



UNIVERSIDAD  
**esan**

# **Behavioral Finance**

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**August – December 2018**

**VIII Cycle**

**Lecturer**

**Guillermo Dávila Jaramillo, MBA**

## **I. General information about the course**

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Subject : Behavioral Finance  
Crédits: 3

Códe : 05648  
Semester : 2018-2

## **II. Summary**

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The course objective is to explore the ethics and behavior of agents in financial markets, preferences and the way investors make decisions, as well as analysis of corporate decision making.

## **III. Course Objective**

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The course has two objectives, the first focuses on the professional in finance, where the student will learn and know how to recognize according to different situations the correct way of how to perform and take decisions as a professional in finance. The second objective focuses on the counterparty, ie the investor. At this stage the student is able to recognize the motivations, attitudes and behavior of the investor in the financial market. Combined both objectives the student will perform in a professional and ethical manner understanding the actions of the investor.

## **IV. Learning Results**

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At the end of the course, the student:

- Understand behavioral finance and its biases
- Knows and applies standards of financial ethics and corporate governance.
- Identifies the financial market sentiment
- Determines possible purchase or sale levels in the financial market
- Understand how the investor interprets information to make decisions
- Manages tools and a framework that allows to recognize financial market trends.

## **V. Methodology**

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During the course of the classes will be taught theory corresponding to the topics of the syllabus and will develop examples on the points treated in each one of them and then make a workshop where students will discuss in a plenary each of the situations that the teacher proposes. In some cases videos or similar will be used for the reinforcement of the class session.

We'll examine typical errors made by financial market participants as a result of behavioral biases, and examine the extent to which irrationality can affect financial markets at the aggregate level ("bubbles"), how long irrationality may persist, and what factors will eventually cause these bubbles to burst ("crashes").

## **VI. Evaluation**

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The evaluation system is permanent and integral. The course grade is obtained by averaging the continuous assessment (40%), the midterm (30 %) and final exam (30%).

The average of the ongoing evaluation results from the ongoing evaluation average reading control, case studies, quizzes, final project and other activities considering the weighted table. The weights within the ongoing evaluation are described in the following table:

<b>Average of the Ongoing Evaluation 40%</b>		
<b>Type of Evaluation</b>	<b>Description</b>	<b>Weight %</b>
Control of readings	4 reading controls	25
Practical Cases	4 Cases/workshops	20
Final Project	Group Research Paper	40
Other Activities	Class Participation, Other Assignments	15

The final grade average is obtained by:

$$\mathbf{FG} = (0, 30 \times \text{Midterm}) + (0, 40 \times \text{Average Ongoing Evaluation}) + (0, 30 \times \text{FE})$$

**Legend:**

**FG** = Final Grade

**ME** = Midterm Exam

**AOE** = Average Ongoing Evaluation

**FE** = Final Exam

## VII. Course Content

WEEK	CONTENTS	ACTIVITIES / EVALUATION
<p>1°</p> <p>From August 20<sup>th</sup> to 25<sup>th</sup></p>	<p><b>Course Description</b>            Introduction to behavioral finance            Rational &amp; Irrational Behavior            General Definitions  <b>Professionalism Conduct</b>            Decision Making in Finance            Utility of Money            Omission Bias            Decision Making and Probabilities            Availability Heuristic</p> <p>Standards of Practice Handbook pages 11-45</p>	
<p>2°</p> <p>From August 27<sup>th</sup> to September 01<sup>th</sup></p>	<p><b>Professionalism Conduct</b>            Framing I            Representativeness            Decision Making and Probabilities            Availability            Overconfidence</p> <p>Standards of Practice Handbook pages 49-63</p>	Case 1
<p>3°</p> <p>From September 03<sup>th</sup> to 08<sup>th</sup></p>	<p><b>Integrity of Capital Markets</b>            Money Management            Market Bubbles and Crashes            Speculative Bubbles            Survival</p> <p>Standards of Practice Handbook pages 69-79</p>	Reading Control 1
<p>4°</p> <p>From September 10<sup>th</sup> to 15<sup>th</sup></p>	<p><b>Obligations – Customers and Employees</b>            How to make ethical decisions            Ethical dilemma            Loyalty            Ethical blindness</p> <p>Standards of Practice Handbook pages 69-101, pages 105-119</p>	Case 2
<p>5°</p> <p>From September 17<sup>th</sup> to 22<sup>th</sup></p>	<p><b>Recommendations, Analysis &amp; Actions</b>            Framing II            Groupthink Concept I            The Enron Story            The Lehman Brothers Story</p> <p>Badaracco Jr, J. (2013). <i>Defining moments: When managers must choose between right and wrong</i>. Harvard Business Press.            Enron scandal. (2016, May 27). In Wikipedia, <i>The Free Encyclopedia</i>. Retrieved 13:08, July 6, 2016, from <a href="https://en.wikipedia.org/w/index.php?title=Enron_scandal&amp;oldid=722389642">https://en.wikipedia.org/w/index.php?title=Enron_scandal&amp;oldid=722389642</a>            McDonald, L., &amp; Robinson, P. (2009). A Colossal Failure of Common Sense: The Incredible inside story of the Lehman Brothers.</p>	Reading Control 2
<p>6°</p> <p>From September 24<sup>th</sup> to 29<sup>th</sup></p>	<p><b>Conflict of Interest</b>            What are conflicts?            Power of Language</p> <p>Dowie, M. (1977). <i>Pinto Madness. Mother Jones</i>, 128, 18-32.            Palazzo, G., Krings, F., &amp; Hoffrage, U. (2012). Ethical blindness. <i>Journal of Business Ethics</i>, 109(3), 323-338.</p>	

