

Fall Term 2011
Master's Program in Banking and Finance - University of St. Gallen

Behavioural Finance (9,176)

Syllabus

Instructor:

Enrico De Giorgi (enrico.degiorgi@unisg.ch)
Office Bodanstrasse 6, 4th floor, office 28-404 .

Time schedule

Course:

Monday 1615-1800, Room 10-104.

Reception:

Please write an email with subject "9,176 Behavioural Finance" to fix an appointment.

Course description

Behavioural Finance has emerged as a new research field in finance addressing the impact of psychology on individual choice behaviour when making financial decisions, and the subsequent implications for asset markets. Behavioural Finance has successfully addressed several observed anomalies, that is, empirical facts that cannot be explained using traditional models in Finance. The Prospect Theory of Daniel Kahneman and Amos Tversky, one of the pillars of Behavioural Finance, has been awarded with the Nobel Prize in Economics in 2002.

This course gives an introduction to Behavioural Finance. We start with a brief overview of *classical* paradigms for decision making under risk and the implications for portfolio selection and asset pricing. We then provide a description of market anomalies and inefficiencies, and discuss some psychological biases and limits of real investors that might generate those anomalies. We introduce the most important *descriptive* models for decision making under risk, focusing on the Prospect Theory of Kahneman and Tversky (1979), the Cumulative Prospect Theory of Tversky and Kahneman (1992), and on the concepts of loss aversion, probability weighting, and mental accounting. We finally study behavioural asset pricing models and behavioural models for portfolio selection, also discussing how the latter can be integrated into the advisory process of banks.

Content

1. Introduction
2. Noise Traders and Application to the Closed-End Fund Puzzle
3. Psychology For Finance
4. Behavioural Asset Pricing and Portfolio Selection

Exam

Oral Exam, 20 minutes, will take place on **Monday, December 19, 2011 and Tuesday, December 20, 2011**. Registration is required before **December 2, 2011**: write an email to Ms. Fadrina Denoth (fadrina.denoth@unisg.ch) with subject "9,176 Behavioural Finance: Exam." The schedule will be made available on StudyNet.

Main References

1. Barberis, Nicholas and Richard Thaler (2003): "A Survey of Behavioral Finance," *Handbook of the Economics of Finance*, Edited by G.M. Constantinides, M. Harris and R. Stulz, Chapter 18, pp. 1051-1121. Available at <http://www.sciencedirect.com/science/article/B7GX8-4DXJCWN-F/2/6ecd46d1e00a53d527212a99dd5940c3> (restricted access from Uni St. Gallen network).
2. (*) De Giorgi, Enrico (2011): *Behavioural Finance*, Lecture Notes, HSG.
3. Montier, James (2002): *Behavioural Finance*, John Wiley & Sons, New York.
4. Shefrin, Hersh (2010): "Behavioralizing Finance," *Foundations and Trends in Finance*, 4(1-2), pp 1-184. Available at <http://ssrn.com/abstract=1597934>.
5. Shleifer, Andrei (2000): *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford University Press, Oxford.

(*) Main reference for the oral exam.

Further information and lecture notes are available at <http://studynet20.unisg.ch>.