



# BEHAVIORAL FINANCE **23MBPE642**

(COURSE HANDBOOK)

MBA

COURSE FACULTY:

Dr. Amith D. Menezes

# 1. GENERAL INFORMATION

Welcome to the Behavioural Finance course!

This course is designed to provide you with a comprehensive understanding of how psychological factors influence financial decision-making and market behaviour. Through this journey, you will delve into key concepts such as cognitive biases, emotional influences, risk perception, and the impact of heuristics on investment decisions. The curriculum is carefully structured into five modules, each building upon the last to create a cohesive and enriching learning experience.

In addition to theoretical insights, the course incorporates practical applications to deepen your understanding of behavioural finance principles in real-world contexts. For instance, Module 4 will include activities such as case studies on investor behaviour, scenario-based simulations, and hands-on data analysis using relevant tools, ensuring you acquire valuable skills to analyse and interpret behavioural patterns in financial markets.

We highly encourage active participation in discussions, group assignments, and interactive sessions to refine your critical thinking skills and apply behavioural finance theories in practice. Collaborative learning will also provide a platform to explore diverse perspectives on financial decision-making.

We aim for this course to not only enhance your knowledge of behavioural finance but also inspire you to integrate these insights into your professional endeavours. Please review this course handbook carefully—it contains essential details about assessments, learning objectives, and resources designed to support you throughout the program.

We look forward to exploring the fascinating world of Behavioural Finance with you!

## 1.1.Course Objectives

This course is designed to:

- **Understand Behavioural Psychology in Finance:** Introduce key concepts of behavioral psychology and their impact on financial decision-making and market outcomes.
- **Develop Knowledge of Financial Market Analysis:** Equip students with a foundational understanding of financial market structures and analytical approaches.
- **Recognize and Address Behavioural Biases:** Impart essential knowledge about common behavioral biases and train students to develop and innovative solutions to mitigate their effects.
- **Explore Investor Psychology and Investment Simulation:** Familiarize students with investor psychology and enable them to simulate investment scenarios effectively.

## 1.2.Course Outcomes:

At the end of the course, students will be able to:

- CO1:** Summarize the fundamental concepts of Behavioural psychology.
- CO2:** Apply financial market analysis for efficient market hypothesis.
- CO3:** Make use of asset pricing models for different psychological situations.
- CO4:** Apply heuristics and behavioural biases of investors to empirical evidence.
- CO5:** Apply Behavioural finance theories for overcoming investor biases.

## 1.3.Recommended and Reference Text Books

All books are available in the library.

### **Recommended Text Books:**

Prasanna Chandra, “Behavioural Finance”. 2<sup>nd</sup> Edition, Tata McGraw Hill, 2020.  
John R. Nofsinger, “Psychology of Investing” 6<sup>th</sup> Edition, Taylor and Francis, 2017

### **Reference books:**

- Michael M. Pompian, “Behavioral Finance and Your Portfolio: A Navigation Guide for Building Wealth” Wiley Publication, 2021
- Parikh Parag, “Value Investing and Behavioral Finance” 1<sup>st</sup> Edition, Tata McGraw Hill, 2023

### **Important Web Links**

1. Introduction to Behavioural Economics and Finance  
[NPTEL :: Management - NOC: Behavioral and Personal Finance](#)
2. Behavioural Finance and Role of Psychology  
[Bing Videos](#)
3. Decision Making Under Risk & Uncertainty  
[NPTEL:: Management - NOC: Behavioral and Personal Finance](#)
4. Behavioural Finance Theory  
[Bing Videos](#)
5. Behavioural Finance Fundamentals: Decision Making Biases  
[Bing Videos](#)

## 2. THE COURSE

### 2.1.Course Description

BEHAVIORAL FINANCE			
Semester	<b>III</b>	CIE Marks	<b>50</b>
Course Code	<b>23MBPE642</b>	SEE Marks	<b>50</b>
Teaching Hrs/Week (L:T:P)	<b>3:0:0</b>	Exam Hrs	<b>03</b>
Total Hrs	<b>42</b>	Credits	<b>03</b>

The **Behavioural Finance** course is designed to provide students with advanced knowledge in Finance specialization with over 13 weeks during Semester 3. The course consists of five modules covering essential topics in behavioural finance of organizations. Each week includes four lectures, with Dr. Amith of the course. These lectures focus on theoretical concepts, practical applications, and course-related activities. Spanning a total of 42 hours, this 3-credit course is assessed through Continuous Internal Evaluation (CIE) for 50 marks and a Semester-End Examination (SEE) for 50 marks. This structure ensures a balanced and engaging learning experience for students.

