



GRADUATE SCHOOL

GM1024 Behavioural Finance, 7.5 credits

Behavioural Finance, 7,5 högskolepoäng

Second Cycle

Confirmation

This course syllabus was confirmed by School of Business, Economics and Law on 2010-12-02 and was last revised on 2017-11-30 by Graduate School to be valid from 2018-01-15, spring semester of 2018.

Field of education: Social Sciences 100%

Department: Graduate School

Position in the educational system

The course Behavioural Finance is a course within the Master of Science programmes at the Graduate School, School of Business, Economics and Law, University of Gothenburg.

Main field of studies

Finance

Specialization

A1N, Second cycle, has only first-cycle course/s as entry requirements

Entry requirements

To be eligible for the course Behavioural Finance the participant must fulfil the entrance requirements for the Master of Science programme in Economics or the Master of Science programme in Finance. For programme specific entrance requirements, see programme syllabus.

Learning outcomes

After completion of the course, the student shall be able to:

1. understand how psychological biases can affect financial decision-making.
2. understand the functioning of markets and the mechanism of price formation.
3. understand the efficiency of real-world financial markets and its implications.

Course content

This course covers a broad range of issues in behavioral and experimental finance. The course will be made up of two parts: the limits to rationality in human financial decision-making, and the limits of markets to reach rational efficient equilibria. Special emphasis in this course is given to experimental studies. To deepen the knowledge and understanding of both parts, paper and pencil and computerized market experiments are run during the course with near-to-reality market designs. In particular, the course consists of the following connected themes.

The first part concerns some limitations to rationality. Psychological biases such as myopia, loss aversion, ambiguity aversion, present biasedness, etc, can lead to observed phenomena such as the endowment effect, the disposition effect, limited stock market participation or excessive risk taking. Some simple choice experiments will demonstrate these ideas and their effects. The second part investigates the efficiency of markets in general and drivers of bubble formation in financial markets in particular. In a first step the efficiency of markets with asymmetrically informed investors and the related value of information will be analyzed. This is done by literature reviews and computerized market experiments to observe differences in returns and behavior among the different trader groups. Finally, experiments will be run to detect environments which fuel or diminish bubbles on asset markets.

Form of teaching

The course contents will be addressed with several methods. Lecture input sessions will provide basic concepts of Behavioral Finance. Moreover, paper and pen, laboratory, and online experiments provide a novel hands-on approach to deepen the insights from the course. Finally, short student presentations (mini-essays) accomplish the portfolio of methods.

Language of instruction: English

Assessment

The learning outcomes 1-3 will be assessed through

1. A written exam.
2. Two mini-essays detailing an application of the concepts presented in class in the real world. They will be presented in the last session of this course.

3. Group paper which includes the group's empirical or experimental study on financial decision-making or market efficiency.

A failed assignment and/or group paper can be supplemented to a Pass grade.

If a student, who has failed the same examined component twice, wishes to change examiner before the next examination, a written application shall be sent to the department responsible for the course and shall be granted unless there are special reasons to the contrary (Chapter 6, Section 22 of Higher Education Ordinance).

In cases where a course has been discontinued or has undergone major changes, the student shall normally be guaranteed at least three examination occasions (including the ordinary examination) during a period of at least one year from the last time the course was given.

The number of examinations is limited to five.

Grades

The grading scale comprises: Pass with Distinction (VG), Pass (G) and Fail (U).

For Pass on the course, 50% of the total of the points that are possible to achieve will be needed. For pass on the course 50% of the points are required on each of the examination forms; written exam, group paper and mini-essays. For Pass with Distinction, 75% of the total of the points that are possible to achieve will be needed.

Course evaluation

The course will be evaluated upon completion. The results of and possible changes to the course will be shared with students who participated in the evaluation and students who are starting the course.