

Professional MBA Program
Spring 2022
FIN 806 Behavioral Finance

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Office Hours: Over Zoom every Thursday @ 17:00 am

Type	Time	Days	Where
Class	19:00 - 22:00	Thursday	Altunizade Campus

Course Objective:

Behavioral finance is a relatively new but quickly expanding field that seeks to provide explanations for people's financial decisions by combining behavioral and cognitive psychological theory with conventional economics and finance.

Neoclassical economists assume that; i) all individuals act rationally to maximize their utility for both monetary and non-monetary gains, and ii) markets are fully efficient and prices reflect all available, relevant information. However, in reality these assumptions often do not hold. Behavioral finance helps explain why and how markets might be inefficient, why people are imperfect processors of information and why they are often subject to biases, errors and perceptual illusions.

CFA exam curriculum devotes more and more weight to behavioral finance every year. Portfolio managers, investment advisors, consultants, CFOs and individual investors must have an in-depth understanding of different behavioral biases and their impacts on financial decision making.

This course aims to be a guide to understanding the fundamentals of behavioral finance and reasons and impacts of irrational investor behavior. Throughout the course, we will cover psychological biases that effect the financial decision-making process and examine their impacts on financial markets and on people's lives.

The course will be supported by real-life case studies, analyses of investor behavior, cases of behavioral interventions to modify investor behavior and interviews / Q&A sessions with investment practitioners.

Learning Outcomes:

Upon successful completion of this course, students should be able to:

1. Understand the fundamentals of behavioral finance, the behavioral aspects of asset pricing, asset allocation, market prices and explain the gaps between classical finance theories and actual market conditions.
2. Learn about the cognitive and emotional biases and the social norms that predictably and consistently impact people's financial decision-making process.
3. Understand the impact of biases on people's savings and investment behavior and how finance professionals (advisors, brokers, portfolio managers, insurance advisors, etc.) can cope with their negative effects.
4. Evaluate how behavioral biases effect investment policy and asset allocation decisions and recommend approaches to mitigate their effects.
5. Understand how behavioral interventions (nudges) are designed and implemented to countereffect the impact of biases.

Course Material:

Textbook:

Thinking, Fast and Slow, Daniel Kahneman, Penguin Books, 2011

Optional reading:

Books:

- *Influence, The Psychology of Persuasion*, Robert Cialdini, Ph.D., 1984, 2007
- *Predictably Irrational*, Dan Ariely, 2008
- *Nudge*, Richard Thaler and Cass Sunstein, 2008
- *Behavioral Finance and Wealth Management*, Michael Pompian, 2012
- *Behavioral Finance - The Second Generation*, Meir Statman, 2019
- *Behavioral Finance – What Everyone Needs to Know*, Kent Baker, Greg Filbeck, John R. Nofsinger, Oxford University Press, 2019

Articles:

- *Heuristics and Biases in Retirement Savings Behavior* Shlomo Benartzi and Richard Thaler
- *Should Governments Invest More in Nudging?* Shlomo Benartzi, R. Thaler, et al.
- *Secure Retirement – Connecting Financial Theory and Human Behavior* Jacques Lussier, CFA, 2019
- *12 Investor Mistakes* – CFA Institute
- *The Psychology of Internet Fraud Victimization: a Systematic Review* – Gareth Norris, Alexandra Brookes, David Dowell, 2019
- *Nudging: Progress to Date and Future Directions* – John Beshears, Harry Kosowsky, 2020
- *A Model of Stock Manipulation Ramping Tricks* - Ke Liu · Kin Keung Lai · Jerome Yen · Qing Zhu, 2013
- *Finance for Normal People - How Investors and Markets Behave*, Meir Statman Oxford University Press, 2019

Case Study:

Due Date: 6th week
Type: Presentation
Subject: Analysis of the investment behavior of Turkish households.
Teamwork: Yes
Grading: Individual / Team

Course Web:

SUCourse++ will be used as the course's web site. Course presentations, syllabus, related articles, material to be used in case studies and other files will be posted on this web site.

Instructional Design:

The aim of this course is to teach behavioral finance theory as well as discuss real-life situations and applications. At the end of this course students should have a thorough understanding of behavioral biases and heuristics that impact people's decisions. Those who plan to choose a career part in financial advisory services and/or asset management will have a basic understanding how clients behave under certain situations.

The topics will be explained using PowerPoint presentations. Real life cases will be discussed throughout the course, experienced experts will be invited to discuss real life cases.

At the end of each lecture, there will be a 10-question quiz which covers the topics discussed at that lecture.

There will be a group case study which will require teamwork and research. Presentations will be made on the 6th week.

Grading:

Attendance and class participation	20%
Case study grade	35%
Quiz grades	45%

Peer Evaluation in Teamwork

Students will be asked to provide an evaluation of the members of their case study team. Each student will divide 100 points between the members of her team, including him- or 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 case study grade. To give a simple example, if the group mark is 25 out of 35, and if your peer evaluation indicates that your contribution was less than what was expected, then your case study grade will be less than 25.

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 Executive MBA Program values participatory learning. Establishing the necessary social order for a participatory learning environment requires that we all:

- Come prepared 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.
- Attend the class on time.
- In Zoom meetings, be visible to the instructor at all times (except for occasional short breaks)
- Listen to the person who has the floor.

Course Schedule:

Week	Topic	Thursdays 19:00 to 22:00
1	Introduction to Behavioral Finance Foundations and Psychological Concepts Rational Choice Models Bounded Rationality Concept Prospect Theory Reference Dependence Formation of groups and case assignment	February 24, 2022
2	Biases & Heuristics I Cognitive Biases	March 3, 2022
3	Biases & Heuristics II Emotional Biases <i>Guest speaker: Mehmet Gerz, CEO, Ata Asset Management</i>	March 10, 2022
4	Social Influence Investor Behavior <i>Guest speaker: Murat Sağman, Economist / Author</i>	March 17, 2022
5	Interventions, Nudges and Decisions <i>Guest speaker: Melisa Mumcu, FODER</i>	March 24, 2022
6	Case Study Presentations	March 31, 2022
7	Case Study Presentations Closing Discussions	7 April, 2022