Philadelphia University
Faculty of Administrative & Financial Sciences
Department of Banking & Finance

Course syllabus

Course title: Behavioral Finance	Course code:0320333
Course level: Faculty Requirement	Course prerequisite (s) and/or co requisite (s): 0320211
Lecture time:	Credit hours:3 hours

Academic Staff Specifics

Name	Rank	Office number and location	Office hours	E-mail address

❖ **Course module description:**

In this course, we will examine how people make predictable and repeatable mistakes in financial decision- making. We will describe the nature of these mistakes and their origin, using insights from psychology, neurosciences and experimental economics on how the human mind allows us to design a better world – in particular, better stock markets, retirement and healthcare systems. As such, this course is markedly multidisciplinary, lying at the intersection of financial economics and cognitive sciences, with both experimental and theoretical components.

❖ **Course module objectives:**

1.To identify key assumption differences between traditional finance and behavioral finance frameworks.
2. To understand key psychological biases that affect decision making process.
3.To apply psychology research findings into finance anomalies.

❖ **Course/ module components:**

- **Books (title , author (s), publisher, year of publication)**

  Ackert Lucy, Deaves Richard , Behavioral Finance"Psychology,Decision – Making and Markets, South- Westren, ,2010.

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- **Support material (s) (vcs, acs, etc).**
- **Study guide (s) (if applicable).**
- **Homework and laboratory guide (s) if (applicable).**

❖ **Teaching methods:**
Lectures, discussion groups, tutorials, problem solving, debates, etc.

❖ **Learning outcomes:**

- **Knowledge and understanding**:

Upon completion of this course, students will be able to complete the following key tasks:

1.have a good understanding of the major concepts and topics of behavioral finance; be able to apply these concepts.
2. Explain different types of investor biases and heuristics.
3. Apply behavioral finance in the aggregate stock market,
4. Apply behavioral finance in corporate financial decisions.
5.Explore behavioral corporate finance, considering financial, investment and dividend policy decisions and contrasting traditional and behavioral approaches.

- **Cognitive skills (thinking and analysis):**

Upon completion of this course, students will be able to complete the following key tasks:
1.Explain the concept of behavioral finance.
2. Identify key goals of behavioral finance
3. The impact of the overconfidence in which the investor decisions.
4. Explain the impact of the adoption of investor behavior on emotion.
5. Understand the impact of social forces in making many of the financial decisions.
6. Explain the concept of herd behavior and its impact on many financial decisions that are made by individuals.
7. Understand the irrational behavior in financial markets.
8. Determ*ine* bias in investor behavior, and the investor behavior based on bias.
9. Explain the irrationality for each of the financial markets and managers.
10. The link between the theoretical and practical aspects.

- **Communication skills (personal and academic)**:
Upon completion of this course, students will be able to complete the following key tasks:

1.Develop team work skills.
2.Analyze and critically evaluate the behavior of national and international financial markets and institutions, investment environment of the company, financial engineering tools, the impact of fiscal and monetary policy to formation and management of organizations' financial flows.
3.. Integrate theoretical knowledge of financial economics to develop, apply and implement original research ideas in the fields of financial management, investment management, financial risk management and financial engineering.

- **Practical and subject specific skills (Transferable Skills):**

1. Determining the differences between traditional finance and behavioral finance.
2. Understanding and apply the main concepts, research tools and methodologies of behavioral finance that help to reveal biases, heuristics, etc. In the decision making process on individual, corporate and financial market level.

❖ **Assessment instruments**

- Short reports and/ or presentations, and/ or Short research projects
- Quizzes.
- Homework
- First examination , Second examination ,Final examination.

Allocation of Marks	
Assessment Instruments	**Mark**
First examination	**20**
Second examination	**20**
Final examination	**40**
Reports, research projects, quizzes, homework, Projects	**20**
Total	**100**

❖ **Documentation and academic honesty:**

- Documentation style (with illustrative examples)
- Protection by copyright
- Avoiding plagiarism.

❖ **Course/module academic calendar**

week	**Basic and support material to be covered**	**Homework/reports and their due dates**
(1)	• **Foundations of finance :expected utility theory:** -Neoclassical economics. -Rational preferences. -Utility maximization. -Relevant information. • **Expected utility theory:** -risk attitude.	Homework
(2)	• **Foundations of finance**: **asset pricing,** -The pricing of risk. -Risk and return for individual assets. - Risk and return for portfolio of assets. -Capital asset pricing model(CAPM).	Homework

