



Syllabus

Behavioral Finance

March – July 2024

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I. General information about the course

Subject:	Behavioral Finance		
Pre-requisite:	Financial Instruments	Código:	05648
Precedente:	N/A	Semester:	2024-1
Créditos:	3	Cycle:	VIII
Weekly Hours:	3 hours	Type of the course:	Presencial
Career(s)	Finance and Administration	Course Coordinator	Julio Quispe jquispe@esan.edu.pe

II. Summary

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 process.

III. Course Objectives

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

After completing this course, the student will:

- Understand behavioral finance
- Code of Conduct in Finance
- Behavioral Finance Biases
- Decision Making in Finance from a Behavioral Perspective
- Knows and applies standards of financial ethics and corporate governance.
- Understand Biases in Finance Conduct
- Identifies the financial market sentiment
- Understand Framing and Group Think Conducts in Organizations
- Understand conflict of interest in organizations
- Understand Corruption in the Organizations
- Groupthink
- Summary of Behavioral Finance.

- Understand how the investor interprets information to make decisions
- Manages tools and a framework that allows to recognize financial market trends.

V. Methodology

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

The evaluation system is permanent and integral. The course grade is obtained by averaging the continuous assessment (60%), the midterm (20 %) and final exam (20%).

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:

Average of the Ongoing Evaluation 60%		
Type of Evaluation	Description	Weight %
Reading Controls	4 reading controls	30
Practical Cases	4 Cases	30
Final Project	Group/Individual Research Paper	30
Class Participation	Class Participation & Attendance	10

The final grade average is obtained by:

$$\mathbf{FG} = (0, 20 \times \text{Midterm}) + (0, 60 \times \text{Average Ongoing Evaluation}) + (0, 20 \times \text{FE})$$

Legend:

- FG** = Final Grade
- ME** = Midterm Exam
- AOE** = Average Ongoing Evaluation
- FE** = Final Exam

VII. Course Content

WEEK	CONTENTS	ACTIVITIES/EVALUATION
<p>LEARNING UNIT I: General Concepts and Course Introduction</p> <p>LEARNING OUTCOMES:</p> <ul style="list-style-type: none"> • Understand behavioral finance • Code of Conduct in Finance • Behavioral Finance Biases • Decision Making in Finance from a Behavioral Perspective 		
<p>1° From March 21th to March 27th</p>	<p>1. Course Description</p> <p>Introduction to behavioral finance Rational & Irrational Behavior General Definitions</p> <p>2. Professionalism Conduct</p> <ul style="list-style-type: none"> • Decision Making in Finance • Utility of Money • Omission Bias • Decision Making and Probabilities • Availability Heuristic <p>Reading Assignment: Standards of Practice Handbook pages 11-45</p>	<p>Presentation of the Course Methodology</p> <p>Guidance review (guidelines) for the development of the final research work</p> <p>Review of the Guide for the presentation of written works at the Esan University (APA standards)</p> <p>Introduction to Behavioral Finance Concepts.</p>
<p>LEARNING UNIT II: Professionalism and Finance Conduct</p> <p>LEARNING OUTCOMES: Understand Biases in Finance Conduct</p>		
<p>2° From April 1st to April 06th</p>	<p>3. - Professionalism Conduct</p> <ul style="list-style-type: none"> • Framing I • Representativeness • Decision Making and Probabilities • Availability • Overconfidence <p>Reading Assignment: Standards of Practice Handbook pages 49-63</p>	
<p>LEARNING UNIT III: Integrity in Capital Markets</p> <p>LEARNING OUTCOMES:</p> <ul style="list-style-type: none"> • Identifies the financial market sentiment • Integrity in Capital Markets • Obligations of Customers and Employees 		

<p>3° From April 8th to April 13th</p>	<p>4.Integrity of Capital Markets</p> <ul style="list-style-type: none"> • Money Management • Market Bubbles and Crashes • Speculative Bubbles • Survival 	<p>Case N° 1:</p> <p>Financial Behavior and Biases: Introduction and Professionalism Conduct</p>
<p>Reading Assignment: Standards of Practice Handbook pages 69-79</p>		
<p>4° From April 15th to April 20th</p>	<p>5. Obligations – Customers and Employees</p> <ul style="list-style-type: none"> • How to make ethical decisions • Ethical dilemma • Loyalty • Ethical blindness 	<p>Reading Control N° 1:</p> <p>Covers Professionalism Conduct and Integrity in Capital Markets</p>
<p>Reading Assignment: Standards of Practice Handbook pages 69-101, pages 105-119</p>		
<p>LEARNING UNIT IV: Recommendations, Analysis & Actions</p> <ul style="list-style-type: none"> • Understand Framing and Group Think Conducts in Organizations • Understand conflict of interest in organizations 		
<p>5° From April 22th to April 27th</p>	<p>6. Recommendations, Analysis & Actions</p> <ul style="list-style-type: none"> • Framing II • Groupthink Concept I • The Enron Story • The Lehman Brothers Story 	<p>Case N° 2:</p> <p>Enron Case</p>
<p>Reading Assignment: 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 https://en.wikipedia.org/w/index.php?title=Enron_scandal&oldid=722389642 McDonald, L., & Robinson, P. (2009). A Colossal Failure of Common Sense: The Incredible inside story of the Lehman Brothers.</p>		

