Behavioral Finance (FIN 6330)  
Course Syllabus

Spring 2014

Logistics

Professor Kyle Hyndman  
Phone: (972) 883-5872  
Office: JSOM 2.413  
Email: KyleB.Hyndman@utdallas.edu

Class Time: Mondays 4:00PM – 6:45PM  
Class Location: JSOM 2.903  
Office Hours: Wednesdays 2:30PM - 4:30PM

Website: https://elearning.utdallas.edu

Course Description

This course describes how individuals and firms make financial decisions, and how those decisions might deviate from those predicted by traditional financial or economic theory. Students explore the existence of psychological biases in financial decision-making, and examine the impacts of these biases in financial markets and other financial settings. The course examines how the insights of behavioral finance complements the traditional finance paradigm. It will also introduce students to behavioral and experimental methodologies used in finance, economics and other disciplines.

Student Learning Objectives

Students will gain an understanding of how individuals actually make financial decisions (descriptive) and guidance on how to improve financial decision making (prescriptive) in themselves and others.

Required Textbooks and Materials


Other books that you may wish to consult are:


Rough Outline of Course

Behavioral research in economics and finance is a large and growing field. My goal in this class is not to provide an exhaustive summary of everything that has been done but to focus on several general topics (usually centered on a particular behavioral bias) and to discuss in some detail a selection of important papers on that topic. In particular, academic papers will be discussed, and students should have some mathematical and statistical sophistication (e.g., hypothesis testing and how to interpret regression results).

- **Week 1 (Jan 13)**: Introduction, in-class market experiment, history of behavioral finance research. [Pompian, 1 & 2]
- **Week 2 (Jan 27)**: Methodology of behavioral research (empirical study, lab experiment, field experiment) [Slides]
- **Week 3 (Feb 3)**: A review of expected utility theory and an introduction to prospect theory. Ideas and evidence for loss aversion, endowment effect, status quo bias and some applications will be given. Other behavioral biases (e.g., ambiguity) will also be discussed. Subsequent classes will provide more details, especially as related to finance on specific topics. [Slides]
- **Week 4 (Feb 10)**: Loss aversion and endowment effect [Pompian, 17 & 21]
- **Week 5 (Feb 17)**: Probability weighting and ambiguity aversion [Slides]
- **Week 6 (Feb 24)**: Mental accounting and anchoring [Pompian, 10 & 11]
- **Week 7 (Mar 3)**: A theory-oriented discussion of intertemporal choice (discounted utility model), time inconsistency, procrastination and self-control [Slides]
- **Week 8 (Mar 17)**: Status-quo, commitment, framing [Pompian, 19 & 20]
- **Week 9 (Mar 24)**: Bayesian updating, overconfidence and conservatism [Pompian, 18 & 5]
- **Week 10 (Mar 31)**: Information cascades and regret [Slides & Pompian, 22]
- **Week 11 (Apr 7)**: Availability and Attribution [Pompian, 13 & 14]
- **Week 12 (Apr 14)**: Principal-Agent models and the role of incentives [Slides]
- **Week 13 (Apr 21)**: Summary and review
- **Week 14 (Apr 28)**: Final exam

Note that there will be several academic papers that students will be expected to familiarize themselves with (though excessive mathematics can be skipped). Either links or PDFs to these papers will be added to the eLearning page approximately 1 or more weeks before the class in which those papers will be discussed.

Coursework, Exams and Grading

Your grade in the course will be based on a final exam, team project, weekly assignments and class participation according to the following scale:

- Final Exam: 35% (April 28, 2014)
• Team Project: 35% (Due May 7, 2014, by 5PM)
• Weekly Assignments: 15%
• Class Participation: 15%

Final Exam. In-class on April 28th. It will cover material from the entire course. Closed-book, no cheat-sheets, computers or calculators.

Team Project. Should be done in groups of 2 or 3. One representative from your group should email me by Friday, January 17 with the full names (and net ids) of the group members. The project can take one of three forms:

1. A ‘case study’ of a particular financial regularity, situation or decision, using material from the course to explain and predict observed behavior. The papers will be evaluated on the relevance of the financial situation, and the use of concepts from the course in analyzing it.

2. A comprehensive literature review on an aspect of behavioral finance. The paper should cover empirical evidence of a given anomaly and describe the psychological regularity used to explain the anomaly. Particular attention should also be given to experimental or other evidence for this mechanism, as well as arguing why the psychological bias successfully aggregates and translates into the market setting (is not arbitraged away).

3. A proposed experiment designed to test a particular behavioral phenomenon. The paper should clearly state the behavioral phenomenon, summarize previous work on this phenomenon, state a clear research question and then provide details of an experimental design that would be able to answer your research question.

In all cases, the paper should be between 10-15 pages using standard font sizes (e.g., 12pt Times New Roman), margins (1” on all sides) and spacing (1.5 or double spaced) including all references and tables. All source material used for your team project must be appropriately cited/referenced in the paper. Academic dishonesty will not be tolerated.

Weekly Assignments. Each week in class each student will turn in a short (one-paragraph to one-page) description of a financial situation and a discussion of the impact of one of the biases covered in that session on the situation. The situation can be personal, professional, or something from current events. At the end of the semester, these short write-ups can be used to gather ideas for the final team project. The assignments must be typed and either printed and handed in directly to me or emailed in PDF format. Assignments from one hour up to one day late will receive half-credit, assignments later than one day will earn zero credit. These weekly assignments will not be returned.

Class Participation and Exercises. While I will not be grading on attendance per se, students will be graded on their class participation and participation in in-class exercises designed to illustrate the biases discussed. Students with frequent absences can expect a reduced grade in this area. For some of the in-class exercises, it will be useful if students have a laptop or tablet that can be connected to the internet.
Other Policies, Rules and Guidelines

• Except in the event of serious medical illness (that can be documented via official university channels), no make-up exam will be given.

• The exam may have some “bonus” or “extra credit” questions on it, but there will be no other extra-credit assignments given, so please do not ask.

• I expect professional classroom behavior. This includes the silencing of cell phones, no extracurricular reading, doing homework or online surfing during class. Of course, any activities which disturb the learning experience of the other students, including sidebar conversations, note-passing, etc. will not be tolerated.

• For a full list of UT Dallas policies on things such as student conduct, academic integrity, religious holidays, student grievance procedure, and disability services, among others, please go to: [http://go.utdallas.edu/syllabus-policies](http://go.utdallas.edu/syllabus-policies)