



ME2091 Behavioral Finance 6.0 credits

Behavioral Finance

This is a translation of the Swedish, legally binding, course syllabus.

If the course is discontinued, students may request to be examined during the following two academic years

Establishment

Course syllabus for ME2091 valid from Spring 2016

Grading scale

A, B, C, D, E, FX, F

Education cycle

Second cycle

Main field of study

Industrial Management

Specific prerequisites

One of the courses ME1311, ME2064, ME2029

Language of instruction

The language of instruction is specified in the course offering information in the course catalogue.

Intended learning outcomes

On completion of the course, the student should be able to:

- Understand and describe the main ideas within the subject area Behavioural finance.
- Account for problem associated with traditional economical theory.
- Explain and analyse how psychological factors influence both investor and capital markets.
- Add up and explain the research methods that are used within the behavioural finance and the results of this research.
- Apply his/her knowledge to draw conclusions on human decisions about financial questions within different parts of the financial market (such as Product development at trade of financial instruments, and development of models)

Course contents

The field of behavioural finance treats how psychological factors influence independent investors and how this influences the financial markets. This field thereby problematise the neoclassical economical theory and question its prevalent assumption about market efficiency.

The course has three main parts: The first part of the course treats the individual investor and how psychological factors influence the decision making process. Here, time is spent on empirical research results within psychology and decision making. The second part of the course treats the field of market efficiency. A large part of the field behavioural finance question the assumption about efficient markets prevalent in economical theory. Within this field, this part is often called "Limits of Arbitrage".

The third part of the course is devoted to practical applications of behavioural finance.

Course literature

Ackert, L., and R., Deaves, (2010), Behavioral Finance Psychology, Decision Making and Markets, Mason: South-Western Cengage Learning.

□ Tversky, A., and Kahneman, D., (1974), Judgment under Uncertainty, Heuristics and Biases, Science 185, pp. 1124-1131.

□ Kahneman, D., and Riepe, M. W., (1998), Aspects of Investor Psychology, Journal of Portfolio Management, Summer 24:4, pp. 52-65.

□ Frazzini, A. (2006), The Disposition Effect and Under-reaction to News, Journal of Finance, vol. 61. Pp. 2017-2046.

Class Notes (Contains material that supplements the above literature)

Examination

- INL1 - Assignment, 3.0 credits, grading scale: A, B, C, D, E, FX, F
- INL2 - Assignment, 3.0 credits, grading scale: A, B, C, D, E, FX, F

Based on recommendation from KTH's coordinator for disabilities, the examiner will decide how to adapt an examination for students with documented disability.

The examiner may apply another examination format when re-examining individual students.

Ethical approach

- All members of a group are responsible for the group's work.
- In any assessment, every student shall honestly disclose any help received and sources used.
- In an oral assessment, every student shall be able to present and answer questions about the entire assignment and solution.