

FINA/MANA 7329 Behavioral Finance (3.0 credits)

(See comments from past students on the back of this page.)

Fall Semester (Thursdays from 6 to 9 p.m. for full semester)

Course Content

Course conceptual tools will help you to accumulate “enough” wealth to live comfortably throughout your life. Because the stock market is important for building wealth, our focus will be on operating characteristics of a) the stock market and b) you as a decision maker within it. We will examine five major questions.

1) What common errors do decision makers commit? How can one avoid them? The course psychological theories include prospect theory, heuristics and biases, and the lens model.

2) How should retirement systems be designed to minimize organizational costs and maximize employee welfare?

3) What decision processes are used by investors and how do they lead investors astray? We are “programmed” to seek patterns in information and to extrapolate from limited information. Thus, we find it easy to believe that we have found “the method” for predicting the market. Unfortunately, this is very risky because the market is extremely unforgiving. Numerous strategies for overcoming these and other errors will be presented.

4) Can the stock market be predicted? Our focus will be on long term success. It is extremely difficult to accurately predict the stock market long term.

5) Can one identify people or techniques that accurately predict the market? Due to great variations in market returns, evaluation of predictors and prediction methods is difficult.

When will FINA/MANA 7329 Behavioral Finance be taught? During Fall Semester, 2019, the course will meet from 6 to 9 p.m. on Thursdays.

What are the prerequisites?

The prerequisite is graduate standing. Some investing experience would be helpful but is not required.

How will the FINA/MANA 7329 be taught?

The underlying teaching philosophy is “learning by doing.” Thus, the class will minimize time spent in formal lecture and maximize time spent in exercises and other activities that promote learning. One of the exercises will be a stock market simulation in which class members will buy and sell shares of stock using real money. Another component of the class will be a team project. In teams of three, class members perform research for a behavioral finance topic. After analyzing the data, they will present the results orally and in a written report at the end of the term.

Who is the instructor?

Dale Rude
310J Melcher, 713/743-4673
drude@uh.edu

What are my assignments for the first day of class?

Read materials assigned on Blackboard and attend class.

Comments from Bauer Student Evaluations

I think this was a great course, especially for finance students since it presents material that is usually not presented in finance classes.

I really appreciated the section on personal finance. It is absolutely applicable to knowledge and skills needed for the business world. Plus we can each get off track with our personal plans (provided we even had good understanding of the basics). Big help - I reestablished my own financial, goals and timelines.

Instructor was greatly prepared, he was passionate about the subject and he encouraged students to think outside the box! The assignments were interesting and relevant to me.

The class is one of the best in the MBA program. Real life lessons that will not easily be forgotten.

He should be teaching more [MBA] courses. This was hands down the most interesting class of the MBA program.

Good introduction to alternative ways of thinking about finance. Food for thought on if the market can be beaten.

Loved the interactive exercises, structure of teaching materials and length of class period. Very "flexible feel to course."

Great practical exercises and good books were chosen for the class. Professor was very enthusiastic about what he was teaching.

Thanks for the course! Great job!

Great teacher! Great Class!

Dr. Rude is the best professor I've had in the whole program. He is very dedicated to his students' success. His classes are enjoyable and I've learned a lot from him. I have taken both classes he teaches now, and wish there was another!

I loved Dale's real life examples and that I learned real life lessons, not just textbook lessons from this course.

Great instructor, second class with him. I enjoyed the guest financial speaker and presentation. The stock market simulation was fun and there were several interactive activities which made the course interesting.

Dale is a great professor. I enjoyed his class thoroughly and would recommend it to anyone else.

This is, by far, the best class I have taken at Bauer. Professor should be held up as an example to other professors -- he is engaged with students and his topic. He uses FUN activities to demonstrate his point and to further student understanding. Every class is different. He stimulates a high level of independent student learning.

Finance/Management 7329
Behavioral Finance
Fall Semester, 2019

Instructor: Dale Rude, 310J Melcher
713/743-4673
drude@uh.edu
Office Hours: Th 5:15-5:45 p.m. and by
appointment.

Textbooks and Other Reading Material

Notes available from Blackboard.

Ferri, Richard (2006). All about index funds. New York: McGraw-Hill.
Malkiel, B. G. (2011). A random walk down Wall Street (9th edition). New York:
W. W. Norton and Company.
Statman, M. (2017). Finance for normal people: How investors and markets behave.
New York: Oxford University Press.