<p><b>7°</b></p> <p>From October 01<sup>th</sup> to 06<sup>th</sup></p>	<p><b>MID TERM EXAM ELECTIVE</b></p>	
<p><b>8°</b></p> <p>From October 08<sup>th</sup> to 13<sup>th</sup></p>	<p><b>MID TERM EXAM</b></p>	
<p><b>9°</b></p> <p>From October 15<sup>th</sup> to 20<sup>th</sup></p>	<p><b>Investor Psychology</b> Trend Formation Group Think Concept II Simple Heuristics Mass Influence</p> <p><a href="https://www.psychologytoday.com/basics/groupthink">https://www.psychologytoday.com/basics/groupthink</a></p>	
<p><b>10°</b></p> <p>From October 22<sup>th</sup> to 27<sup>th</sup></p>	<p><b>Corruption in Organizations I</b> Danger of routines Organizing for Ethical Blindness Pressure in Organizations Power of Strong Situations</p> <hr/> <p>THE NORMALIZATION OF CORRUPTION IN ORGANIZATIONS Blake .E. Ashforth and Vikas Anand</p>	<p>Case 3</p>
<p><b>11°</b></p> <p>From October 29<sup>th</sup> to November 03<sup>th</sup></p>	<p><b>Corruption in Organization II</b> What to do? Peer Pressure Irrationality Behavior in Markets Market Bubbles Chartism</p> <p>THE NORMALIZATION OF CORRUPTION IN ORGANIZATIONS Blake .E. Ashforth and Vikas Anand</p>	<p>Reading Control 3</p>
<p><b>12°</b></p> <p>From November 05<sup>th</sup> to 10<sup>th</sup></p>	<p><b>The Challenger Case</b> Trends Change in Trends Impact of Time in Decisions</p> <p>Situational strength. (2014, July 26). In Wikipedia, The Free Encyclopedia. Retrieved 15:26, October 21, 2014 Space Shuttle Challenger disaster. (2014, October 20). In <i>Wikipedia, The Free Encyclopedia</i>. Retrieved 15:23, October 21, 2014,</p>	<p>Case 4</p>
<p><b>13°</b></p> <p>From November 12<sup>th</sup> to 17<sup>th</sup></p>	<p><b>Behavioral Finance Summary I</b> The Power of Institutions Finance in Capitalism Types of Unethical Behavior</p> <p><i>Havel, V.</i> 1984. Living in truth. Extract from: Politics and conscience. Reprint in: Living in truth: 22 Essays published on the occasion of the award of the Erasmus price to Vaclav Havel. Faber &amp; Faber Pub. Friedman, M. 1970. The social responsibility of business is to increase its profit. New York Times Magazine, September 13</p>	<p>Reading Control 4</p>

<p style="text-align: center;"><b>14°</b></p> <p>From November 19<sup>th</sup> to 24<sup>th</sup></p>	<p><b>Behavioral Finance Summary II</b>  Nudging  How to create a wind of change?  How to protect organizations against ethical blindness  <b>Research Paper Presentations</b></p> <hr/> <p>Thaler, R., &amp; Sunstein, C. (2009). Nudge: The gentle power of choice architecture.  Responsible consumption: The power of story telling – Guido Palazzo’s TEDx talk, March 2014</p>	
<p style="text-align: center;"><b>15°</b></p> <p>From November 26<sup>th</sup> to December 01<sup>th</sup></p>	<p><b>FINAL EXAMS ELECTIVE COURSE</b></p>	
<p style="text-align: center;"><b>16°</b></p> <p>From December 03<sup>th</sup> to 08<sup>th</sup></p>	<p><b>FINAL EXAMS</b></p>	

## VIII. Bibliography

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### Text Book

Standards of Practice Handbook 10th Edition.  
<http://www.cfapubs.org/toc/ccb/2010/2010/2>

## IX. Professor

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