Hochschule Esslingen
University of Applied Sciences

Modul 0924/0951

1	**Module Number** 0924/0951	**Study Programme** TAB/TBB	**Semester** 6	**Offered in** xWS xSS	**Duration** 1 Semester	**Module Type** Elective	**Workload (h)** 120	**ECTS Points** 4
2	**Courses**		**Teaching and Learning Forms**		**Contact Time**		**Self-Study Time**	**Language**
					(SWS)	**(h)**	**(h)**	
	a) Behavioral Finance		Lecture with exercises		4	60]	60	english

3 Learning Outcomes and Competences

Behavioral finance applies scientific research on human and social cognitive and emotional biases. After completing this course, students will be able to better understand economic decisions and how they affect market prices and returns. They will know how behavioral findings are integrated with neo-classical theory.

Once the module has been successfully completed, the students can...

Knowledge and Understanding

- … understand the foundations of modern finance: expected utility theory, asset pricing (CAPM), the efficient market hypothesis, and agency relationships.
- … understand the inability of these standard tools to account for various paradoxes and anomalies, leading to the genesis of behavioral finance as reflected in prospect theory
- … understand the psychological foundations of Behavioral Finance: cognitive limitations and heuristics, overconfidence, and emotion

Use, Application and Generation of Knowledge

- … apply the psychological background to real world decisions and they will learn how psychology impacts financial-decision making at the level of the individual (for instance, the lecture will investigate the extent to which the faulty use of heuristics leads to suboptimal financial decision-making
- … apply the behavioral foundations to some central stock-market puzzles (e.g., stock market participation puzzle)
- … apply their decision making knowledge in day-to-day financial and non-financial decisions

Communication und Cooperation

- … understand and present the most important social cognitive and emotional biases
- … understand and present how behavioral decision making influences market prices and returns
- … understand and calculate different theoretical models used in behavioral finance
- … discuss advantages and disadvantages of neo-classical finance theory compared to behavioral finance theories

Scientific Self-Conception/ Professionalism

- … understand and present theoretical models in finance and discuss their assumptions
- … present an overview of recent developments in finance research
- … present scientific papers in detail

4 Contents

There is abundant evidence suggesting that the standard economic paradigm of rational investors does not adequately describe behavior in financial markets. Behavioral Finance examines how individuals' attitudes and behavior affect their financial decisions. This course reviews recent research on possible mispricing in financial markets due to the nature of psychological biases. Moreover the course deals with behavioral finance models explaining investor behavior or market anomalies when rational models provide no sufficient explanations. Topics will include among others overconfidence, prospect theory, heuristic driven biases and frame dependence. The course is structured as follows:

An introduction to Behavioral Finance (week 1)
Market Participants: Biases, purchasing and selling decision & long term savings decisions (weeks 2 – 5)
Linking individual investment behavior an market anomalies (week 6)
Markets: Efficiency and limits to arbitrage, event studies, calendar anomalies, cross-section predictability (weeks 7 – 10)

5 Participation Requirements

compulsory: completed first period of studies (semester one and two).]
recommended: Corporate Finance.

6 Examination Forms and Prerequisites for Awarding ECTS Points

Exam graded (90 minutes)

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7	**Further Use of Module** 025 Bachelors thesis and 0926 scientific project
8	**Module Manager and Full-Time Lecturer** Prof. Dr. Philipp Schreiber
9	**Literature** Lecture slides and selected papers: Barber, B. M., & Odean , T. (2013). Chapter 22 The Behavior of Individual Investors. In Handbook of the Economics of Finance (Vol. 2, pp. 1533 1570 Barberis , N., & Thaler , R. (2003). A survey of behavioral Handbook of the Economics of Finance 1 , 1053 1128 Fama , E. F. (1991). Efficient capital markets: The Journal of Finance 46 (5), 1575 1617. Hirshleifer , D. A. (2014). Behavioral Finance, available at SSRN 2480892
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