

## Course Overview

Course Name & Number:	Behavioral Finance (FIN 579 C)
Quarter	Winter 2021 (1 <sup>st</sup> half)
Credits	2 credits
Instructor	Stephan Siegel, <a href="mailto:ss1110@uw.edu">ss1110@uw.edu</a>
Delivery Format	Blended
Course Website	<a href="https://canvas.uw.edu/courses/1434597">https://canvas.uw.edu/courses/1434597</a>

### Course Overview

In many ways, “behavioral finance” is a tautology. All finance and economics deal with human behavior, the interactions of such behavior, and the resulting allocation of resources, typically through a market mechanism. However, since “traditional” finance assumes wealth-maximizing, self-interested, and fully rational behavior, “behavioral finance” specifically studies (seemingly) non-optimal and irrational behavior, in particular, of investors and executives.

In this finance elective, we will document the behavior of investors, relate it to biases and fallacies known from psychology, and inquire about its origins. We will then think about whether and how “mistakes” by individual investors could affect prices in financial markets. It is here where the debate between “traditional” economists, such as Gene Fama, and “behavioral” economists, such as Bob Shiller and Dick Thaler, is taking place. While we will not resolve this debate, we will think about the opportunities and challenges it presents for “sophisticated” market participants, such as hedge funds.

Finally, we will explore the implications of behavioral finance for corporate executives. On the one hand, they have to account for the “irrational” behavior of their investors. On the other hand, they might suffer from making imperfect decisions themselves. Last, but not least, we will discuss the objectives a firm and its managers should pursue.

### Course Learning Objectives

By the end of this course, you will be able to:

1. Understand and critically assess the assumptions and implications of traditional finance as well as behavioral finance.
2. Apply behavioral finance concepts to evaluate possible market efficiencies and hence investment opportunities.
3. Evaluate how firms should respond to behavioral investors, while managing the challenges posed by of behavioral managers.
4. Propose and support your own view of what a firm’s objective should be.

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## Faculty & TA Info

### INSTRUCTOR



**Stephan Siegel**  
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### TEACHING ASSISTANT



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### Faculty Bio

Stephan is the Michael G. Foster Endowed Professor of Finance and Business Economics at the University of Washington's Foster School of Business in Seattle, which he joined in 2005. A native of Hamburg, Germany, he earned a B.S. from the University of Bayreuth, Germany, and a Ph.D. in Finance from Columbia University in the City of New York. Prior to his graduate studies, Stephan was a project manager with GCI Management, Munich, an international private equity and management consulting firm.

Stephan's research interests are in international finance as well as household finance. Stephan's research in household finance has pioneered the use of genetically informed data to explore biological predispositions with respect to risk taking and investment biases. Most recently, he has explored the role of the cultural transmission of preferences about risk and uncertainty.

### Email and Internet

UW Email and the Canvas Discussion Forums in this course are the official means of communication for this class. Students are expected to read and act upon email in a timely fashion. Students should check their email regularly along with the Announcements section of this course. All instructor correspondence will be sent to your [NetID@uw.edu](mailto:NetID@uw.edu) email account.

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## Course Structure and Format

### Delivery Method

This course uses Canvas for posting course materials and activities, submission of assignments, and posting of grades. Canvas can be accessed at <https://canvas.uw.edu/>. For help with Canvas, visit: <https://itconnect.uw.edu/learn/tools/canvas/canvas-help-for-students/>

### Organization

This course is organized by modules, which correspond to weeks in the Quarter.

Module	Topic	Dates
1	Homo Economicus vs. Homo Sapiens	Week 1
2	Investors	Week 2
3	Market (In)Efficiency	Week 3
4	Anomalies and Bubbles	Week 4
5	Firms and Managers	Week 5

### Course Format

We will use brief lectures, a few assignments, and several business cases to explore the key concepts and applications of behavioral finance.

