IB9Y2-15 Behavioural Finance

26/27

Department
: Warwick Business School

Level
: Taught Postgraduate Level

Module leader
: Constantinos Antoniou

Credit value
: 15

Module duration
: 9 weeks

Assessment
: 10% coursework, 90% exam

Study location
: University of Warwick main campus, Coventry

Description

Introductory description

Standard Economic theories typically assume that agents are rational, making the best choices in every possible situation. Such models make very clear predictions about how financial markets should behave. However, over the past decades, a large volume of empirical evidence has been amassed that is inconsistent with these predictions, known as market anomalies. What are these "rational" theories missing? Behavioural Finance is a particular research program, which tackles this question by incorporating into financial theories more reasonable assumptions about the behaviour of economic agents, motivated by findings in the field of psychology. This module is an introduction into this vibrant and rapidly expanding field.

Module web page

Module aims

We will first define what economists usually mean by the term rationality. Then we will discuss in detail some of the key ways that peoples' behaviour can deviate from this definition, and how these deviations can provide an explanation for many of the anomalies we observe in financial markets. The aims of the module are to provide students with good knowledge of:
i) behavioural economics;
ii) empirical “anomalies” observed in financial markets, and behavioural explanations of these

anomalies
iii) limits to arbitrage

Outline syllabus

This is an indicative module outline only to give an indication of the sort of topics that may be covered. Actual sessions held may differ.

Overreaction to information
Under reaction to information
Limits to Arbitrage
Prospect Theory
Ambiguity
Investor Overconfidence
Investor Sentiment
Behavioural Corporate Finance
The module primarily concentrates on the psychological motivations that underlie financial decisions and their aggregate implications. In some cases, these motivations could be contrasted with ethical practice with regards to stakeholders and the financial system as a whole.

Learning outcomes

By the end of the module, students should be able to:

- Demonstrate a comprehensive understanding of Prospect Theory - the value of alternative paradigms based on psychological and social forces for decision making in finance
- Demonstrate a comprehensive understanding of the importance of the distinction between risk and uncertainty
- Demonstrate a comprehensive understanding of the limitations of arbitrage as a force for bringing about efficient pricing.
- Critically interpret so-called anomalies in asset pricing
- Synthesise market phenomena from a behavioural perspective

Indicative reading list

Reading lists can be found in Talis

Subject specific skills

Evaluate evidence for pricing anomalies
Build models that incorporate behavioural characteristics.
Evaluate the implications of heterogeneity in financial markets.

Transferable skills

Written communication

Study

Study time

Type	Required
Lectures	9 sessions of 2 hours (12%)
Seminars	8 sessions of 1 hour (5%)
Private study	50 hours (33%)
Assessment	74 hours (49%)
Total	150 hours

Private study description

Private study to include preparation for lectures and own reading

Costs

No further costs have been identified for this module.

Assessment

You do not need to pass all assessment components to pass the module.

Assessment group D4

	Weighting	Study time	Eligible for self-certification
Assessment component			
Class Participation Class participation via online quizzes	10%	7 hours	No
Reassessment component is the same			
Assessment component			
Centrally-timetabled examination (On-campus)	90%	67 hours	No

	Weighting	Study time	Eligible for self-certification

- Answerbook Pink (12 page)
- Students may use a calculator

Reassessment component is the same

Feedback on assessment

Feedback via My.WBS

[Past exam papers for IB9Y2]

Availability

Courses

Course availability information is based on the current academic year, so it may change.
This module is Optional for:

- Year 1 of TIBS-NN00 MSc Accounting and Financial Management
- Year 1 of TIBS-N300 MSc in Finance
- Year 1 of TECA-L1P6 Postgraduate Taught Economics
- Year 1 of TECA-L1P7 Postgraduate Taught Economics and International Financial Economics
- Year 1 of TIBS-LN1J Postgraduate Taught Finance and Economics
- Year 1 of TIBS-N3G2 Postgraduate Taught Mathematical Finance