

**Commerce 4FU3
Behavioral Finance: The Psychology of Markets
Fall 2019 Course Outline**

**Finance and Business Economics
DeGroote School of Business
McMaster University**

COURSE OBJECTIVE

An introduction to the emerging field of behavioral finance. Psychology and finance are integrated in studying how investors' emotions affect stock prices and markets. While it is not surprising that financial decision-makers make mistakes, behavioral finance teaches us that many of these errors are systematic and can be explained by our psychological makeup. An understanding of these biases can improve personal financial decision-making, facilitate client relationships and lead to product design improvements. More controversially, the view that instances of investor irrationality cancel themselves out, rendering markets perfectly efficient, is being called into question. This would suggest that there may be behavioral explanations for some well-known market anomalies. This course examines these issues and will be of interest to students pursuing careers in banking, insurance, risk management, pension, portfolio management, investment and financial services industry.

INSTRUCTOR AND CONTACT INFORMATION

Section 1: Fri 2:30 pm – 5:20 pm
Class Location: CNH/102

Sumit Bose, MBA CFP FMA CIWM FCSI

Instructor

sbose@mcmaster.ca

Office: TSH/615

Office Hours: before class and by appointment

Tel: (905) 525-9140, Ext. 26194

(as office is shared by number of instructors, please do not leave messages)

COURSE ELEMENTS

Credit Value: 3	Leadership: Yes	IT skills: No	Global view: Yes
A2L: Yes	Ethics: No	Numeracy: Yes	Written skills: Yes
Participation: Yes	Innovation: Yes	Group work: Yes	Oral skills: Yes
Evidence-based: Yes	Experiential: No	Final Exam: Yes	Guest speaker(s): No

COURSE PREREQUISITES

2FA3 and 3FA3, or permission of instructor.

LEARNING OUTCOMES

Upon completion of this course, students should:

- have a good understanding of the major concepts and issues in behavioral finance;
- and be able to apply these concepts in financial decision-making.

COURSE MATERIALS AND READINGS

Required

1. Custom Courseware
Purchase a 2019 copy at the bookstore
2. Avenue registration for course content, readings and case materials
<http://avenue.mcmaster.ca>

Optional

1. *Thinking, Fast and Slow* by Daniel Kahneman (Winner of the Nobel Prize in Economics)
 - Publisher: Doubleday Canada
 - purchase a copy at the bookstore
2. *Behavioral Finance Course Book*, Dr. Richard Deaves, 2018

EVALUATION

A combination of lectures, discussion and problem solving. Students will be encouraged to think, analyze, evaluate, and problem-solve, not memorize. Students are expected to come to class on time and be prepared for the class, i.e., to have read the assigned reading and to have done the assigned problems.

Missed tests/exams will receive a grade of zero unless the student has submitted and been approved for a Notification of Absence or MSAF. Late assignments will be penalized 1% for each day they are late. Your final grade will be calculated as follows:

Components and Weights

Participation	In-Class Contribution (individual)	10%
Mid-term Exam	Multiple-choice and Short Answer Exam (Closed book)	25%
Assignment	Group Case Assignment	30%
Final Exam	Cumulative Multiple-choice and Case-based Exam (Closed book)	35%
Total		100%

NOTE: The use of a McMaster standard calculator is allowed during examinations in this course. See McMaster calculator policy at the following URL:

www.mcmaster.ca/policy/Students-AcademicStudies/UndergraduateExaminationsPolicy.pdf

Communication and Feedback

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Area Administrative Assistants. Instructors are required to provide evaluation feedback for at least 10% of the final grade to students prior to Week #9 in the term. Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

Course Deliverables

GROUP ASSIGNMENT

The group assignment is worth a total of **30%** of your final grade and group members will share the same grade.

Each group will do a class presentation on a theme relating Behavioral Finance and relevant issues regarding Culture, Education, Executive Characteristics, Gender and Finance. A large part of the task will be the analysis and presentation of several recent research articles to the class with a concerted attempt to make the material accessible and to tie it into real-world practice (potential or actual). More information on this assignment will be provided early in the semester.

The group assignment reports **must** be typed (double space) for a maximum of 10-15 pages. They can be completed in groups of no more than **3 to 5** students. The groups are to be organized by students themselves. Your mark will be first based on content, and second, on presentation. Presentation includes effective and correct use of the English language.

The assignments are due at the start of class indicated on the class schedule section of the course outline. Late assignments will not be accepted unless the student and the professor have made prior arrangements.

