

**Management Undergraduate Program  
Fall2021**

**FIN406– Behavioral Finance and Investment Strategies**

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**Web:** SuCourse

**Office Hours:** <by appointment, or exact time specified>

Type	Time	Days	Where
Class	13:40 - 16:30 am	W	
Class			
Recitation			

**Course Objective:**

- To become familiar with financial and psychology-based theories to explain investor behavior and equity market anomalies.
- To understand how individuals actually make financial decisions and how to improve the financial decision-making process.
- To do practical applications in such software as Bloomberg and Excel.
- To facilitate students understanding of key economic and financial data both on the global and the domestic side.
- Assessing the connections of the market psychology with related macroeconomic and financial events.
- To develop the skills and knowledge required for the economic and financial analysis

**Learning Outcomes:**

- Examine behavioral finance concepts and their influence on investment decisions
- Appraise the difference between classical and behavioral finance
- Analyze financial basics such as risk and return
- Explain concepts of behavioral finance and investor sentiment
- Apply behavioral finance models
- Identify risk vs uncertainty
- Implement equity investment strategies based on behavioral biases in-depth critical understanding of the significance of the statistics and historic data
- Deepen knowledge of the basic macro-economic variables/concepts and financial data

- Deepen knowledge of country/peer comparisons in terms of macro-economic data and financial market behaviors

Upon successful completion of the course, the student should be able to:

1. To distinguish the classical finance and behavioral finance and their influence on investment decisions
2. To identify risk vs. uncertainty and the link between risk and return
3. To discuss/explain the financial market behaviors

**Course Material:**

1. **Priority Reading:** No textbook covers the complete lecture, so readings will be selected from the professional literature; they will be selected to be informative, interesting, and appropriate to the level of the class. Readings will be available on the class website or in the classroom.

2. **Required 1:** Daniel Kahneman. “Thinking Fast and Slow”.

3. **Required 2:** Richard H. Thaler & Cass R. Sunstein. “Nudge”.

**4. Required Texts:**

- a. “The Role of Beliefs in Trading Decisions”. Daniel Grosshans, Ferdinand Langnickel. 2018
- b. “Market Efficiency, Long-Term Returns, and Behavioral Finance”. Eugene Fama
- c. “Judgment Under Uncertainty: Heuristics and Biases,”Kahneman, Daniel, and Amos Tversky (1974), Science 185, 1124-31.

**5. Supportive Books:**

- a. Inefficient Markets: An Introduction to Behavioral Finance. Andrei Shleifer
- b. A Random Walk Down Wall street. Burton Malkiel
- c. Why Smart People Make Big Money Mistakes—And How to Correct Them: Lessons from the New Science of Behavioral Economics. Belsky, Gary and Gilovich, Thomas. 1999. Simon & Schuster: New York.

**6. Supportive Texts:**

- a. “Behavioral Finance Guide - Understanding How the Mind Can Help or Hinder Investment Success”. Vanguard.
- b. “A Survey of Behavioral Finance”. Nicholas Barberis, Richard Thaler. 2001.
- c. “Investor Psychology and Asset Pricing”. David Hirshleifer. 2001.
- d. “Market Efficiency, Long-Term Returns, and Behavioral Finance”. Eugene Fama.
- e. “The Dotcom Mania: The Rise and Fall of Internet Stock Prices”. Eli Ofek, Matt Richardson.

- f. Rubinstein, Mark (2001), “Rational Markets: Yes or No? The Affirmative Case,” Financial Analysts Journal (May-June), 15-29.

**7. Course-oriented Blogs/Web Sites:**

- a. <http://www.behaviouralfinance.net/>
- b. Paul Krugman (New York Times/Princeton) <http://krugman.blogs.nytimes.com/>
- c. Gavyn Davies (Financial Times) <http://blogs.ft.com/gavyndavies/>
- d. <http://www.voxeu.org/>
- e. <http://ftalphaville.ft.com/>
- f. <http://blog-imfdirect.imf.org/>
- g. Also: [www.bloomberg.com](http://www.bloomberg.com) [www.cnbc.com](http://www.cnbc.com) [www.marketwatch.com](http://www.marketwatch.com)

**Course Web:**

- Students should check the website twice a week
- Which components will be actively used?
  - Assignments
  - Evaluation
  - Turnitin
  - Lecture notes
  - Reading materials

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**Instructional Design:**

- Lectures featuring use of up-to-date relevant case studies, financial market developments/ examples and also Bloomberg ScreenShots in selected weeks.
- The course will strive to combine behavioral finance theory and practice and involve interactive learning by practice (via real-life financial events).
- Intensive reading of professional articles/texts/research papers is required for the class.
- Students will need to keep track of the current financial events in domestic/world economy and financial markets.
- Three-hour classes will be organized like one-hour discussions covering the professional texts and financial events of the week and two-hour theoretical class on behavioral finance theories.
- Hence, participation in class discussion will be the key which means that you should be reading the key articles ahead of time.

