

**M.Com. Part II**  
**INTRODUCTION TO BEHAVIOURAL FINANCE**

<b>Semester III</b>	<b>Subject Code: MCM 31604</b>	<b>Lectures: 60</b>
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**Objectives:**

- To help the students identify persistent or systematic behavioural factors that influence investment behaviour
- To apply such knowledge in taking right investment decisions

<b>Unit 1: Introduction to Behavioural Finance</b>	<b>10</b>
<ul style="list-style-type: none"> <li>• Behavioural Finance: Concept and Importance</li> <li>• Investment Decision Cycle</li> <li>• Historical background of Rational Thought:             <ul style="list-style-type: none"> <li>○ Expected Utility Theory</li> <li>○ Modern Portfolio Theory</li> <li>○ Efficient Market Hypothesis</li> </ul> </li> <li>• Evolution of Behavioural Finance</li> <li>• Behavioural Finance and Neuro-finance</li> </ul>	

<b>Unit 2: Investor Biases</b>	<b>16</b>
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- Heuristics :
  - Representativeness
  - Availability
- Biases :
  - Emotional:
    - Endowment Effect
    - Disposition Effect
    - Loss Aversion
    - Regret Aversion
    - Self Control
  - Cognitive:
    - Confirmation Bias

- Overconfidence
- Anchoring
- Gambler's Fallacy
- Framing
- Mental Accounting
- Herding:
  - Intentional
  - Unintentional

**Unit 3: Investor Behaviour**

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- Implications of Heuristics and Biases for Financial Decision Making:
  - Financial Behaviour Stemming from Familiarity
  - Financial Behaviour Stemming from Representativeness
  - Anchoring to Available Economic Cues
- Implications of Overconfidence for Financial Decision Making:
  - Overconfidence and Excessive Trading
  - Demographics and Dynamics
  - Under-diversification and Excessive Risk Taking
  - Excessive Optimism and Analysts
- Individual Investors and The Force Of Emotion:
  - Mood of the Investor
  - Pride and Regret
  - The Disposition Effect
  - House Money
  - Affective Reactions

**Unit 4: Behavioural Corporate Finance**

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- Approaches to Behavioural Corporate Finance:
  - Market Timing and Catering Approach
  - The Managerial Bias Approach
  - Irrational Investor Approach
  - Irrational Managerial Approach
- Strategies to overcome Pitfalls in Behavioural Finance:
  - Debiasing Strategies
    - Motivational Strategies
    - Cognitive Strategies
    - Technological Strategies
  - Alternative Strategies
- Client Management using Behavioural Finance

95

Case Studies, Assignments, Library Hours

12

**Reference Books:**

- ✓ 1. Sulphery M.M. (2014). "Behavioural Finance" Delhi, PHI Learning Private Limited.
- ✓ 2. Ackert Lucy F. and Deaves Richard (2015). "Understanding Behavioural Finance" 4<sup>th</sup> Indian Reprint, Delhi, Cengage Learning India Private Limited.
- ✓ 3. Forbes William (2006). "Behavioural Finance" Reprint, New Delhi, Wiley India(P.) Limited.
- ✓ 4. The Management Accountant (Oct. 2011). "Behavioural Finance" Vol. 46 No. 10, Kolkata, The Institute of Cost and Works Accountants of India.