



GUJARAT TECHNOLOGICAL UNIVERSITY

Syllabus for Master of Business Administration, 3rd Semester

Subject Class: Elective

Subject Name: Behavioural Finance

Subject Code: 1539512

With effective
from academic
year 2020-21

1. Learning Outcomes:

Learning Outcome Component	Learning Outcome (Student will be able to)
Business Environment and Domain Knowledge (BEDK)	<ul style="list-style-type: none"> • <i>Discriminate</i> between a behavioural finance perspective and a traditional finance perspective. • <i>Demonstrate</i> how heuristics and biases influence investor behaviour.
Critical thinking, Business Analysis, Problem Solving and Innovative Solutions (CBPI)	<ul style="list-style-type: none"> • <i>Measure</i> the influence of behavioural biases on individual investment decision making.
Global Exposure and Cross-Cultural Understanding (GECCU)	<ul style="list-style-type: none"> • Critically <i>discuss</i> global developments in this domain and the associated practical insights they provide.
Social Responsiveness and Ethics (SRE)	<ul style="list-style-type: none"> • <i>Analyze</i> the root cause of corporate misconduct and suggest institutional innovations to improve modern business environments. • <i>Explain</i> various unethical and morally wrong practices prevalent in investing in financial markets.
Effective Communication (EC)	<ul style="list-style-type: none"> • <i>Identify, describe, and explain</i> different behavioural traits and their implication for the individual decision process, as well as their relevance for financial economics.
Leadership and Teamwork (LT)	<ul style="list-style-type: none"> • <i>Develop</i> a framework for investing in the financial markets that minimizes “irrational” behaviour and maximizes risk adjusted returns.

LO – PO Mapping: Correlation Levels:

1 = Slight (Low); 2 = Moderate (Medium); 3 = Substantial (High), “-“= no correlation

Sub. Code: 4539282	PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8	PO9
LO1: <i>Discriminate</i> between a behavioural finance perspective and a traditional finance perspective.	3	-	3	1	1	-	-	-	3
LO2: <i>Demonstrate</i> how heuristics and biases influence investor behaviour.	3	1	1	2	-	-	2	-	1
LO3: <i>Measure</i> the influence of behavioural biases on individual investment decision making.	1	2	2	-	2	1	1	2	2
LO4: Critically <i>discuss</i> global developments in this domain and the associated practical insights they provide.	1	2	-	3	3	2	-	1	-
LO5: <i>Analyze</i> the root cause of corporate misconduct and suggest institutional innovations to improve modern business environments.	2	2	2	-	3	1	2	-	1
LO6: <i>Explain</i> various	2	2	2	-	3	1	2	-	1



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unethical and morally wrong practices prevalent in investing in financial markets.									
LO7: <i>Identify, describe, and explain</i> different behavioural traits and their implication for the individual decision process, as well as their relevance for financial economics.	1	1	2	3	-	-	1	-	2
LO8: <i>Develop</i> a framework for investing in the financial markets that minimizes “irrational” behaviour and maximizes risk adjusted returns.	2	2	-	2	-	3	1	1	1

2. Course Duration: The course duration is of **40 sessions of 60 minutes each.**

3. Course Contents:

Module No:	Contents	No. of Sessions	70 Marks (External Evaluation)
I	<p>Brief overview of rational finance and classical finance theories:</p> <ul style="list-style-type: none"> • Rise of the rational market hypothesis • Brief overview of classical finance theories: <ul style="list-style-type: none"> ○ Expected utility theory ○ Modern portfolio theory ○ Capital Asset Pricing model ○ Efficient market hypothesis ○ MM theory – investors are rational ○ Arbitrage pricing theory ○ Random walk hypothesis • Challenging the classical assumptions of finance • Financial market anomalies <ul style="list-style-type: none"> ○ Fundamental anomalies ○ Technical anomalies ○ Calendar or seasonal anomalies <p>Behavioural Finance:</p> <ul style="list-style-type: none"> • Introduction, meaning, nature. • Assumptions of behavioural finance • Meaning of heuristics and bias • Building blocks of behavioural finance • Prospect theory and mental accounting <p>Important contributors:</p> <ul style="list-style-type: none"> • Daniel Kahneman and Amos Tversky 	10	18



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	<ul style="list-style-type: none"> • Richard Thaler • Robert J. Shiller • Michael Pompian • Parag Parikh 		
II	<p>Theories of Behavioural Finance:</p> <ul style="list-style-type: none"> • Asymmetric information • Ego centrality • Human Behavioral Theories <p>Heuristics:</p> <ul style="list-style-type: none"> • Familiarity <ul style="list-style-type: none"> ○ Familiarity, Ambiguity Aversion ○ Diversification, Functional Fixation ○ Status Quo, Endowment Effect • Representativeness <ul style="list-style-type: none"> ▪ Innumeracy ▪ Probability matching and conjunction fallacy ▪ Base Rate Neglect ▪ Availability and Salience • Anchoring <p>Cognitive Biases:</p> <ul style="list-style-type: none"> • Self-Deception <ul style="list-style-type: none"> ○ Framing ○ Overconfidence <ul style="list-style-type: none"> ▪ Miscalibration, better than average effect, over-optimism ▪ Causes: illusion of knowledge, control, understanding, skill ○ Self-attribution ○ Confirmation ○ Representativeness ○ Recency <p>Emotional Biases:</p> <ul style="list-style-type: none"> • Regret • Hindsight • Denial • Loss aversion • Affinity • Self-control 	10	18
III	<p>Bias:</p> <ul style="list-style-type: none"> • Interaction amongst biases • Outcomes of biases • Dealing with biases • Overcoming the biases and debiasing <p>Behavioural aspects of Investing:</p> <ul style="list-style-type: none"> • Behavioural Portfolio theory • Psychographic models 	10	17