### 2.2.Initiating Contact with Staff and Other Students

We welcome your inquiries about the course. Please use email and office hours thoughtfully, and check previous communications and handbook materials before reaching out with administrative questions. Engage with peers for discussions and collaborative learning to enhance your understanding and foster a supportive academic community.

### 2.3.Resources

Resources include digital libraries, e-learning platforms, and research databases, offering students anytime, anywhere access to academic materials and interactive courses. On the college website, students can access the VTU Consortium, open-access repositories (e.g., NPTEL, NDLI), e-books, research papers, video lectures, and interactive tutorials, providing a flexible and comprehensive learning experience.

E-learning and digital library can be accessed via the college website <https://mite.ac.in/> (Campus Life section > Library > VTU Consortium/e-learning platforms/additional sources).

### 2.4.Staff

Course Lecturer: Dr. Amith Donald Menezes  
Cabin: 3<sup>rd</sup> floor, PG Block  
Email: [amith@mite.ac.in](mailto:amith@mite.ac.in)

## 2.5.Topics and Reading Materials for each module

<b><u>Module 1</u></b>	<i>(No. of Hours: 6)</i>
<ul style="list-style-type: none"><li>- <b>Topic: Introduction to Behavioural Finance</b><ul style="list-style-type: none"><li>○ Rational Markets Hypothesis- Intellectual Underpinnings, The Rise of the Rational Markets Hypothesis, Impact on Wall Street and the Corporates, The Challenge of Behavioralists, Synthesis and Future Horizons, Psychology and Market People – Understanding investor psychology and their types. Investors, portfolio managers, analysts, a rationale, bounded rationality in real market conditions. Decision-making process by an investor and behavioral biases</li></ul></li><li>- <b>Activities</b><ul style="list-style-type: none"><li>○ Case studies on financial crisis and stock market related frauds</li></ul></li><li>- <b>Essential Readings</b><ul style="list-style-type: none"><li>○ Prasanna Chandra, “Behavioural Finance”. 2<sup>nd</sup> Edition, Tata McGraw Hill, 2020- (Chapter 2 &amp; 3)</li></ul></li><li>- <b>Additional Reading</b><ul style="list-style-type: none"><li>○ Michael M. Pompian, “Behavioral Finance and Your Portfolio: A Navigation Guide for Building Wealth” Wiley Publication, 2021- (Chapter 3)</li></ul></li><li>- <b>Additional Web Links</b><ul style="list-style-type: none"><li>○ Introduction to Behavioural Economics and Finance <a href="#">NPTEL :: Management - NOC:Behavioral and Personal Finance</a></li></ul></li></ul>	
<b><u>Module 2</u></b>	<i>(No. of Hours: 8)</i>
<ul style="list-style-type: none"><li>- <b>Topic: Efficient market hypothesis &amp; Failing EMH</b><ul style="list-style-type: none"><li>○ Theoretical Foundations of the EMH. Empirical Support for the EMH. Forms of EMH. Market efficiency. Theoretical Challenges to the EMH. Empirical Challenges to the EMH. An Assessment of EMH- Chapter 3 &amp; 4</li></ul></li><li>- <b>Activities</b><ul style="list-style-type: none"><li>○ Assignment on practical problems</li></ul></li><li>- <b>Essential Reading:</b><ul style="list-style-type: none"><li>○ Prasanna Chandra, “Behavioural Finance”. 2<sup>nd</sup> Edition, Tata McGraw Hill, 2020- Chapter 3 &amp; 4</li></ul></li><li>- <b>Additional Reading</b><ul style="list-style-type: none"><li>○ Parikh Parag, “Value Investing and Behavioral Finance” 1<sup>st</sup> Edition, Tata McGraw Hill, 2023- chapter 3 &amp; 4</li></ul></li></ul>	

- **Additional Web Links**

- Behavioural Finance Theory  
[Bing Videos](#)

**Module 3**

*(No. of Hours: 12)*

- **Topic: Behavioral Aspects of Investing**

- Investor Behaviour- portrait of an individual investor, the heuristics and biases mean for financial decision making, implications of overconfidence for decision making, behavioral portfolio theory, psychographic models, basic ingredients of a sound investment philosophy, guidelines for overcoming psychological biases. Market Outcomes, Size Effect and Seasonality, Momentum and Reversal, Post-Earnings Announcement Drift, The Value Premium, The Equity Premium Puzzle, Excessive Volatility, Bubbles, Behavioral Asset Pricing Model.
- Value Investing: Central Tenets of Value Investing, Evidence and Prospects of Value Investing, Strategies of Some Well-Known Value Investors, Academic Research on Value Investing.