Each report must include an executive summary (maximum length of one page) outlining key issues and conclusion. Figures and tables should be put in an appendix at the end of the report. All tables and figures must be numbered and all pages (including pages with tables and figures) must also be numbered.

MID-TERM EXAM

Mid-Term #1 is multiple choice, short answer and closed book and accounts for **25%** of your final grade. The exam will cover material from the text book, readings, handouts, web site material assigned, lectures and class discussion.

FINAL EXAM

This exam will be cumulative. The final exam is closed book, multiple-choice, short answer and essay or case-based questions. The exam will cover material from the text book, readings, handouts, web site material assigned, lectures and class discussion.

Students must pass the combination of the midterms and final exam in order to pass the course.

PARTICIPATION / CLASS CONTRIBUTION

Name cards and class pictures are used to help give credit for your participation. You must have a name card with your full first and last name clearly written and displayed in front of you for every class.

Your contribution is essential component in the overall education process. Contribution takes place in many forms: asking informed questions in class, making intelligent comments, reading the case and being prepared to discuss the issues, actively listening to your peers and working with others. Please remember that quantity is no substitute for quality.

There will be ample opportunity to contribute to the class. The format of the in-class discussions of cases may take a variety of forms including: group analysis of single case issues during class, presentation of issues and leading discussions of the case issues.

It is your responsibility to ensure that you take an active role in class. If this is a problem for you, I urge you to talk to me to discuss ways that you can make a contribution. The grading for the class contribution in each class is as follows:

Grade	Contribution
0	Does not show up for class.
1	Attends class but says very little.
2	Makes a significant contribution to the class by making important points with a significant element of originality or demonstrating mastery of difficult theoretical issues or concepts; is always prepared having read and analyzed prior to class, the various aspects of the problems and issues involved, shares in class presentations, contributes to in-class group work.

ACADEMIC DISHONESTY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: "Grade of F assigned for academic dishonesty"), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

AUTHENTICITY/PLAGIARISM DETECTION

In this course we will be using a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. Students will be expected to submit their work electronically either directly to Turnitin.com or via Avenue to Learn (A2L) plagiarism detection (a service supported by Turnitin.com) so can be checked for academic dishonesty. Students

who do not wish to submit their work through A2L and/or Turnitin.com must still submit an electronic and/or hardcopy to the instructor. No penalty will be assigned to a student who does not submit work to Turnitin.com or A2L. All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). To see the Turnitin.com Policy, please go to;

www.mcmaster.ca/academicintegrity.

ONLINE COURSE COMPONENTS

In this course we will be using X*. Students should be aware that when they access the electronic components of this course, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure.

If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

X* = e-mail, LearnLink, WebCT, web pages, capa, Moodle, ThinkingCap, etc

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below;

<http://ug.degroot.mcmaster.ca/forms-and-resources/misled-course-work-policy/>

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca.

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

<https://multifaith.mcmaster.ca/riso>

POTENTIAL MODIFICATION TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in Commerce 4FU3 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

COURSE EVALUATIONS

A course evaluation will be conducted near the end of the term. Students are asked to participate in this evaluation.

COURSE SCHEDULE

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Week	Date	Lecture
Reading 7. The Behavioral Finance Perspective		
1	Sept 6	Section 1: Introduction Section 2: Behavioral versus Traditional perspectives
2	Sept 13	Section 3: Decision Making
3	Sept 20	Section 4: Perspectives on Market Behavior and Portfolio Construction
Reading 8. The Behavioral Biases of Individuals		
4	Sept 27	Section 1: Introduction Section 2: Categorizations of Behavioral Biases Section 3: Cognitive Errors
5	Oct 4	MIDTERM 1 (Reading 7)
6	Oct 11	Section 4: Emotional Biases
7	Oct 14 – Oct 18: Mid-term Recess	
8	Oct 25	Section 5: Investment Policy and Asset Allocation
Reading 9. Behavioral Finance and Investment Processes		
9	Nov 1	Section 1: Introduction Section 2: The Uses and Limitations of Classifying Investors into Types Section 3: How Behavioral Factors Affect Adviser-Client Relations
10	Nov 8	Section 4: How Behavioral Factors Affect Portfolio Construction Section 5: Behavioral Finance and Analyst Forecasts
11	Nov 15	**Course Evals** Section 6: How Behavioral Factors Affect Business Managers and Committee Decision Making Section 7: How Behavioral Finance Influences Market Behavior
12	Nov 22	FINAL EXAM (Cumulative)
13	Nov 29	**Course Evals** Group Assignment Presentations Due

**** Course Evaluations: 10 minutes at the beginning of class. Bring your electronic devices.**