# Commerce 4FU3 (C01)
# Behavioral Finance: The Psychology of Markets
# Fall 2025

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

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### *COURSE OBJECTIVE*

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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 management and investor 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.

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### *INSTRUCTOR AND CONTACT INFORMATION*

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**Section 1: Thursday 2:30 pm - 5:20 pm**
Class Location: (Available on Mosaic)

**Sumit Bose, MBA CFP FMA CIWM FCSI**
Instructor
sbose@mcmaster.ca
Office: TBA
Office Hours: by appointment

**Course website:** http://avenue.mcmaster.ca

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### *COURSE ELEMENTS*

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|---|---|---|---|---|---|---|---|
| Credit Value: | 3 | Leadership: | Yes | IT skills: | No | Global view: | Yes |
| Avenue: | 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: | No | Guest speaker(s): | No |

## *IMPORTANT LINKS*

- Mosaic
- Avenue to Learn
- Student Accessibility Services - Accommodations
- McMaster University Library

## *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.

## *REQUIRED COURSE MATERIALS AND READINGS*

*These items are an integral part of the lesson plan for the course, and not having these materials could have a negative impact on a student's learning outcomes for the course.*

Under Ontario's new directive (effective Jan 2025) per the Strengthening Accountability and Student Supports Act/Bill 166, course outlines must list individual costs for all required and optional textbooks, materials, tools or technologies. Include current pricing (or most recent, if pending) and note if second-hand options are allowed.

**Required**:

1. Avenue registration for course content, readings and case materials $0
   http://avenue.mcmaster.ca

## *Optional Course Materials and Readings*

1. *Thinking, Fast and Slow* by Daniel Kahneman (Winner of the Nobel Prize in Economics)
   - Publisher: Doubleday Canada
   - Available at the bookstore

2. *Beyond Greed and Fear – Understanding Behavioral Finance and the Psychology of Investing* by Hersh Shefrin; Oxford University Press

3. *Nudge b*y Richard Thaler (Winner of the Nobel Prize in Economics) and Cass Sunstein; Penguin Books

## *Course Delivery and Tools*

| LEARNING ACTIVITIES | DELIVERY | DESCRIPTION | TOOL(S) |
|---|---|---|---|
| **In-person Class** | Synch | Live sessions led by your instructor | In class |
| **Class Discussions** | Synch | Participation discussions during in-person Class | In Class |

## *Course Overview and Assessment*

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.

All work will be evaluated on an individual basis except in certain cases where group work is expected. In these cases, group members will share the same grade.

Your final grade will be calculated as follows:

## Components and Weights

| EVALUATIONS | WEIGHT | DESCRIPTION |
|---|---|---|
| **Participation** | 10% | Attendance and engagement in weekly in-class Contribution (individual) |
| **Midterm #1** | 25% | Multiple-choice or Short Answer or Case-based Exam (Closed book) |
| **Midterm #2** | 35% | Cumulative - Multiple-choice or Short Answer or Case-based Exam (Closed book) |
| **Assignment** | 30% | Group Assignment – Written and Oral presentation. |

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

## *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 report **must** be typed (double space) maximum **10-15 pages**. It can be completed in groups of **3 to 5** students. The **Group leader will email the list of group members** to the instructor by the end of the third week of the term. All group members will be assigned identical grades for group work. A representative of your group should submit the assignment (only one submission for each group) of your group's answer to the **Assignments Dropbox** on Avenue**.** Make sure all contributing group members' names are on the assignment. Each group member is expected to contribute to the assignment.

Your mark will be first based on content, and second, on presentation. Presentation includes effective and correct use of the English language. More details of the format, structure, and content coverage will be provided during the course of the term.

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.

**The written assignments and presentation materials are due by 9:00 am ET on the due date 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.

**Oral Group Presentations** will be held in class **on the due date indicated on the class schedule section of the course outline** and should not be more than **15 minutes** per group. You may use powerpoints or any other tool to make your presentations interesting and professional.

**MIDTERM #1**

Midterm #1 exam is worth **25%** of your final grade. It will be closed book and will consist of multiple choice or case-based or short answer questions. The exam will cover material from the Avenue courseware (BOOK 1), readings, handouts, web site material assigned, lectures and class discussions.

**MIDTERM #2**

Midterm #2 exam is worth **35%** of your final grade This exam will be cumulative. It will be closed book and will consist of multiple choice or case-based or short answer questions. The exam will cover material from the Avenue courseware (Books 1 – 4 on Avenue), readings, handouts, web site material assigned, lectures and class discussions.

**PARTICIPATION – CLASS CONTRIBUTION**

Class Participation is worth **10%** of your final grade. It is imperative that students prepare for every class. No class attendance results in zero mark.

**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 an 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 | Student 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. |

Note that there is no partial (non-integer) participation grade awarded for a class. Students may be asked to share their detailed analysis with, or otherwise present their solutions to, the class in order for their contribution to be qualified as significant.

