

**THE UNIVERSITY OF HONG KONG
FACULTY OF BUSINESS AND ECONOMICS
School of Economics and Finance
FINA0603/3381 – Behavioral Finance
Second Semester, 2016-2017**

GENERAL INFORMATION

Instructor: Dr. Lin, Tao

Email: tlin@hku.hk

Office: KKL 914

Phone: 2241 5935

Consultation times: by appointments

Semester: 2

Lecture: Monday 9:30 – 12:20 in LE6

Pre-requisites: ECON1001/ECON1210 Introductory microeconomics; and FINA1003/1310 Corporate finance; and FINA2802/FINA2320 Investments and portfolio analysis (or STAT 2309 / STAT3609 The statistics of investment risk)

Co-requisites: None

Mutually exclusive: None

Course Website: Your Moodle Account

COURSE DESCRIPTION

Behavioral finance is the application of psychology to financial behavior. We will explore various behavioral frames, biases and heuristics and examine their implications on the aggregate market, individual investors, cross-section of average returns and corporate decision makings in a world of limited arbitrage.

COURSE OBJECTIVES

1. To identify key assumption differences between traditional finance and behavioral finance frameworks.
2. To understand key psychological biases that affect decision making process.
3. To apply psychology research findings into finance anomalies.

COURSE LEARNING OUTCOMES

| Course Learning Outcomes | Aligned Faculty Overall Goals |
|---|--------------------------------------|
| CLO1 Explain different types of investor biases and heuristics | 1, 2, 4 |
| CLO2 Apply behavioral finance in the aggregate stock market, | 1, 2, 4 |
| CLO3 Apply behavioral finance in the cross sectional stock market | 1, 2, 4 |
| CLO4 Apply behavioral finance in individual wealth management | 1, 2, 4 |

| | |
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| CLO5 Apply behavioral finance in corporate financial decisions | 1, 2, 4 |
| CLO6 Develop team work skills | 5 |

COURSE TEACHING AND LEARNING ACTIVITIES

| Course Teaching and Learning Activities | Expected contact hour | Study Load (% of study) |
|---|------------------------------|--------------------------------|
| T&L1. Lectures: Instructor will give lectures on major concepts and issues. Class attendance and active participation in discussion are expected for all students. | 36 | 30 |
| T&L2. Tutorials: The teaching assistant will conduct the weekly tutorial sessions. The main focus of the tutorial will be on problem solving rather than concept developing. Students' performance will be evaluated by the teaching assistant at the end of the semester. | 12 | 10 |
| T&L3. Assignments: There will be regular homework assignments which are designed to help the students review some of the basic concepts and to practice applying the concepts. <u>Some</u> of the homework will be group based. Each student will be asked to do peers review at the end of the semester. Each group can have at most 5 students and students are not allowed to change groups except under special circumstance. | 20 | 16.7 |
| T&L4. Project: Students will hand in a group based project towards the end of the semester. Students are expected to apply what they learn in class to the real financial activities. Project group will be the same as the assignment group. Each student will be asked to do peers review at the end of the semester. | 20 | 16.7 |
| T&L5. Self-Study | 32 | 26.7 |
| Total | 120 | 100% |

| Assessment Methods | Weights | Aligned Course Learning Outcomes |
|---------------------------|----------------|---|
| A1. Class Leadership | 10% | CLO1, 2, 3, 4, 5 |
| A2. Assignments | 20% | CLO1, 2, 3, 4, 5, 6 |
| A3. Mid-term Examination | 15% | CLO1, 2, 3, 4, 5 |
| A4. Group Project | 20% | CLO1, 2, 3, 4, 5, 6 |

| | | |
|-----------------------|------|------------------|
| A5. Final Examination | 35% | CLO1, 2, 3, 4, 5 |
| Total | 100% | |

Lecture Notes: Hard copy of lecture notes will not be provided except under special circumstances. It is student's responsibility to download and print them from the course webpage at HKU Moodle.

Homework Assignments: We will cover a significant amount of material each week. It is important that students keep current with the material and practice by working on the assignments. **No late homework will be accepted.**

Group Project: Students will hand in a term project at the end of the course and each student will give oral presentations. Late submission will not be accepted.

Mid-term and Final Examinations: There will be a mid-term exam and a comprehensive final exam to test the students' breadth and depth of the understanding of the major concepts covered in the course and students' ability to integrate and apply this knowledge. **No make-up** midterm examination will be given. Students missing the midterm exam will receive 0 unless they obtain approval from instructor with convincing reasons and evidence. Approved students who have missed the midterm will have the mid-term grading weights shifted to the final.

