

Fall Term 2011

Master of Science in Economics
Finance and Banking and Finance
University of Lugano

Behavioural Finance Syllabus

Instructor:

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Office 3/004, 4th floor, ex-Laboratorio (only on Friday)

Time schedule

Course:

Friday 1030-1215, Room A-23.
Friday 1330-1515, Room A-23.

Reception:

Please write an email with subject “USI Behavioural Finance” to fix an appointment.

Course description

The lectures give an introduction to Behavioural Finance. We start with a brief overview of the classical paradigms for decision making under risk (expected utility theory) 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 then 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 distortion, 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
3. Closed-End Fund Puzzle
4. Psychology For Finance
5. Asset Pricing
6. Behavioral Portfolio Theory

Exam

Oral exam, 20 minutes.

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 USI 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.