Since student participation is an important component of this course, official McMaster student ID photographs will be used to ensure that each student is assessed accurately. The instructor will use the photograph to ensure the accuracy of participation marks, group work, and for identifying students for grading purposes.

**USE OF CALCULATORS AND COMPUTERS**

Students may use any calculator or computer during the term as aids.

Calculators are allowed during the exam; however, ***no calculator, computer, or device may be used to access the Internet during the time of a test or an exam***.

## *COMMUNICATING WITH YOUR INSTRUCTOR:*

**Communicating with Your Instructor:**

During the course, your instructor will interact with you on various course matters on the course website using the following ways of communication:

1. **Announcements:** The instructor will use **Announcements** on the **Avenue Course Home page** to provide you with course reminders and updates. Please check this section frequently for course updates from your instructor.
2. **Email:** If you have a conflict that prevents you from completing course requirements, or have a question concerning a personal matter, you can send your instructor a private message by email. The instructor will respond to your email within 24 to 48 hours. Make sure to add '**4FU3'** in the subject line of email.
3. **Zoom Meetings:** Students can also request a Zoom meeting by requesting the instructor by e-mail.

4. **In Case of classes moving to an online format**, Online Virtual classes will be held via Zoom meeting. The link to register for the online class will be posted on Avenue. Students are required to join the online lectures with their full names for participation and attendance.

## *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.

All students must receive feedback regarding their progress prior to the final date by which a student may cancel the course without failure by default.

- *For Level 1 and Level 2 courses, this feedback must equal a minimum of 20% of the final grade.*
- *For Level 3 courses and above, this feedback must equal a minimum of 10% of the final grade.*

Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

Students who have concerns about the course content, evaluation methods, or delivery should first reach out to the course instructor. If your concern remains unresolved after speaking with the instructor, you may then reach out to the relevant Area Chair for further consideration.

## *REQUESTING RELIEF FOR MISSED ACADEMIC WORK*

In the event of an absence for medical or other reasons, students should review and follow the Academic Regulation in the Undergraduate Calendar "Requests for Relief for Missed Academic Term Work" and the link below*;

http://ug.degroote.mcmaster.ca/forms-and-resources/missed-course-work-policy/

* Non-Commerce students must follow the Missed Course Work protocols outlined by their home faculty and Program Office.

## COURSE MODIFICATION

From time to time there may be a need to remove/add topics or to change the schedule or the delivery format. If these are necessary, you will be given as much advance notice as possible.

## GENERATIVE AI

USE PROHIBITED

Students are not permitted to use generative AI in this course. In alignment with McMaster academic integrity policy, it "shall be an offence knowingly to … submit academic work for assessment that was purchased or acquired from another source". This includes work created by generative AI tools. Also state in the policy is the following, "Contract Cheating is the act of "outsourcing of student work to third parties" (Lancaster & Clarke, 2016, p. 639) with or without payment." Using Generative AI tools is a form of contract cheating. Charges of academic dishonesty will be brought forward to the Office of Academic Integrity.

## ACADEMIC INTEGRITY

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. **It is your responsibility to understand what constitutes academic dishonesty.**

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. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy.

The following illustrates only three forms of academic dishonesty:

- plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
- improper collaboration in group work.
- copying or using unauthorized aids in tests and examinations.

## AUTHENTICITY/PLAGIARISM DETECTION

**Some courses may** use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. Avenue to Learn, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software. **All submitted work is subject to normal verification that standards of academic integrity have been upheld** (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

## COURSES WITH AN ON-LINE ELEMENT

***Some courses may*** use on-line elements (e.g. e-mail, Avenue to Learn, LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, 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 a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with the course instructor.

## ONLINE PROCTORING

***Some courses may*** use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

## CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the Code of Student Rights & Responsibilities (the "Code"). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online.**

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students' access to these platforms.

## *ACADEMIC ACCOMMODATION OF STUDENTS WITH DISABILITIES*

Students with disabilities who require academic accommodation must contact Student Accessibility Services (SAS) at 905-525-9140 ext. 28652 or sas@mcmaster.ca to make arrangements with a Program Coordinator. For further information, consult McMaster University's Academic Accommodation of Students with Disabilities policy.

## *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 should submit their request to their Faculty Office ***normally within 10 working days*** of the beginning of term in which they anticipate a need for accommodation 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.

## COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

## EXTREME CIRCUMSTANCES

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, Avenue to Learn and/or McMaster email.