**Grading:**

Quiz/Assignment	: 30%
Mid Term Paper	: 30%
Final Exam/Project/Presentation	: 40%

**Peer Evaluation in Teamwork**

Students will be asked to provide an evaluation of the members of their team in Final Projects. Each student will divide 100 points between the members of her team, including herself. This division should reflect that person's judgment of the contribution of the members of her team. The scores should not be merely functions of time spent by each member, but they should be measures of the "contribution;" their relative contribution to the idea generation, research, analysis, writing, oral presentation, report writing, etc. If the team was highly functional, and each member did what they committed themselves to, then the student can assign the same mark to each member of the team. If, on the other hand, some members of the team did not fulfill their commitments and did not contribute as much as the others, then points can be distributed unevenly.

The points submitted by all members of the team will be aggregated by the instructor. Every student will be given his/her aggregate peer evaluation, without disclosing the individual peer evaluations to the students.

In case there is no consensus among the team, for example, if three students divide the marks evenly and the fourth one divides them unevenly, then the instructor will use his/her judgment to assign peer evaluation marks--possibly after meeting with the members of the team.

In cases where there are conflicting marks, it is most likely that the instructor will meet with the team members and provide a mark based on an interview. For example, in a group of four, if Students A and B believe they did most of the work, and Students C and D believe otherwise, the team may be called in for an interview in order to be fair to everyone.

Past experience indicates that in most groups points will be distributed evenly. There will be a few groups where peer evaluations will play a role in the marks. The primary goal of this exercise is to avoid giving undeserved credit to individuals who did not help their teams. However, it is possible to have upwards adjustments of marks in case of students who have done more than what the group expected of them.

The peer evaluation will have a direct impact on your projects. To give a simple example, if the group mark is 25 out of 30, and if your peer evaluation indicates that your contribution

was less than what was expected, then your project mark will be less than 25 out of 30. There are no simple rules for adjustment.

**Requirements:**

Attendance is not mandatory however class discussions and quizzes/assignments will be crucial. There won't be any repeat of the class/quiz. Active participation in class might be graded as a bonus at the end of term depending on the quality of the student's participation.

Intense reading will be crucial and linked to the quizzes/assignments (30% in grading). Hence the students should be reading every document submitted by the instructor.

Group presentation in the final project (40% in grading) by each member of the group - a group presentation should be done by every member of the group - will be graded (10% in grading).

**Academic Honesty:**

Learning is enhanced through cooperation and as such you are encouraged to work in groups, ask for and give help freely in all appropriate settings. At the same time, as a matter of personal integrity, you should only represent your own work as yours. Any work that is submitted to be evaluated in this class should be an original piece of writing, presenting your ideas in your own words. Everything you borrow from books, articles, or web sites (including those in the syllabus) should be properly cited. Although you are encouraged to discuss your ideas with others (including your friends in the class), it is important that you do not share your writing (slides, MS Excel files, reports, etc.) with anyone. Using ideas, text and other intellectual property developed by someone else while claiming it is your original work is *plagiarism*. Copying from others or providing answers or information, written or oral, to others is *cheating*. Unauthorized help from another person or having someone else write one's paper or assignment is *collusion*. Cheating, plagiarism and collusion are serious offenses that could result in an F grade and disciplinary action. Please pay utmost attention to avoid such accusations.

**Classroom policies and conduct**

Sabancı BA in Management Program values participatory learning. Establishing the necessary social order for a participatory learning environment requires that we all:

- Come prepared (read the submitted materials as much as you can) to make helpful comments and ask questions that facilitate your own understanding and that of your classmates. This requires that you complete the assigned readings for each session before class starts.
- Listen to the person who has the floor.
- Come to class on time.
- If you use your laptop during class, it is only to be used for class activities such as taking notes or referring to a spread sheet. You are not to connect the laptop to the

network and should not be doing any non-class activities during class time. Laptop usage may be forbidden if it is abused or if it distracts the professor or other students.

**Course Schedule:**

<b>Week 1</b>	On behavioral finance and efficient markets. Classic finance theory v. behavioral finance
<b>Week 2</b>	Heuristics (mental shortcuts) and biases in financial decision making
<b>Week 3</b>	Thinking Fast and Slow: System I vs System II
<b>Week 4</b>	Limits of Arbitrage
<b>Week 5</b>	Prospect Theory
<b>Week 6</b>	Cognitive Biases 1: ‘Loss Aversion and Prospect Theory’
<b>Week 7</b>	Cognitive Biases 2: ‘Over-confidence and Anchoring’
<b>Week 8</b>	Cognitive Biases 3: ‘Risk perceptions and Decision frames’
<b>Week 9</b>	Bubbles: ‘Bubbles in Asset Markets’ Investment Strategies Based on Behavioral Biases: ‘Risk appetite indices
<b>Week 10</b>	Midterm Exam
<b>Week 11</b>	Guest speaker (Tentative)
<b>Week 12</b>	CAPM Concepts - Risk, Correlation and Beta

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<b>Week 13</b>	Trading & Investment Strategies Based on Behavioral Biases: Risk appetite indices
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