Behavioural and experimental finance

EM3E5M56

Semester

B

Discipline

Finance

Contact hours

18 H

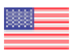
Number of spots

45

Open to visitors

Yes

Language



Coordinator

Nicolas EBER

List of lecturers

Lecturer(s)	Email	Contact hours - lecture
Marie-Hélène BROIHANNE	mhb@unistra.fr	6 h
Maxime MERLI	maxime.merli@em-strasbourg.eu	6 h
Nicolas EBER	Nicolas.Eber@unistra.fr	6 h

Pedagogical contribution of the course to the program

No educational contribution associated with this course for this program.

Description

Presentation

PART I: Psychological Foundations of Behavioral Finance (Prof. EBER)

Behavioral finance is the study of the psychological influences on financial decisions and financial markets. In this first part of the course, we present the psychological foundations of behavioral finance, with the key concepts of dual process theory (system 1/system 2), heuristics and biases, and overconfidence/overoptimism. During the sessions, each student participates to survey experiments via the Moodle platform. The class consists of (i) experimental surveys students answer, and (ii) post-experiment discussions of the ideas highlighted by the surveys.

PART II: Behavioral Finance (Profs. MERLI/BROIHANNE)

Conventional (or standard) financial theory relies on strong assumptions, for example perfect rationality of investors. An accumulating body of research challenges these fundamental assumptions, suggesting instead that decisions are motivated by a complex array of rational and non-rational psychological factors. This part explores financial decision making in the real world populated by real people.

Teaching methods

Face-to-face

- Lectures

In group

No items in this list have been checked.

Interaction

- Discussions/debates
- Games (educational, role play, simulation)

Others

No items in this list have been checked.

Learning objectives

Cognitive domain

Upon completion of this course, students should be able to

- - (level 1) present the psychological foundations of behavioral finance
- - (level 3) apply the key concepts of behavioral finance
- - (level 4) discriminate behavioral and classical decision-making theories
- - (level 5) appraise finance paradoxes in the light of behavioral decision-making theories
- - (level 5) determine the value of any risky prospect
- - (level 5) assess the insights from the psychological approach in finance
- - (level 5) criticize the standard theories of financial behavior and financial markets
- - (level 6) incorporate psychological insights into financial reasoning

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Affective domain

Upon completion of this course, students should be able to

- - (level 3) explain the main concepts of psychology applied to finance

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Outline

PART I: Psychological Foundations of Behavioral Finance (N. Eber)

- Bounded Rationality, dual process theory (system 1/system 2)
- Heuristics and Biases
- Overconfidence and Overoptimism

PART II: Behavioral Finance

II1 / Behavioral finance and portfolio management (M. Merli)

- Mental accounting
- Disposition effect
- Overconfidence
- Heuristics and impact

II2 / Behavioral finance and decision-making (MH Broihanne)

- Risk vs. Uncertainty- definitions and example
- Expected Utility Theory (risk aversion under EUT, EUT axioms)
- Prospect Theory (EUT axioms violation, reference point, isolation effect, probability weighting, narrow framing, loss aversion)
- Cumulative Prospect Theory (value function, loss aversion parameter, probability weighting function, CPT and finance paradoxes, the Equity Premium Puzzle and Myopic Loss Aversion)

No prerequisite has been provided

Knowledge in / Key concepts to master

Principles of finance

Teaching material

Mandatory tools for the course

- Computer
- Calculator

Documents in all formats

No items in this list have been checked.

Moodle platform

- Upload of class documents

Software

No items in this list have been checked.

Additional electronic platforms

No items in this list have been checked.

Recommended reading

Main reading material
Barberis, N. and . Thaler, A Survey of behavioral finance, Working Paper 9222
http://www.nber.org/papers/w9222
Barber, B., and T. Odean,, The behavior of individual investors, Handbook of the Economics of Finance, 2013,
http://faculty.haas.berkeley.edu/odean/papers%20current%20versions/behavior%20of%20individual%20investors.pdf
Bake, H.K and R. Nofsinger, Behavioral Finance: Investors, Corporations and Markets, KOLB series in Finance, 2010
Eber. N. [2020], , La psychologie économique et financière, De Boeck. (In French!)

Additional literature
Gilboa. I [2011], Rational Choice, MIT Press.
Gilboa. I [2011], Making Better Decisions: Decision Theory in Practice, Wiley-Blackwell.
Kahneman, D. [2011], Thinking, Fast and Slow, Farrar, Straus and Giroux.

EM Research: Be sure to mobilize at least one resource

Textbooks, case studies, translated material, etc. can be entered
Boolell-Gunesh, S., Broihanne, M-H, M. Merli. "Sophistication of Individual Investors and Disposition Effect Dynamics", Finance, Vol. 1, n° 33, 2012
Broihanne, M-H., M. Merli and P. Roger "Overconfidence, Risk Perception and the Risk-Taking Behavior of Finance Professionals ", (with), Finance Research Letters, Vol. 2, n° 11, 2014
Eber N. [2020], , La psychologie économique et financière, De Boeck. (In French!)
Eber N., Roger P. and Roger T., "Finance and intelligence: An overview of the literature", Journal of Economic Surveys, forthcoming.
Magron, C. and M. Merli, Repurchase behavior of individual investors, sophistication and regret", (with C. Magron), Journal of Banking and Finance, Vol. 61, December 2015
Roger, P., T. Roger and A. Schatt, "Behavioral bias in number processing: Evidence from analysts' expectations ", Journal of Economic Behavior and Organization, Vol. 149, 2018, 315-331

Assessment

List of assessment methods

Final evaluation Exam week
Written (90 Min.) / Individual / English / Weight : 100 %
This evaluation is used to measure ILO1.1-PGE, ILO1.2-PGE, ILO4.1-PGE