

FINA 6325 Behavioral Finance

Executive Summary

CARLSON SCHOOL
OF MANAGEMENT
UNIVERSITY OF MINNESOTA

Course: FINA 6325 Behavioral Finance
Credits: 2 credits
Prerequisites: MBA 6231 (previously MBA 6230), MBA student

Description

Over the past several decades, the field of finance has developed a successful paradigm based on the notions that investors and managers were generally rational and the prices of securities were generally "efficient." In recent years, however, anecdotal evidence, as well as theoretical and empirical research, has shown this paradigm to be insufficient to describe various features of actual financial markets. In this course, we will use psychology and more realistic settings to guide and develop alternative theories of financial markets. We will examine how the insights of behavioral finance complement the traditional paradigm and shed light on investors' trading patterns, the behavior of asset prices, corporate finance, and various Wall Street institutions and practices.

Objectives

After taking this course, students will demonstrate knowledge of:

1. the historical background and evidence on market efficiency hypothesis
2. the underlying mechanisms on the limits of arbitrageurs
3. the systematic behavioral biases in typical individual investors
4. the potential impact on stock prices due to individuals' behavioral biases
5. a collection of stylized facts on stock return predictability
6. how the managers can take advantage of the behavioral biases of individual investors

Learning Outcomes

This class seeks to provide you with an understanding of how assumptions of classical finance theory do not apply to the real world. We focus on the assumptions of rational agents and unlimited arbitrage and show, through live surveys in class, how agents make irrational decisions. We also present evidence that arbitrage *is* limited, and therefore mispricing can exist. Students will leave the class with an understanding of *why* prices deviate from fundamental values and why those deviations can persist or even widen. Along the way, we will establish a firm understanding of the rational market paradigm so that we can effectively understand why markets are not rational in practice.