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	<ul style="list-style-type: none"> • Sound Investment Philosophy <p>Market Bubbles:</p> <ul style="list-style-type: none"> • Introduction and brief history of stock market bubbles • Identification and classification of a stock market bubble • Explaining bubbles through behavioural finance • Investor behavior during bubbles. • Causes of bubbles <p>Value Investing:</p> <ul style="list-style-type: none"> • Central tenets of value investing • Evidence and prospects of value investing 		
IV	<p>Neurofinance:</p> <ul style="list-style-type: none"> • Neural processes during financial decision making • Future of Neurofinance • Adaptive Market Hypothesis <p>Forensic Accounting:</p> <ul style="list-style-type: none"> • Classifications of fraud • Behavioural aspects of Fraud • Origin and growth of forensic accounting • Fraud theories <ul style="list-style-type: none"> ○ Motivators of fraud ○ Triangle of fraud action ○ Fraud Scale and Fraud Diamond ○ MICE • Tools in Forensic Accounting <ul style="list-style-type: none"> ○ Ratio analysis ○ Data mining ○ Benford's Law (specific to forensic accounting) • Forensic Accounting in India <p>Behavioural Corporate Finance:</p> <ul style="list-style-type: none"> • Approaches to behavioural corporate finance • Market timing and catering approach • Issues related to valuation, dividend policy, mergers and acquisitions <p>The Future:</p> <ul style="list-style-type: none"> • From Homo Economicus to Homo Sapiens • Zurich Axioms (Risk and Greed only) • Future of behavioural finance and investing 	10	17
V	<p>Practical:</p> <p>Timing of good and bad corporate news announcement. Systematic approach of using behavioural factors in corporate decision-making. Neurophysiology of risk-taking. Personality traits and risk attitudes in different</p>	---	(30 marks CEC)



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4. Pedagogy:

- ICT enabled Classroom teaching
- Case study
- Practical / live assignment
- Interactive class room discussions

5. Evaluation:

Students shall be evaluated on the following components:

A	Internal Evaluation	(Internal Assessment- 50 Marks)
	• Continuous Evaluation Component	30 marks
	• Class Presence & Participation	10 marks
	• Quiz	10 marks
B	Mid-Semester examination	(Internal Assessment-30 Marks)
C	End –Semester Examination	(External Assessment-70 Marks)

6. Reference Books:

No.	Author	Name of the Book	Publisher	Year of Publication / Edition
1	Prasanna Chandra	Behavioural Finance	McGraw Hill	2016 / 1 st
2	M. M. Sulphery	Behavioural Finance	PHI	2014 / 1 st
3	Richard M. Thaler	Advances in Behavioural Finance: Volume II	Princeton University Press	2005
4	Williams Forbes	Behavioural Finance	Wiley	2009 / 1 st
5	Parag Parikh	Value Investing and Behavioural Finance	McGraw Hill	2009
6	Herbert A. Simon, Massimo Egidi, Riccardo Viale, Fondazione Rosselli, Robin Marris.	Economics, Bounded Rationality and the Cognitive Revolution	Edward Elgar Publishing	2008
7	Mohnish Pabrai	The Dhandho Investor	Wiley	2016
8	James Montier	The Little Book of Behavioral Investing: How Not to be Your Own Worst Enemy	Wiley	2015
9	Shuchita Singh, Shilpa Bahi	Behavioural Finance	Vikas	2018 / 1 st
10	Sujata Kapoor, Jaya Mamta Prosad	Behavioural Finance	Sage	2019

Note: Wherever the standard books are not available for the topic appropriate print and online resources, journals and books published by different authors may be prescribed.

7. List of Journals / Magazines / Periodicals / Newspapers / e-resources, etc.

1. Journal of Behavioural Finance
2. Journal of Behavioural and Experimental Finance
3. International Journal of Behavioural Accounting and Finance
4. The IUP Journal of Behavioural Finance
5. Outlook Money (Magazine)



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6. Money Today (Magazine)
7. <https://www.dartmouth.edu/~lusardiworkshop/Papers/FPA%20BEHAVIORAL%20BIAS%20PAPER.pdf>
 - The Future of Wealth Management: Incorporating Behavioral Finance into Your Practice By Michael M. Pompian, CFA, CFP and John M. Longo, Ph.D., CFA