

St. Xavier's University, Kolkata
Faculty of Commerce and Management
Department of Commerce and Management
Value Added Course

Course Name: Behavioural Finance – Understanding the Psychology of Investing

Credits: 2

Course Co-ordinators: Dr. Indrila Deb & Prof. Risav Adhikari

Duration: 30 hours (15 Sessions x 2 Hours)

Level: Undergraduate Students

Course Outcomes (COs):

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

- CO1: Explain the foundations of behavioral finance and contrast them with classical finance theories.
- CO2: Identify and analyze common cognitive and emotional biases affecting financial decision-making.
- CO3: Evaluate how investor behavior and biases influence investment strategies and market phenomena.
- CO4: Apply behavioral finance concepts to corporate finance decisions and market anomalies.
- CO5: Examine emerging areas such as ESG, emotional finance, neuro-finance, forensic accounting; and assess the future role of behavioral finance.

Course Content

Module No.	Module Name	Topics	Description	Hours Allotted	Marks Allotted (%)	Credit	Associated Course Outcome (s)
I	Foundations of Behavioural Finance	A. Classical Finance Theories – Rational Market Hypothesis, Expected Utility Theory, Modern Portfolio Theory, Capital Asset Pricing Model, Efficient Market Hypothesis, Arbitrage Pricing Theory, Modigliani–Miller Theory, Random Walk Hypothesis	Introduces the foundations of behavioural finance by contrasting it with classical theories and market anomalies	7	20%	0.5	CO1
B. Financial Market Anomalies – Fundamental Anomalies, Technical Anomalies, Seasonal or Calendar Anomalies							
C. Emergence of Behavioural Finance – History, Meaning, Nature, Assumptions, Limits to Arbitrage (Fundamental Risk, Noise Trader Risk, Implementation Cost)							

		D. Core Concepts – Prospect Theory, Heuristics and Biases					
II	Cognitive and Emotional Biases	<p>A. Cognitive Biases – Overconfidence, Framing, Anchoring, Confirmation Bias, Representativeness (Base Rate Neglect, Conjunction Fallacy), Availability, Recency, Conservatism</p> <p>B. Emotional Biases – Loss Aversion, Regret, Hindsight Bias, Optimism and Wishful Thinking, Self-Control Problems, Endowment Effect, Status Quo Bias, Familiarity Bias, Denial, Affinity Bias, Law of Small Numbers, Winners’ Curse</p>	Examines how cognitive and emotional biases influence financial decisions, with an introduction to neuro-finance.	6	15%	0.3	CO2
III	Behavioural Aspects of Investing	<p>A. Biases in Investment – Interaction of Biases, Outcomes of Biases, Debiasing Strategies</p> <p>B. Investment Models – Behavioural Portfolio Theory, Psychographic Models of Investors, Sound Investment Philosophy</p> <p>C. Market Phenomena – Market Bubbles (History, Classification, Causes, Investor Behaviour), Value Investing (Principles, Evidence, Prospects)</p>	Explores how behavioural factors affect investment strategies and market outcomes.	5	20%	0.3	CO3
IV	Applications in Markets and Corporate Finance	<p>A. Market Puzzles – Equity Premium Puzzle, Volatility Puzzle, Cross-Section of Returns, Momentum, Event Studies</p> <p>B. Investor Behaviour – Naïve Diversification, Insufficient Diversification, Excessive Trading, Buying versus Selling Decisions</p> <p>C. Behavioural Corporate Finance – Security Issuance, Capital Structure, Investment Decisions, Dividend Policy, Managerial Irrationality, Mergers and Acquisitions, Market Timing and Catering Approach</p>	Applies behavioural concepts to explain market puzzles, investor behaviour, and corporate finance decisions.	7	25%	0.5	CO4
V	Emerging Areas and Future Directions	A. ESG and Sustainable Investing - Basics of ESG investing, Why investors choose sustainable funds, ESG and long-term financial performance	Introduces advanced and emerging topics including ESG and	5	20%	0.4	CO5

		B. Emotional Finance and Market Volatility- How emotions affect investment decisions, Fear and greed in stock markets, Investor reactions during market crashes	Sustainable Investing, Emotional Finance and Market Volatility, Neuro-Finance, Forensic Accounting				
		C. Neuro-Finance- How the brain makes financial decisions- Risk and reward behaviour, Psychology behind investment choices					
		D. Forensic Accounting- Basics of financial fraud, Detecting manipulation in accounts, Ethics in financial reporting					

Suggested Readings:

- Daniel Kahneman – Thinking, Fast and Slow, Farrar, Straus and Giroux, 2011
- Richard H. Thaler – Advances in Behavioral Finance, Vol. I & II, Princeton University Press, 1993 & 2005
- Prasanna Chandra – Behavioral Finance, McGraw Hill, 2016
- William Forbes – Behavioural Finance, Wiley, 2009
- Robert J. Shiller – Irrational Exuberance, Princeton University Press, 3rd Edition, 2015
- Hersh Shefrin – Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing, Oxford University Press, 2007
- James Montier – The Little Book of Behavioral Investing: How Not to be Your Own Worst Enemy, Wiley, 2010
- Parag Parikh – Value Investing and Behavioral Finance, McGraw Hill, 2009
- Michael M. Pompian – Behavioral Finance and Wealth Management, Wiley, 2nd Edition, 2012
- Howard Schilit – Financial Shenanigans: How to Detect Accounting Gimmicks and Fraud in Financial Reports, McGraw Hill, 2010

Teaching Pedagogy:

Sl. No	Description	To be Used
1	Lecture	Yes
2	Discussion	Yes
3	Case Study	Yes
4	Student Seminar/ Presentations	Yes
5	Test/ Assignments	Yes

Evaluation Plan:

Sl. No	Evaluation Components	Mode (Individual/Group)	Marks	Remarks
1	Quiz	Individual	20	In the class activity
2	Assignment & Presentation	Group	30	Continuous Assessment
3	Final Examination	Individual	50	Written
Total Marks (1+2+3)			100	
Pass Marks			40	

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Course Coordinator(s)

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Head of the
Department

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Faculty of Commerce and Management