STANDARDS FOR ASSESSMENT

Course Grade Descriptors

| | |
|-----------|---|
| A+, A, A- | Actively participated in the course and exhibited high level of understanding of the course materials through excellent performance in class discussion, assignments, term tests, and project. |
| B+, B, B- | Quite actively participated in the course and exhibited reasonably high level of understanding of the course materials through good performance in class discussion, assignments, term tests, and project. |
| C+, C, C- | Passive participation in the course and fair level of understanding of the course materials. |
| D+, D | Limited participation in the course and low level of understanding of the course materials. |
| F | Poor participation in the course and very low level of understanding of the course materials. |

Assessment Rubrics for Each Assessment (Please provide us the details in a separate file if the space here is not enough)

A1 Class Leadership

| A+ A A- | B+ B B- | C+ C C- | D+ D | F |
|----------------|--------------------|-------------------|-------------------|-----------------|
| Extremely well | Partially prepared | Not well prepared | Not well prepared | Poorly prepared |

| | | | | |
|---|---|--|---|---|
| prepared for class discussion, very active in sharing views and attended almost all lectures and tutorials. | for class discussion, quite active in sharing views and attended most of the lectures and tutorials | for class discussion, limited active in sharing views and attended many of the lectures and tutorials. | for class discussion, no sharing of views and attended some of the lectures and tutorials | for class discussion and no sharing of views and experience and rarely attended lectures and tutorials. |
|---|---|--|---|---|

A2 For numerical questions/homework, please refer to the following table:

| A+ A A- | B+ B B- | C+ C C- | D+ D | F |
|---|---|--|---|---|
| Submitted all homework with excellent accuracy. | Submitted well written homework with good accuracy. | Submitted homework with fair level accuracy. | Submitted homework with limited accuracy. | Poorly written homework or no submission. |

A2 and A4 For essay type problems and project report, please refer to the following grading criteria:

| Grade | Depth and breadth of Coverage, critical elements, structure, language and conventions |
|--------------|---|
| A+,A, A- | <p>All aspects were addressed and researched in great depth.</p> <p>Demonstrated a clear understanding of and the ability to apply the theory, concepts and issues relating to the topic.</p> <p>Clearly identified the most critical aspects of the task and adopted a critical perspective.</p> <p>Developed excellent argument and offered a logically consistent and well-articulated analysis and insight into the subject.</p> <p>Drew widely from the academic literature and elsewhere whilst maintaining relevance.</p> <p>All aspects conformed to a high academic / professional standard.</p> |
| B+, B, B- | <p>Most aspects were addressed and researched in depth.</p> <p>Demonstrated a good understanding and some application of the theory and issues relating to the topic.</p> |

| | |
|-----------|--|
| | <p>Identified critical aspects of the task and adopted a critical perspective.</p> <p>Showed some evidence of analysis, supported by logical argument and insight into the subject.</p> <p>Drew on relevant academic and other material.</p> <p>Most aspects conformed to a high academic / professional standard.</p> |
| C+, C, C- | <p>Most aspects were addressed and researched adequately.</p> <p>Demonstrated a good understanding of the theory, concepts and issues relating to the topic but limited application relating to the topic.</p> <p>Some presented argument showed some insight but not always consistent and logical.</p> <p>Drew upon an adequate range of academic and other material.</p> <p>Most aspects conformed to an acceptable academic / professional standard.</p> |
| D+, D | <p>Basic aspects were addressed and researched adequately. Demonstrated mainly description, showing basic understanding of the topic but no application.</p> <p>Showed little evidence of analysis but no clear and logical argument relating to the subject.</p> <p>Drew primarily upon course materials.</p> <p>Limited aspects conformed to academic / professional standards.</p> |
| F | <p>Basic aspects were superficial, inadequate or absent.</p> <p>Demonstrated limited understanding of the topic and drew conclusions unrelated to the topic.</p> <p>The written work was not of an academic / professional standard.</p> |

