

MBPC4004 BEHAVIOURAL FINANCE (3-0-0)

Course Objectives:

1. Explore the intellectual foundations and evolution of behavioral finance, contrasting it with conventional finance theories.
2. Understand the psychological underpinnings and biases affecting financial decision-making, such as framing, mental accounting, and loss aversion.
3. Analyze the impact of investor sentiments, emotions, and external influences on market dynamics and bubble formation.
4. Discuss future directions in behavioral finance, including neurofinance, and address challenges in applying behavioral insights to financial planning.

Module- I

Introduction to behavioural finance; Intellectual underpinnings; The rise of the rational markets hypothesis; behavioral finance and conventional finance: A comparison; Foundation of Rational Finance: Expected utility theory, Agency theory; The influence of psychology: Allais paradox, Money illusion, Gambler's fallacy, Endowment effect, Ellsberg's paradoxes.

Module –II

Foundation of Behavioural Finance: cognitive psychology and Limits to arbitrage, Prospect Theory, Biases and Heuristics: Framing and Mental Accounting, Overconfidence, Loss Aversion, Concept of Heuristics; Familiarity & Related Heuristics; Representativeness & Related biases; Anchoring as a bias; Emotional Bias, Bounded Rationality.

Module III:

Investors sentiments and Bubble creation, Fear and Greed in Financial Market and the effect of External influence in stock market. Future Direction in Behavioural Finance; Neurofinance; Issues in applying Behavioural Finance; Behavioural Components of Financial Planning.

Course Outcomes:

- CO-1: Identify the conceptual framework of behavioural finance based on traditional and modern theories.
- CO-2: Examine the psychological aspects and challenges underlying the issue of rational and irrational behaviour
- CO-3: Utilize the understanding of the concepts to help promote more efficient financial decisions for investors, professional traders and corporate.
- CO-4: Integrate the knowledge of behavioural finance to predict and solve social ills like gambling.

Reference Books:

1. Behavioral Finance: Sinha PK - Himalaya
2. Behavioral Finance: Prasanna Chandra, McGraw Hill
3. Behavioral Finance: Shuchita Singh and Batt, Vikas.
4. Behavioural Finance, Forbes, William, Student ed, Wiley Publication
5. Choices, values and frames, Kahneman, D. and Tversky, A. Cambridge Univ. Press.