<p>6° From April 29th to May 04th</p>	<p>7.Conflict of Interest</p> <ul style="list-style-type: none"> • What are conflicts? • Power of Language 	<p>Reading Control N° 2 Covers Recommendations, Analysis & Actions and Conflict of Interest</p> <p>Review of Partial Exam</p>
	<p>Reading Assignment: Dowie, M. (1977). <i>Pinto Madness. Mother Jones, 128</i>, 18-32. Palazzo, G., Krings, F., & Hoffrage, U. (2012). Ethical blindness. <i>Journal of Business Ethics, 109</i>(3), 323-338..</p>	
<p>7° From May 06th to May 11th</p>	<p>MID TERM EXAM ELECTIVE COURSES</p>	
<p>8° From May 13th to May 18th</p>	<p>MID TERM EXAM COURSES</p>	
<p>LEARNING UNIT V: Investor Psychology and Corruption in Organizations LEARNING OUTCOMES:</p> <ul style="list-style-type: none"> • Understand investor decision making • Understand corruption in organizations. 		
<p>9° From May 20th to May 25th</p>	<p>8.Investor Psychology</p> <ul style="list-style-type: none"> • Trend Formation • Group Think Concept II • Simple Heuristics • Mass Influence 	
<p>10° From May 27th to June 01th</p>	<p>9 - . Corruption in Organizations I</p> <ul style="list-style-type: none"> • Danger of routines • Organizing for Ethical Blindness • Pressure in Organizations • Power of Strong Situations 	<p>Case N° 3: WorldCom Case and Pinto Case</p>
	<p>Reading Assignment: THE NORMALIZATION OF CORRUPTION IN ORGANIZATIONS Blake .E. Ashforth and Vikas Anand</p>	

11° From June 03th to June 08th	10 -. Corruption in Organization II. <ul style="list-style-type: none"> • What to do? • Peer Pressure • Irrationality Behavior in Markets • Market Bubbles • Chartism 	Reading Control N° 3 Covers Investor Psychology and Corruption in Organizations.
	Reading Assignment: THE NORMALIZATION OF CORRUPTION IN ORGANIZATIONS Blake .E. Ashforth and Vikas Anand	
LEARNING UNIT VI: ORGANIZATIONAL CHANGE – VALUE ENHACEMENT LEARNING OUTCOMES: <ul style="list-style-type: none"> • Groupthink • Summary of Behavioral Finance. • Understand how the investor interprets information to make decisions • Manages tools and a framework that allows to recognize financial market trends. 		
12° From June 10th to June 15th	11 -. The Challenger Case <ul style="list-style-type: none"> • Trends • Change in Trends • Impact of Time in Decisions 	Case N° 4: Challenger Case
	Reading Assignment: - 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,	
13° From June 17th to June 22th	12.- Behavioral Finance Summary I - How Investors Interpret Information to make decisions <ul style="list-style-type: none"> • The Power of Institutions • Finance in Capitalism • Types of Unethical Behavior 	Reading Control N° 4 Covers Corruption in Organizations and questions related to cases presented.
	Reading Assignment: - <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 & Faber Pub. Friedman, M. 1970. The social responsibility of business is to increase its profit. New York Times Magazine, September 13	

<p>14° From June 24th to June 28th</p>	<p>13. Behavioral Finance Summary II - Manages tools and a framework that allows to recognize financial market trends</p> <ul style="list-style-type: none"> • Nudging • How to create a wind of change? • How to protect organizations against ethical blindness • StoryTelling <p style="text-align: center;">Research Paper Presentations</p> <p>Reading Assignment: Thaler, R., & 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>Paper related to a topic covered during the course. Review of Final Exam</p>
<p>15° From July 01th to July 06th</p>	<p>FINAL EXAMS ELECTIVE COURSE</p>	
<p>16° From July 08th to July 13th</p>	<p>FINAL EXAMS</p>	

VIII. Bibliography

Text Book

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

IX. Professor

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