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Reforming Master Programmes in Finance in Armenia and Moldova / REFINA

An Erasmus+ Capacity Building Project (2017-2020)

THE COURSE BEHAVIOURAL FINANCE OVERVIEW

Russian-Armenian University

Teacher: Ani Galstyan



BASIC INFORMATION



TITLE OF THE COURSE	Behavioural Finance
TEACHERS	Ani Galstyan
YEAR OF THE COURSE	2
SEMESTER OF THE COURSE	3
LANGUAGE	Russian
NUMBER OF ECTS CREDITS	2

LEARNING OUTCOMES



LO Level	After competing this course students should be able to
Remembering	<ul style="list-style-type: none"> ● Recognize the patterns of irrational behaviour of economic agents
Understanding	<ul style="list-style-type: none"> ● Explain findings in human behaviour when making decisions
Applying	<ul style="list-style-type: none"> ● Apply research findings in behavioural economics when solving practical problems ● Demonstrate analytical skills for financial decision making
Analysing	<ul style="list-style-type: none"> ● Analyse the decision making of economic agents. ● Compare the patterns of human behaviour in various economic situations. ● Identify the consequences of behavioural effects. ● Identify the behavioural bias and psychological characteristics of investors
Evaluating	<ul style="list-style-type: none"> ● Classify the patterns of human behaviour in various economic situations. ● Suggest investment problems and search for solutions.
Creating	<ul style="list-style-type: none"> ● Design solutions for investment problems taking into account the behavioural bias.

SYLLABUS OF THE COURSE



Topic	Academic hours	Week
1. Economic agent - rational or irrational	1	1
2. The reasons for the irrational behaviour of "reasonable man"	1	1
3. Prospect theory	2	2
4. Behavioural effects in marketing, work and the public sector	1	3
5. Designing economic processes taking into account behavioural effects. Nudge concept.	1	3
6. Capital markets: an analysis of the prerequisites of an efficient market hypothesis.	1	4

SYLLABUS OF THE COURSE



Topic	Academic hours	Week
7. Capital markets: anomalies	2	4,5
8. Capital markets: market modelling and bubbles	3	5,6
9. Capital structure: a behavioural approach. Initial Public Offering (IPO).	2	7
10. Dividend Policy: A Behavioural Approach	1	8
11. Mergers and Acquisitions: Behavioural Aspects	1	8
12. Managing company value in an inefficient market.	2	9

TOPIC 1 - Economic agent - rational or irrational



- the rationality in neoclassical economics
- the irrationality of humans
- why economists assume that humans are rational
- rational economic agent vs irrational economic agent, how people make decisions
- irrational decision making
- development of behavioural economics

TOPIC 2 - The reasons for the irrational behaviour of "reasonable man"

- mental accounting
- sunk costs effect
- the reasons of irrational behaviour

TOPIC 3 - Prospect theory



- rational decision making under risk vs real decision making under risk
- certainty effect
- the isolation effect
- framing effect
- the characteristics of prospect theory
- representativeness, availability, anchoring, risk aversion

TOPIC 4 - Behavioural effects in marketing work and the public sector



- the IKEA effect, the effect of "last chance"
- endowment effect
- the power of free
- default effect
- social norms vs market norms



TOPIC 5 - Designing economic processes taking into account behavioural effects. Nudge concept.

- behavioural "positive" projects
- the problem of "consumption-saving" in the neoclassical macroeconomics vs reality
- behavioural approach
- save more tomorrow
- the Nudge concept

TOPIC 6 - Capital markets: an analysis of the prerequisites of an efficient market hypothesis



- what theories of asset pricing in the capital market do we use today
- the disadvantages of those models and theories
- the reason of existing issues, solutions for them



TOPIC 7 - Capital markets: anomalies

- empirical verification of Capital Assets Pricing Model
- market anomalies
- overreaction effect
- reluctance to realize losses
- regret theory
- disposition effect
- post-earnings announcement drift
- size effect
- behavioural investment funds
- equity premium puzzle

TOPIC 8 - Capital markets: market modeling and bubbles



- factors that impact the decision making of traders
- the relationship of market returns and external factors (geomagnetic activity, sunny days, winter depression)
- calendar effects (Monday effect, pre-holiday rally, January effect, end of December)
- investment sentiments

TOPIC 8 - Capital markets: market modeling and bubbles



- Coherent markets hypothesis
- investor expectations
- house money illusion
- Emotions
- Behavioral Models of Asset Pricing
- bubbles and uncertainty

TOPIC 9 - Capital structure: a behavioural approach. Initial Public Offering (IPO)



- traditional theories of capital structure (trade-off theory, pecking order theory)
- empirical researches
- behavioural theories of capital structure (the market timing theory, the theory of informational cascades, the theory of managerial investment autonomy)
- behavioural approach to IPO

TOPIC 10 - Dividend Policy: A Behavioural Approach



- The problem and theories of dividend policy in modern finance
- Catering Theory of Dividends

TOPIC 11 - Mergers and Acquisitions: Behavioural Aspects



- the reasons patterns of mergers and acquisitions
- behavioural theories of corporate acquisitions (irrationality of managers and investors)
- winner's curse

TOPIC 12 - Managing company value in inefficient market



- Neoclassic vs Inefficiency
- strategies of value management
- value maximisation in efficient and inefficient markets
- the game of the name
- information management
- the role of market expectations

TEACHING METHODOLOGY



- Interactive
- Classroom experiments
- Presentation slides
- Classroom discussions
- Activities to improve problem-solving abilities

LABOUR MARKET RELEVANCE



- Behavioural economics – mainstream
- Knowledge required for successful investment decision making
- Knowledge required by the labour market nowadays
- Practice orientation
- Strategic planning skills

ASSESSMENT AND GRADING



The assessment of the knowledge of the students enrolled in this course consists of three parts: written tests, essay and case-study.

- The written tests will form 50% of the final grade.
- The submission of the essay will form 25% of the final grade.
- The presentation of the case-study will form 25% of the final grade.

REFERENCES



- Ariely, Dan. Predictably Irrational : the Hidden Forces That Shape Our Decisions. New York :Harper Perennial, 2010.
- Kahneman, Daniel. Thinking, Fast And Slow. New York : Farrar, Straus And Giroux, 2011.
- Thaler, R. H. (2015). *Misbehaving: The making of behavioral economics*.
- Ackert, L. F., & Deaves, R. (2010). *Behavioral finance: Psychology, decision-making, and markets*. Mason, OH: South-Western Cengage Learning.
- Edward Cartwright (2014). Behavioral Economics. Routledge, Taylor and Francis Group.
- Dan Ariely and Michael I. Norton. From thinking too little to thinking too much: a continuum of decision making. Volume 2, January/February 2011, John Wiley & Son s, Ltd.

COURSE ASSIGNMENT 1



Submission of an essay on a suggested topic, which is confirmed by the lecturer.

During these assignment students will have the challenge to select a topic in the field of behavioural finance, which is interesting for them and write an essay about it. The only requirements are the following: minimum 5 pages, no plagiarism, it has to be their opinion.

COURSE ASSIGNMENT 2/OR CASE STUDY DESCRIPTION



Presentation of a case study project on the topic of the student's master's thesis.

During these assignment students will make a minimum of 30 minutes' presentation of a case study project on the topic of their master's thesis, which they will have the opportunity to use in their research. Students will have the freedom to design their presentation as they like by demonstrating creativity.



THANK FOR ATTENTION

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