



**GUJARAT TECHNOLOGICAL UNIVERSITY**  
 Syllabus for Integrated Master of Business Administration, 8<sup>th</sup> Semester  
**Functional Area Specialization: Finance**  
**Subject Name: Behavioral Finance**  
**Subject Code: 2587123**

With effective  
 from academic  
 year 2017-18

**1. Learning Outcomes:**

Learning Component	Outcome	Learning Outcome (Student will be able to)
Business Environment and Domain Knowledge (BEDK)		<ul style="list-style-type: none"> <li>• <i>Discriminate</i> between a behavioural finance perspective and a traditional finance perspective.</li> <li>• <i>Demonstrate</i> how heuristics and biases influence investor behaviour.</li> </ul>
Critical thinking, Business Analysis, Problem Solving and Innovative Solutions (CBPI)		<ul style="list-style-type: none"> <li>• <i>Measure</i> the influence of behavioural biases on individual investment decision making.</li> </ul>
Global Exposure and Cross-Cultural Understanding (GECCU)		<ul style="list-style-type: none"> <li>• Critically <i>discuss</i> global developments in this domain and the associated practical insights they provide.</li> </ul>
Social Responsiveness and Ethics (SRE)		<ul style="list-style-type: none"> <li>• <i>Analyze</i> the root cause of corporate misconduct and suggest institutional innovations to improve modern business environments.</li> <li>• <i>Explain</i> various unethical and morally wrong practices prevalent in investing in financial markets.</li> </ul>
Effective Communication (EC)		<ul style="list-style-type: none"> <li>• <i>Identify, describe, and explain</i> different behavioural traits and their implication for the individual decision process, as well as their relevance for financial economics.</li> </ul>
Leadership and Teamwork (LT)		<ul style="list-style-type: none"> <li>• <i>Develop</i> a framework for investing in the financial markets that minimizes “irrational” behaviour and maximizes risk adjusted returns.</li> </ul>

**2. Course Duration:** The course duration is of **40 sessions of 60 minutes each.**

**3. Course Contents:**

Module No:	Contents	No. of Sessions	70 Marks (External Evaluation)
<b>I</b>	<p><b>Brief overview of rational finance and classical finance theories:</b></p> <ul style="list-style-type: none"> <li>• Rise of the rational market hypothesis</li> <li>• Brief overview of classical finance theories:               <ul style="list-style-type: none"> <li>○ Expected utility theory</li> <li>○ Modern portfolio theory</li> <li>○ Capital Asset Pricing model</li> <li>○ Efficient market hypothesis</li> <li>○ MM theory – investors are rational</li> <li>○ Arbitrage pricing theory</li> <li>○ Random walk hypothesis</li> </ul> </li> <li>• Challenging the classical assumptions of finance</li> <li>• Financial market anomalies               <ul style="list-style-type: none"> <li>○ Fundamental anomalies</li> <li>○ Technical anomalies</li> <li>○ Calendar or seasonal anomalies</li> </ul> </li> </ul> <p><b>Behavioural Finance:</b></p> <ul style="list-style-type: none"> <li>• Introduction, meaning, nature.</li> </ul>	10	18



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	<ul style="list-style-type: none"> <li>• Assumptions of behavioural finance</li> <li>• Meaning of heuristics and bias</li> <li>• Building blocks of behavioural finance</li> <li>• Prospect theory and mental accounting</li> </ul> <p><b>Important contributors:</b></p> <ul style="list-style-type: none"> <li>• Daniel Kahneman and Amos Tversky</li> <li>• Richard Thaler</li> <li>• Robert J. Shiller</li> <li>• Michael Pompian</li> <li>• Parag Parikh</li> </ul>		
<b>II</b>	<p><b>Theories of Behavioural Finance:</b></p> <ul style="list-style-type: none"> <li>• Asymmetric information</li> <li>• Ego centricity</li> <li>• Human Behavioral Theories</li> </ul> <p><b>Heuristics:</b></p> <ul style="list-style-type: none"> <li>• Familiarity <ul style="list-style-type: none"> <li>○ Familiarity, Ambiguity Aversion</li> <li>○ Diversification, Functional Fixation</li> <li>○ Status Quo, Endowment Effect</li> </ul> </li> <li>• Representativeness <ul style="list-style-type: none"> <li>▪ Innumeracy</li> <li>▪ Probability matching and conjunction fallacy</li> <li>▪ Base Rate Neglect</li> <li>▪ Availability and Salience</li> </ul> </li> <li>• Anchoring</li> </ul> <p><b>Cognitive Biases:</b></p> <ul style="list-style-type: none"> <li>• Self-Deception <ul style="list-style-type: none"> <li>○ Framing</li> <li>○ Overconfidence <ul style="list-style-type: none"> <li>▪ Miscalibration, better than average effect, over-optimism</li> <li>▪ Causes: illusion of knowledge, control, understanding, skill</li> </ul> </li> <li>○ Self-attribution</li> <li>○ Confirmation</li> <li>○ Representativeness</li> <li>○ Recency</li> </ul> </li> </ul> <p><b>Emotional Biases:</b></p> <ul style="list-style-type: none"> <li>• Regret</li> <li>• Hindsight</li> <li>• Denial</li> <li>• Loss aversion</li> <li>• Affinity</li> <li>• Self-control</li> </ul>	10	18
<b>III</b>	<p><b>Bias:</b></p> <ul style="list-style-type: none"> <li>• Interaction amongst biases</li> <li>• Outcomes of biases</li> <li>• Dealing with biases</li> </ul>	10	17