- **Activities**

- Assignment on practical problems

- **Essential Readings**

- John R. Nofsinger, “Psychology of Investing” 6<sup>th</sup> Edition, Taylor and Francis, 2017 – Chapter 1,2,3,4

- **Additional Reading**

- Parikh Parag, “Value Investing and Behavioral Finance” 1<sup>st</sup> Edition, Tata McGraw Hill, 2023- chapter 5 & 6

- **Additional Web Links**

- Behavioural Finance and Role of Psychology  
[Bing Videos](#)

**Module 4**

*(No. of Hours: 8)*

- **Topic: Behavioural Corporate Finance**

- Behavioural Corporate Finance: Rational Managers with Irrational Investors Approach, Valuation, Capital Budgeting, Capital Structure, Dividend Policy, Mergers and Acquisitions (M&A), Agency Conflicts and Corporate Governance. Building a Smart Organization: Challenges in Building a Psychologically Smart Organization: Accounting, Financial Planning, Incentives, Information Sharing, Group Processes, Improving Organizational Decision-Making Process.

- **Activities**

- Case study on Listed Company’s financial statements

- **Essential Readings**
  - Prasanna Chandra, “Behavioural Finance”. 2<sup>nd</sup> Edition, Tata McGraw Hill, 2020 – chapter 5, 6, 7
- **Additional Reading**
  - [Michael M. Pompian](#), “Behavioral Finance and Your Portfolio: A Navigation Guide for Building Wealth” Wiley Publication, 2021- Chapter 5 & 6
- **Additional Web Links**
  - Decision Making Under Risk & Uncertainty  
[NPTEL :: Management - NOC: Behavioral and Personal Finance](#)

## **Module 5**

*(No. of Hours: 8)*

- **Topic: Contemporary Issues**
  - Methods to overcome behavioural biases: Anchoring effect, Bandwagon bias, Confirmation bias and Halo Effect and Company Performance. Wisdom of Crowds: Power of Law, Performance in Stock Market, Stock Market as a Complex Adaptive Systems, Evolutionary Analogy, Animal Spirits, From Homo Economics to Homo Sapiens, Flaws of Finance, The Clash of Cultures.
- **Activities**
  - Student group presentation on specific topics.
- **Essential Readings**
  - Prasanna Chandra, “Behavioural Finance”. 2<sup>nd</sup> Edition, Tata McGraw Hill, 2020 – Chapter 7 & 8
- **Additional Reading**
  - Michael M. Pompian, “Behavioral Finance and Your Portfolio: A Navigation Guide for Building Wealth” Wiley Publication, 2021- Chapter 6
- **Additional Web Links**
  - Behavioural Finance Fundamentals: Decision Making Bais  
[Bing Videos](#)

### 3. ASSESSMENT

The assessment for the Behavioural Finance course is divided into two components: Continuous Internal Evaluation (CIE) and Semester End Examination (SEE), each accounting for 50% of the total marks.

**Continuous Internal Evaluation (CIE)** comprises two internal tests, scheduled for 8<sup>th</sup> and 14<sup>th</sup> week, which together contribute 30% of the total marks. Additionally, students can earn 20% through the completion of assignments (10 marks is allotted for completion of module wise assignments, and 10 marks are allotted for student performance in group presentations).

**Semester End Examination (SEE)** constitutes the remaining 50% of the total marks i.e. a 3 hour written examination. Key information regarding examination dates and related details can be accessed via the college website (Academics and Courses section > Calendar of Events > PG Odd Sem).

#### **Rubrics for Assignment Evaluation (Total: 20 Marks / 40% of CIE)**

<b>1. Module wise assignments (10 Marks)</b>				
<b>Criteria</b>	<b>10 Marks (Excellent)</b>	<b>8 Marks (Good)</b>	<b>6 Marks (Fair)</b>	<b>3-5 Marks (Poor)</b>
<b>Completion</b>	Completed all modules and tasks.	Completed most modules.	Completed some modules.	Incomplete or missed modules.
<b>Timeliness</b>	Completed on time.	Completed slightly late.	Completed much later than due.	Missed the deadline.

<b>2. Student group presentation on specific topics (10 Marks)</b>					
<b>Criteria</b>	<b>10 Marks (Excellent)</b>	<b>8 Marks (Proficient)</b>	<b>6 Marks (Adequate)</b>	<b>4 Marks (Basic)</b>	<b>2 Mark (Unsatisfactory)</b>
<b>Financial Concepts</b>	Strong fundamental analysis, active in all stages	Good fundamental analysis, involved in most stages	Moderate fundamental analysis and contribution	Minimal fundamental analysis and contribution	No fundamental analysis and initiative
<b>Leadership Collaboration and Teamwork</b>	Excellent collaboration, highly cooperative	Good Collaboration and teamwork	Average collaboration and teamwork	Limited collaboration and teamwork	No teamwork and collaboration