A4 For project presentation, please refer to the following grading criteria:

| Grade | Depth and breadth of coverage, critical elements, structure, language and conventions |
|--------------|--|
| A+,A, A- | <p>The presentation was highly successful at communicating the essential elements of the topic to the audience.</p> <p>Concepts were thoroughly explained and clarified.</p> <p>The presentation demonstrated deep understanding and comprehension of the topic.</p> |

| | |
|-----------|---|
| | <p>There was clear evidence of independent thought and reflection on the topic.</p> <p>The topic was covered in a highly professional and organized manner.</p> <p>The presenter displayed excellent verbal skills and delivered a highly interesting, coherent presentation at an appropriate level for the audience.</p> |
| B+, B, B- | <p>The presentation was successful at communicating the essential elements of the topic to the audience.</p> <p>Most concepts were well explained and clarified.</p> <p>The presentation demonstrated sound understanding and comprehension of most aspects of the topic.</p> <p>The topic was covered in a professional and organized manner.</p> <p>The presenter displayed good verbal skills and mostly delivered an interesting, coherent presentation at an appropriate level for the audience.</p> |
| C+, C, C- | <p>The presentation adequately communicated most of the essential elements of the topic to the audience.</p> <p>Most concepts were adequately explained.</p> <p>The presentation demonstrated good understanding and comprehension of most aspects of the topic.</p> <p>The topic was covered in an organized manner.</p> <p>The presenter displayed adequate verbal skills and delivered a mostly coherent presentation at an appropriate level for the audience.</p> |
| D+, D | <p>The presentation basically covered the main aspects of the topic.</p> <p>The presentation demonstrated basic understanding and comprehension of most of the topic.</p> <p>The topic was covered in a basic manner.</p> <p>The presenter displayed minimal standards of verbal skills and or coherence and organization.</p> |
| F Fail | <p>The presentation was poorly addressed and or concepts were inadequately explained.</p> <p>The presentation did not demonstrate sufficient understanding and comprehension of the topic.</p> <p>The topic was not covered acceptably and or was poorly organized.</p> |

Verbal skills were inadequate.

A3 and A5 Midterm and Final Exam

Midterm and final exam may include three types of questions: multiple choice, calculation problems, and essay questions. Multiple choice and calculation problems are graded according to the marks assigned to each question.

Essay questions are graded according to the following criteria:

| A+ A A- | B+ B B- | C+ C C- | D+ D | F |
|--|---|--|--|--|
| Idea development is insightful and sophisticated; Supporting evidence is convincing, accurate and detailed. Well written with clear focus. | Idea development is clear and thoughtful; Supporting evidence is sufficient and accurate. Well written. | Idea development is simplistic and lacking in relevance; Supporting evidence insufficient but accurate. Somewhat well written. | Idea development is superficial and ineffective; Supporting evidence is insufficient and inaccurate. Writing is unclear. | Idea development is absent; Supporting evidence is vague or missing. Poorly written. |

COURSE CONTENT AND TENTATIVE TEACHING SCHEDULE

- Limits to Arbitrage
- Prospect Theory, Frame Dependence and Mental Accounting
- Behavioral Biases and Heuristics
- Emotions and Social Forces
- Application on Investments
- Application on Corporate Finance

REQUIRED/RECOMMENDED READINGS & ONLINE MATERIALS (e.g. journals, textbooks, website addresses etc.)

Required Textbook:

Lucy F. Ackert and Richard Deaves 2010, Behavioral finance: psychology, decision-making, and markets, South-Western Cengage Learning

Reference Textbooks:

1. Hersh Shefrin, 2000, Beyond greed and fear, Harvard Business School Press
2. Hersh Shefrin, 2007, Behavioral corporate finance: decisions that create value, McGraw-Hill/Irwin
3. Pompian, Michael, 2006, Behavioral finance and wealth management: How to build optimal portfolios that account for investor biases, John Wiley & Sons, Inc.
4. Montier, James, 2002, Behavioural finance: Insights into irrational minds and markets, John Wiley & Sons, LTD

MEANS/PROCESSES FOR STUDENT FEEDBACK ON COURSE

- Conducting course evaluation at the end of the term

COURSE POLICY (e.g. plagiarism, academic honesty, attendance, etc.)**Class Conduct**

Students are required to attend all classes on time. If you miss a class, it is entirely your responsibility for what you have missed. In case you have to leave the class early, please inform the instructor beforehand and leave quietly.

No use of mobile phone or chatting is allowed when the class is in session. Remember to turn off or mute the phone before each session. The instructor has the discretion to give penalty in case of class misconduct.

Respect your instructors and your fellow students. Be considerate to others.

Academic Dishonesty

The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>

Academic dishonesty is any act that misrepresents a person's own academic work or that compromises the academic work of another. It includes (but not limited to) cheating on assignments or examinations; plagiarizing, i.e., representing someone else's ideas as if they are one's own; sabotaging another's work.

If you are caught in an act of academic dishonesty or misconduct, you will receive an "F" grade for the subject. The relevant Board of Examiners may impose other penalty in relation to the seriousness of the offense.