

BEHAVIOURAL FINANCE

Subject Area:	Finance Subject Area
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Course Code:	E401B
Term:	Spring 2015
Credit Value:	1.0

FACULTY BIO

Samuli Knüpfer is Assistant Professor of Finance at London Business School. He also is Research Affiliate of the Centre for Economic Policy Research in London. His interests include household finance, behavioral finance, and corporate finance, and his research has appeared in major journals, including Journal of Finance, Journal of Financial Economics, and Review of Financial Studies. He holds a PhD in Finance from the Helsinki School of Economics and is a recipient of grants from numerous institutions, including the NASDAQ OMX Nordic Foundation and the Deloitte Institute of Innovation and Entrepreneurship at London Business School.

COURSE SUMMARY

Over the past decades, the field of finance has developed a successful paradigm based on the notions that investors and managers are rational and that the market is efficient. In recent years, however, anecdotal evidence as well as theoretical and empirical research has shown this paradigm to be insufficient to describe various features of actual financial markets. In this course, we explain financial market phenomena by incorporating institutional, social, cognitive, and emotional biases to the traditional paradigm. This broader perspective is called behavioral finance.

LEARNING OUTCOMES

The aim of the course is to give investors, investment managers, investment bankers, and corporate managers an understanding of investor and managerial behavior and its impact on financial market outcomes. The participants should be able to identify most common obstacles to making rational decisions, to debias their own decisions, and to understand the risks and opportunities associated with biased decisions.

ASSESSMENT

Assessment Table

Assessment type	Weight	Group/ Individual	Formative/ Summative	Requirement to pass? Y/N	Timing in course schedule
Final Exam	50%	Individual	Summative	Yes	Final Session
Group Assignments	40%	Group	Summative	No	Several Sessions
Class Participation	10%	Individual	Summative	No	Every Session

Minimum requirements to pass this course:

- 1) minimum 50% in the weighted final numerical score AND
- 2a) minimum 50% in the aggregate of the individual components OR
- 2b) minimum 50% in the largest weighted individual component

Assessment Overview

- **Final Exam:** The purpose of the exam is to test your understanding of the key topics discussed in class. The exam will be closed-book and its duration will be 2 hours 45 minutes. The exam consists of short essays that ask you to interpret a recent piece of news or a graph and relate it to the key issues covered in the course. There are no make-up exams.
- **Group Assignments:** The purpose of the cases and the project is to apply the key topics to real-life settings. Groups of not more than four students will prepare reports on cases and a project. Cases will be discussed in class and you should prepare in advance for the discussion by writing a report in which you answer the questions. The reports should be no more than three pages of single-spaced text and two pages of exhibits. The topic of the project varies from year to year and will be discussed in the first class. Each assignment is given a grade between 0 and 10 depending on the effort shown and the quality of the analysis. Assignments must be handed in on time using the Turnitin system; no credit will be given to late submissions.
- **Class Participation:** You must attend all the classes and contribute by asking questions and by making comments. You may also need to take notes, because we sometimes cover materials that will not be included in the lecture slides posted on portal. Please bring your name tag to the class.

Plagiarism Declaration

All students completing this course should be aware that in submitting any assignment for this course, you agree to the following declaration:

"I certify that the coursework that I have submitted is entirely my own unaided work, and that I have read and complied with the School's guidelines on plagiarism and referencing as set out in the School handbook.

I understand that the School may make use of plagiarism detection software and that my work may therefore be stored on a database which is accessible to other users of the same software."

Students should be aware that, where plagiarism is suspected, a formal investigation may be carried out under the School's Student Disciplinary Procedure. This may result in penalties ranging from mark deduction to expulsion from the School.

Pre-requisites

Successful completion of Corporate Finance core course; and Capital Markets and Financing elective.

COURSE PREPARATION & READING

We will read a number of recent academic articles, chosen to be practically relevant and not excessively technical. The **required readings** can be found electronically on the Portal. **Lecture notes** will be available as a hard copy in class and on the Portal. You will also find the week-by-week **schedule** of the course, **cases**, and **questions for cases** on the Portal.

You are not required to buy a textbook for the course, since the required material will be in handouts and on the portal. However, you may find the books listed below interesting.

On behavioral economics and finance in general:

- “Thinking: Fast and Slow”, by Daniel Kahneman
- “Irrational Exuberance”, by Robert Shiller
- “Beyond Greed and Fear”, by Hersh Shefrin
- “Nudge”, by Richard Thaler and Cass Sunstein

On historical episodes we refer to in class:

- “Manias, Panics and Crashes”, by Charles Kindleberger
- “The Great Crash 1929”, by John Galbraith
- “When Genius Failed”, by Roger Lowenstein
- “Origins of the Crash”, by Roger Lowenstein
- “The Big Short”, by Michael Lewis
- “Too Big To Fail”, by Andrew Ross Sorkin

Course materials will be distributed:

Electronically on portal.london.edu

As a paper binder

TEACHING METHODS

The following teaching methods will be used on this course:

Lecture(s)	<input checked="" type="checkbox"/>
Guest Speaker(s)	<input type="checkbox"/>
Seminar(s)	<input type="checkbox"/>
External Visit(s)	<input type="checkbox"/>
Project(s)	<input checked="" type="checkbox"/>
Other (please specify below)	<input checked="" type="checkbox"/>
In-class discussions	<input type="checkbox"/>

COURSE STRUCTURE

Session 1	What is behavioural finance?
Session 2 – 4	How do people make investment decisions?
Session 5 – 7	How does investor behavior affect asset prices?
Session 8	How do firms respond to investor behavior?
Session 9	Details of this session are discussed in the first class
Session 10	Final exam