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	<ul style="list-style-type: none"> <li>• Overcoming the biases and debiasing</li> </ul> <p><b>Behavioural aspects of Investing:</b></p> <ul style="list-style-type: none"> <li>• Behavioural Portfolio theory</li> <li>• Psychographic models</li> <li>• Sound Investment Philosophy</li> </ul> <p><b>Market Bubbles:</b></p> <ul style="list-style-type: none"> <li>• Introduction and brief history of stock market bubbles</li> <li>• Identification and classification of a stock market bubble</li> <li>• Explaining bubbles through behavioural finance</li> <li>• Investor behavior during bubbles.</li> <li>• Causes of bubbles</li> </ul> <p><b>Value Investing:</b></p> <ul style="list-style-type: none"> <li>• Central tenets of value investing</li> <li>• Evidence and prospects of value investing</li> </ul>		
<b>IV</b>	<p><b>Neurofinance:</b></p> <ul style="list-style-type: none"> <li>• Neural processes during financial decision making</li> <li>• Future of Neurofinance</li> <li>• Adaptive Market Hypothesis</li> </ul> <p><b>Forensic Accounting:</b></p> <ul style="list-style-type: none"> <li>• Classifications of fraud</li> <li>• Behavioural aspects of Fraud</li> <li>• Origin and growth of forensic accounting</li> <li>• Fraud theories               <ul style="list-style-type: none"> <li>○ Motivators of fraud</li> <li>○ Triangle of fraud action</li> <li>○ Fraud Scale and Fraud Diamond</li> <li>○ MICE</li> </ul> </li> <li>• Tools in Forensic Accounting               <ul style="list-style-type: none"> <li>○ Ratio analysis</li> <li>○ Data mining</li> <li>○ Benford's Law (specific to forensic accounting)</li> </ul> </li> <li>• Forensic Accounting in India</li> </ul> <p><b>Behavioural Corporate Finance:</b></p> <ul style="list-style-type: none"> <li>• Approaches to behavioural corporate finance</li> <li>• Market timing and catering approach</li> <li>• Issues related to valuation, dividend policy, mergers and acquisitions</li> </ul> <p><b>The Future:</b></p> <ul style="list-style-type: none"> <li>• From Homo Economicus to Homo Sapiens</li> <li>• Zurich Axioms (Risk and Greed only)</li> <li>• Future of behavioural finance and investing</li> </ul>	10	17
<b>V</b>	<p><b>Practical:</b>          Timing of good and bad corporate news announcement. Systematic approach of using behavioural factors in corporate decision-making. Neurophysiology of risk-taking. Personality traits and risk attitudes in different domains.</p>	---	(30 marks CEC)



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**4. Pedagogy:**

- ICT enabled Classroom teaching
- Case study
- Practical / live assignment
- Interactive class room discussions

**5. Evaluation:**

Students shall be evaluated on the following components:

<b>A</b>	<b>Internal Evaluation</b>	<b>(Internal Assessment- 50 Marks)</b>
	• Continuous Evaluation Component	30 marks
	• Class Presence & Participation	10 marks
	• Quiz	10 marks
<b>B</b>	<b>Mid-Semester examination</b>	<b>(Internal Assessment-30 Marks)</b>
<b>C</b>	<b>End –Semester Examination</b>	<b>(External Assessment-70 Marks)</b>

**6. Reference Books:**

No.	Author	Name of the Book	Publisher	Year of Publication / Edition
1	Prasanna Chandra	Behavioural Finance	McGraw Hill	2016 / 1 <sup>st</sup>
2	M. M. Sulphery	Behavioural Finance	PHI	2014 / 1 <sup>st</sup>
3	Richard M. Thaler	Advances in Behavioural Finance: Volume II	Princeton University Press	2005
4	Williams Forbes	Behavioural Finance	Wiley	2009 / 1 <sup>st</sup>
5	Parag Parikh	Value Investing and Behavioural Finance	McGraw Hill	2009
6	Herbert A. Simon, Massimo Egidi, Riccardo Viale, Fondazione Rosselli, Robin Marris.	Economics, Bounded Rationality and the Cognitive Revolution	Edward Elgar Publishing	2008
7	Mohnish Pabrai	The Dhandho Investor	Wiley	2016
8	James Montier	The Little Book of Behavioral Investing: How Not to be Your Own Worst Enemy	Wiley	2015
9	Shuchita Singh, Shilpa Bahi	Behavioural Finance	Vikas	2018 / 1 <sup>st</sup>
10	Sujata Kapoor, Jaya Mamta Prosad	Behavioural Finance	Sage	2019

Note: Wherever the standard books are not available for the topic appropriate print and online resources, journals and books published by different authors may be prescribed.

**7. List of Journals / Magazines / Periodicals / Newspapers / e-resources, etc.**

1. Journal of Behavioural Finance
2. Journal of Behavioural and Experimental Finance
3. International Journal of Behavioural Accounting and Finance
4. The IUP Journal of Behavioural Finance
5. Outlook Money (Magazine)
6. Money Today (Magazine)
7. <https://www.dartmouth.edu/~lusardiworkshop/Papers/FPA%20BEHAVIORAL%20BIAS%20PAPER.pdf>
  - The Future of Wealth Management: Incorporating Behavioral Finance into Your Practice By Michael M. Pompian, CFA, CFP and John M. Longo, Ph.D., CFA