	-Operationalizing the CAPM. • **Market efficiency:** -Efficiency and information. -What dose market efficiency imply? -Misconception about market efficiency. -Agency theory.	
(3)	• **Challenges to market efficiency : arbitrage in the financial markets and the constraints and the behavior of the investo**r: **-**Lagged reaction to earnings announcement. -small – firm effect. -Value vs. Growth. -Momentum and reversal. -Noise – trading and limits to arbitrage. -theoretical requirement for market efficiency: support 1: all investors are always rational, : support 2:investors errors are uncorrelated- shller's model, support 3: there are no limits to arbitrage. -What limits arbitrage? : fundamental risk- noise – trade risk- implementation costs.	Homework
(4)	• **Heuristics and biases: biases in investor behavior.** **-** Heuristics and biases, prospect theory and emotion . **-**Representativeness and related biases. -overestimating predictability.	Make a presentation on some aspect of the biased behavior by investors.
(5) **(6)**	• **Overconfidence:** -Miscalibration. -Other strains of overconfidence: better – than – average effect, illusion of control- excessive optimism. -Being overconfident in more than one sense. -Are people equally overconfident? -Are people consistently overconfident? -Is overconfidence an unmitigated flaw?	Homework+ Case study First Examination
(7)	• **Emotional foundations:** -The substance of emotion: cognitive antecedents- intentional objects- physiological arousal- physiological expressions-valence- action tendencies. -Evolutionary theory. -Emotion and reasoning.	A discussion about the role of emotion in influencing the decisions of investors.
(8)	• **Investor behavior: implication of heuristics and biases for financial decision-making:** -Financial behaviors stemming from familiarity. -Home bias.	Homework.

	-Distance, culture, and language. -Local investing and informational advantages. - Investing in your employer or brands that you know. -Financial behaviors stemming from representativeness.	
(9)	• **Implications of overconfidence for financial decision-making:** - Overconfidence and excessive trading. - Overconfident traders: simple model. -Demographics and dynamics: gender and overconfidence in the financial realm- dynamics overconfidence among market practitioners -Under diversification and excessive risk taking. .	Prepare written reports on the impact of overconfidence on investment decisions.
(10)	• **Individual investors and the force of emotion:** -Pride and regret. -the disposition effect. -Prospect theory as an explanation for the disposition effect. -House money. -Prospect theory and sequential.	Homework+Case study
(11)	• **Social forces- selfishness or altruism:** -Homo economics. -Fairness, reciprocity, and trust. -Who is more fair? -Social influences matter: competition in markets- incentives and contract design. -Conformity: testing conformity- obedience to authority. -Social behavior and emotion. - Social behavior and evolution.	Homework+Case study Second Examination
(12)	• **Social forces at work: the collapse of an American corporation:** -Corporate boards: benefits of a corporate board- outside directors- directors, compensation, and self- interest- directors and loyalty. -Analysts: what do professional security do? , the performance of security analysts. Do analysts herd? .	Homework+Case study
(13)	• **Irrational behavior in financial markets**: -The equity premium puzzle: the equity premium- why is the equity premium a puzzle- what can explain this puzzle? -real – world bubbles. -Experimental bubbles markets: design of bubbles markets- what can we learn from these experiments?	Homework

	-Behavioral finance and market valuation. -excessive volatility: do prices move too much? - demonstrating excessive volatility. - herd behavior.	
(14)	• **Rational managers and irrational investors:** -Mispricing and the goals of managers: a simple heuristic model- first order condition. -Examples of managerial action taking advantage of mispricing: company name change- explaining dividend patterns- share issues and repurchases- mergers and acquisitions. -Irrational managers or irrational investors?	Homework+Case study
(15)	• **Offered to discuss students' research.** • **Review.**	
(16)	**Final examination**	**Final examination**

❖ **Module references:**

Books:

1. Pompian, Michael M. 2012. Behavioral Finance and Wealth Management, 2nd Edition. Wiley: New Jersey.
2. Shleifer, Andrei. 2000. Inefficient Markets: An Introduction to Behavioral Finance. Oxford University Press.
3. **عثمان، محمد ، المالية السلوكية، "علم النفس- صناعة القرار- والأسواق، عمان: الطبعة الأولى، دار الفكر للنشر، 2014.**

Journals:

1. Journal of finance
2. Journal of business & economics

Websites:

http://finance.yahoo.com

http://www.irc.gov.jo/arabic/index,asp

❖ **Expected workload:**

On average students need to spend 2 hours of study and preparation for each 50-minute lecture/tutorial.

❖ **Attendance policy:**

Absence from lectures and/or tutorials shall not exceed 15%. Students who exceed the 15% limit without a medical or emergency excuse acceptable to and approved by the Dean of the relevant college/faculty shall not be allowed to take the final examination and shall receive a mark of zero for the course. If the excuse is approved by the Dean, the student shall be considered to have withdrawn from the course.