One of the following:

Stanley, T. J., & Danko, W. D. (1996). The millionaire next door. New York:
Pocket Books.

Stanley, T. J. (2004). Millionaire women next door. Kansas City, MO: Andrews
McNeels Publishing.

Stanley, T. J. (2009). Stop acting rich. New York: John Wiley & Sons.

Official Course Description

FINA/MANA 7329: Behavioral Finance Cr. 3. (3-0). Prerequisite: Graduate standing.
Examination of individual decision behavior within a financial market context. Evaluation of
psychological explanations for market movements and anomalies. Emphasis on the application
of psychological principles to decision making behavior.

Course Content

Course conceptual tools will help you to accumulate “enough” wealth to live comfortably
throughout your life. Because the stock market is important for building wealth, our focus will
be on operating characteristics of a) the stock market and b) you as a decision maker within it.
We will examine four major questions.

1) How should retirement systems be designed to minimize organizational costs
and maximize employee welfare?

2) Can the stock market be predicted? Our focus will be on long term success. It
is extremely difficult to accurately predict the stock market long term.

3) Can one identify people or techniques that accurately predict the market? Due
to great variations in market returns, evaluation of predictors and prediction methods is difficult.

4) What decision processes are used by investors and how do they lead investors
astray? We are “programmed” to seek patterns in information and to extrapolate from limited
information. Thus, we find it easy to believe that we have found “the method” for predicting the
market. Unfortunately, this is very risky because the market is extremely unforgiving.

On a more formal level, behavioral finance is a) the study of how systematic
departures from rationality affect financial markets and the welfare of investors and b) a new
field focused on the interface between finance and the fields of psychology and management.

Three general topics comprise the field. The first major topic is the decision behavior of individuals acting within a market context such as the stock market. A major focus is systematic errors that investors make. The second is real world market anomalies, which are difficult to explain with market models such as the efficient market hypothesis. Third are applications of psychological principles to predict market movement. The emphases for the class are a) understanding individual decision behavior within a market context (85%), b) market anomalies (10%) and c) applying psychological principles to modify market model parameters (5%). All are important factors in the design of retirement systems and individual investment portfolios.

The Secrets to Success in this Course

1. This is not a “listen, memorize, and fill in multiple choice circles” class. Instead, it is a “learn by doing and application testing” class. To be successful, attend class and perform all assignments.

2. The most basic requirements of any job are to read, write, and follow instructions. Please do so in this class.

3. Prepare problem assignments before class. Problem assignments are not graded in this class. When problems are assigned, however, work through them in preparation for class. The problems are excellent practice for exam questions.

4. When examples are presented in class, jot some of the details down in your notes to aid you when reviewing for the exams.

5. Put forth a strong effort as you prepare for the exams. Know the learning objectives forwards/backwards/inside/out for exams. Be able to apply concepts and theories to new situations. When preparing, make up new problems and apply the course concepts. Study with other members of the class.

Some Administrative Details

1. The most efficient way to communicate with me is by email (I check email message several times per day). If convenient, summarize your questions or problem in an email. Put the class number (FINA 7329 or MANA 7329) in the heading of emails you send to me. If I receive an email from an unknown source, I often delete it without reading it.

2. Why are two departments listed in the course designation? This class is cross listed as both FINA7329 and MANA7329. You may take this class as finance elective or as a management elective but not as both.

3. There will be a nonrefundable laboratory fee for the class that will be collected by the instructor. This is important because a core tenet of behavioral finance is that decisions be made with money riding on the outcome. A variety of classroom games and auctions will be played for real money. You may win or lose money during these demonstrations. You will be paid your winnings and pay for your losses from the laboratory fees according to the rules of the demonstration. During the class, more money will be paid out to students than is paid in by them. However, some students will pay more money than they receive and some demonstrations will result in net losses to students in aggregate.

4. A tentative grading scale is presented below. The final grading scale will be no higher than this, but may be lower.

| | |
|-------------|-------------------|
| 93+ A | 73-76.99 C |
| 90-92.99 A- | 70-72.99 C- |
| 87-89.99 B+ | 69.99 and below F |
| 83-86.99 B | |
| 80-82.99 B- | |
| 77-79.99 C+ | |

6. Tentative point allocations

| | |
|--|------------------|
| "Have you read?" quiz-Stanley | 6 points |
| "Have you read?" quiz-Malkiel chapters | 6 points |
| "Have you read?" quiz-Ferri chapters | 6 points |
| Exam 1 | 90 points |
| Exam 2 | 90 points |
| Team Project | 75 points |
| Horse Race Project | 20 points |
| <u>Wealth and Happiness Project</u> | <u>20 points</u> |
| | 313 points |

7. Submit assignments via Blackboard. Submit assignments as Word attachments. Excel submissions will not be accepted for the utility project.

