CA, TP, Q, MT, CT etc.)** | **External Assessment** |
| Weightage (%) | 40 | 60 |

\* A-Attendance, CA-Class Assignment, TP-Term Paper, Q-Quiz, MT-Mid Term, CT-Class Test etc. The attendance will carry 5% weightage, for other assessment components and the % weightage may vary.

**Text & Reference Books:**

* Chandra P. Behavioural Finance. McGraw Hill. Latest Edition.
* Parag P. Value Investing and Behavioural Finance. McGraw Hill. Latest Edition.
* Montier J. Behavioural Finance: insights into irrational minds and market.Wiley Finance. Latest Edition.
* Thaler Richard H. Advances in Behavioural Finance. Russell Sage Foundation. Latest Edition.2017.

**Web Links:**

* [Behavioral Finance - Definition, Theory, Biases and Examples (wallstreetmojo.com)](https://www.wallstreetmojo.com/behavioral-finance/)
* [Behavioral Finance (corporatefinanceinstitute.com)](https://corporatefinanceinstitute.com/resources/capital-markets/behavioral-finance/)