## 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

# Commerce 4FU3 (C01)
# Behavioral Finance: The Psychology of Markets
# Fall 2025 Course Schedule

| Dates | Schedule |
|---|---|
| **Week 1: The Behavioral Finance Perspective** | |
| **Thurs, Sept. 4**<br>**(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 1: **The Behavioral Finance Perspective** on Avenue)<br>  ○ Introduction (Section 1)<br>  ○ Behavioral versus Traditional perspectives (Section 2)<br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications.<br>• **Group Assignment:** Make groups of 3-5 students for group assignments |
| | |
| **Week 2: The Behavioral Finance Perspective** | |
| **Thurs, Sept. 11**<br>**(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 1: **The Behavioral Finance Perspective** on Avenue)<br>  ○ Decision Making **(**Section 3)<br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications.<br>• **Group Assignment: Group leader to email** list of group members and chosen assignment topic to instructor |
| | |
| **Week 3: The Behavioral Finance Perspective** | |
| **Thurs, Sept. 18**<br>**(2:30 pm – 5:20 pm))** | • **Readings:** (BOOK 1: **The Behavioral Finance Perspective** on Avenue)<br>  ○ Perspectives on Market Behavior and Portfolio Construction **(**Section 4)<br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications. |

| Dates | Schedule |
|---|---|
| | |
| **Week 4: The Behavioral Finance Perspective (Contd). & The Behavioral Biases of Individuals** | |
| **Thurs, Sept. 25**<br>**(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 1: **The Behavioral Finance Perspective** on Avenue)<br>  ○ Perspectives on Market Behavior and Portfolio Construction **(**Section 4)<br><br>• **Readings:** (BOOK 2: **The Behavioral Biases of Individuals)**<br>  ○ Introduction & Categorizations of Behavioral Biases (Section 1)<br>  ○ Cognitive Errors **(**Section 2 – 5)<br><br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications. |
| | |
| **Week 5: Behavioral Biases of Individuals** | |
| **Thurs, Oct. 2**<br>**(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 2: **The Behavioral Biases of Individuals)**<br>  ○ Emotional Biases **(**Section 6 - 8)<br><br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications. |
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| **Week 6: The Behavioral Biases of Individuals** | |
| **Thurs, Oct. 9**<br>**(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 3: **Behavioral Biases of Individuals – IPS and Asset Allocation** on Avenue**)**<br>  ○ Investment Policy and Asset Allocation<br><br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications. |
| | |
| **Week 7: Midterm Recess (Oct 13 – 19)** | |
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| Dates | Schedule |
|---|---|
| **Week 8: Midterm #1 Exam*** | |
| **Thurs, Oct 23<br>(2:30 pm – 5:20 pm)** | • **MIDTERM #1: <u>The Behavioral Finance Perspective</u>**<br>**1. Book 1 on Avenue (Found under Content -> Courseware)**<br>**2. Week 1-4 Class lectures, Notes and powerpoints** |
| | |
| **Week 9: Behavioral Finance and Investment Processes** | |
| **Thurs, Oct 30<br>(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 4: **Behavioral Finance and Investment Processes)**<br>○ Introduction and general discussion of investor types (Section 1)<br>○ New Developments in Psychographic Modeling: Behavioral **Investor** Types (Section 2)<br>○ How Behavioral Factors Affect **Adviser-Client Relations** Section 3)<br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications |
| | |
| **Week 10: Behavioral Finance and Investment Processes** | |
| **Thurs, Nov 6<br>(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 4: **Behavioral Finance and Investment Processes)**<br>○ How Behavioral Factors Affect **Portfolio Construction (**Section 4)<br>○ Behavioral Finance and **Analyst** Forecasts **and Overconfidence in forecasting skills (**Section 5)<br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications. |
| | |
| **Week 11: Behavioral Finance and Investment Processes** | |
| **Thurs, Nov 13<br>(2:30 pm – 5:20 pm)** | • **Readings:** (BOOK 4: **Behavioral Finance and Investment Processes)**<br>○ Influence of **Company's Management** on Analysis and **Analyst Biases** in conducting Research (Section 6)<br>○ How Behavioral Factors Affect **Committee** Decision Making (Section 7)<br>○ How Behavioral Finance Influences **Market Behavior (**Section 8)<br>• **Participation:** Be prepared to come to class to discuss the readings and it's real-world applications. |

| Dates | Schedule |
|---|---|
| | |
| **Week 12: Midterm #2 Exam** | |
| **Thurs, Nov 20 (2:30 pm – 5:20 pm)** | ***Midterm #2 Exam – Cumulative – in-class*** |
| | |
| **Week 13: Group Assignment Presentations Due** | |
| **Wed, Nov 26 (9:00 am)** | • **Written Group Assignment Due** |
| | |
| **Thurs, Nov 27 (2:30 pm – 5:20 pm)** | • **Group Assignment Oral Presentations Due**<br>• **Course Evaluations** |
| | |
| **Week 14: Group Assignment Presentations (Contd.)** | |
| **Thurs, Dec 4 (2:30 pm – 5:20 pm)** | • **Group Assignment Oral Presentations (Contd.)**<br>**Course Evaluations** |