8. The last day for discussing your grades on Stanley, Ferri, and Malkiel quizzes, exam 1, and the horse race & wealth and happiness projects with your instructor is the last day of class. After that day, only exam 2 grades will be open for discussion.

9. The Bauer College has a policy that requires all of its instructors to be evaluated by their students. The results of these course evaluations are important to provide feedback to instructors on how their performance can be improved. In addition, these evaluations are carefully considered in promotion, salary adjustment, and other important decisions. We openly encourage students to provide feedback to instructors and the Bauer College through the evaluation process.

10. The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to the instructor in a timely manner.

11. The University of Houston Academic Honesty Policy is strictly enforced by the C. T. Bauer College of Business. A discussion of the policy is included in the University of Houston Student Handbook, <http://www.uh.edu/dos/hdbk/acad/achonpol.html>. Students are expected to be familiar with this policy. No violations of this policy will be tolerated in this course.

Ways to Earn Points

1. "Have You Read?" Quizzes/Reaction Papers. "Have you read?" quizzes will be given on the days that 1) the Stanley book, 2) the Malkiel book, and 3) the Ferri book chapters are discussed. No makeup "Have you read?" quizzes will be given. Students who miss those quizzes can earn associated points by writing reaction papers. The topic of reaction papers will be the student's observations and reactions regarding the reading material. Reaction papers that only summarize the content of the reading will receive no more than one half of the allotted points. Reaction papers should show that all of the assigned material has been read. Minimum length for the reaction papers will be three *full* double-spaced pages (66 lines of text) plus the title page. Maximum length is five double-spaced pages (110 lines of text) plus the title page. Grades will be based upon whether you shared your reactions and upon meeting the guidelines for format of the assignment. Reaction papers are due one week after the quiz has been

administered. After that date, you will be penalized two points.

2. Exams. Two exams, consisting of essay and short answer questions, will be administered. A list of learning objectives for each exam will be made available. The purpose of these objectives is to help you focus your attention on the material which the instructor believes is most important. Over 90% of the exam points will come from exam questions based upon the learning objectives. The remaining points, if any, will come from questions concerning material not covered by the learning objectives. During exams, all cell phones, pagers, etc. will be turned completely off.

3. Individual Projects. There will be no penalty the first time when you submit a late project if you submit it before the end of one week from due date. If submitted after one week from the due date, three points will be deducted. The second time you turn in a late project, three points will be deducted.

Horse Race Project. In the lens model project, you will analyze your horse race task results. It is worth 20 points.

Wealth and Happiness Project. You will do an assessment of your wealth and happiness and means for increasing them. You will also interview a wise elder about life and money. It is worth 20 points.

4. Team Project. In teams, you will choose a behavioral finance topic, collect data, analyze them, and orally present a report summarizing your findings. A written executive summary, introduction, and conclusion will be submitted, as well as the PowerPoint slides used for the presentation. The team project is worth 75 points

5. Feedback Memo for Extra Credit. Students can earn from zero to three extra credit points by submitting a feedback memo regarding the structure, conduct, and/or content of the course. Number of points earned will depend upon offering thoughtful suggestions for improvement and meeting minimum length requirements. Memos that focus only on positive aspects of the course will receive no more than 1 point.

Topics covered might include (but need not be restricted to) any of the following:

- a) your experience in the class-how useful, interesting and/or appropriate the course was for you, what you learned.
- b) assignments-number, structure, timing, fairness of grading
- c) exams-format, coverage, fairness
- d) conduct of class sessions-pace, level, activities
- e) readings-number, usefulness
- f) class notes and sample assignments,
- g) course theories and concepts-number, appropriateness, omissions, usefulness
- h) motivational strategies used by the instructor-appropriateness, effectiveness, and
- i) overall structure of class-clarity, usefulness.

Minimum length: 3 full double-spaced pages (66 lines of text) plus title page.

Maximum length: 5 double-spaced pages plus title page. ***Due date is to be determined.***