Given the online setting, the course combines several brief videos from my Hybrid MBA course with live class meetings. Every Module starts out with an asynchronous part, including videos, quizzes and assignments, followed by a **live class session on Wednesday mornings at 8:30 am**, during which we will typically review key aspects of the material covered in the videos, discuss a business case (not in Week 1), and, if there is enough time, introduce a few new ideas. All modules end with a student-led recorded presentation and discussion of several research papers.

I will hold **online office hours on Monday mornings at 8:30 am**, to address any questions you might have about the course material, assignments, or any of the business cases. Office hours are optional and your participation in them will NOT affect your participation score for this course.

I ask that you **turn your camera on during office hours as well as live class sessions**. To ensure that everyone is included in our class discussion, I might call on students randomly. If your camera is turned off, I will assume that you are not available to participate in our class discussion. If for any reason you are not able to turn on your camera, but are ready to participate, please let me know.

Office hours and live class sessions will be recorded, and the recordings will be posted on Canvas.

### Readings

This course does not have a required textbook. Instead, readings from various sources as well as four business cases will be assigned throughout the course. To access the business cases, you need to acquire [the online coursepack through the HBS Publishing web site](#).

For students interested in additional optional reading material, David Hirshleifer's 2015 article "Behavioral Finance" provides a good overview of many topics in this class and beyond. Hirshleifer's article is available in the Student Resources module on Canvas. Ackert and Deaves' "Behavioral Finance: Psychology, Decision-making, And Markets" is also a good textbook treatment of behavioral finance.

Finally, there are, of course, many great books related to aspects of this course. In particular:

- Thaler and Sunstein (2009): Nudge: Improving Decisions About Health, Wealth, and Happiness
- Kahneman (2013): Thinking, Fast and Slow
- Robert Shiller (2016): Irrational Exuberance
- Andrew Lo (2017): Adaptive Markets: Financial Evolution at the Speed of Thought

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## Grading Policies

### Overview

All graded activities are listed below. For some activities, students have to structure their write-up themselves, for example, in form of a memo to a decisionmaker in a business case. Write-ups should be no more than four pages of double-spaced text, with no more than four pages of charts or tables. Grades will depend on the quality of the analysis and the effectiveness with which the arguments are presented.

For all activities, students should remember that even though form without substance is meaningless, form still matters. All graded material should be prepared in a form that meets professional standards: This includes dating any material, numbering pages, labeling graphs and tables, referencing sources, and, most importantly, communicating in a concise and effective manner.

Your final grade will be based on your relative performance in the class. Please see the Grading Approach page under the Student Resources module on Canvas for additional details.

### Assignments

Assignments include traditional homework assignments, to be completed individually, as well as case solutions, to be completed in groups of up to three students. If you need help forming a group, please post on Canvas or email the instructor. Assignments are typically due at the end of Tuesday, as we will often talk about them in our live Wednesday class.

## Research Paper Presentation

All students have to participate in the recorded presentation of research paper. Recordings are due at the end of Friday. The group of up to three students presenting the paper is also responsible to manage the online discussion, which begins with the posting and ends at the end of Friday of the following week.

## Participation

Participation in live class sessions on Wednesday as well as in online discussion of research paper will be evaluated based on quality and frequency. Students are encouraged to share the time and space with other students so that everyone has an opportunity to participate.

## Survey and Quizzes

Students will obtain credit for completing an initial survey as well as several ungraded quizzes.

The following table summarizes the different graded activities.

Activity:	#:	Value	Total:
Survey and 4 ungraded Quizzes	5	10	50
Assignments: Individual	2	40 (1) / 50 (1)	90
Assignments: Group (up to 3 students)	3	60 (1) / 80 (2)	220
Participation: Online Discussions	5	10	50
Participation: 5 Live Class Sessions	1	50	50
Research Paper Presentation: Group (up to 3 students)	1	90	90
Total points possible:			<b>550 points</b>

## Submitting Assignments

Instructions for submitting assignments are included with the assignment descriptions within the Canvas course site. Due dates for all graded work are included in the Course Calendar below, and in each Module page in the Canvas course.

**Late or Missed Assignments**

Notify the instructor BEFORE an assignment is due if an urgent situation arises and the assignment can't be submitted by the due date. Please follow the University policies to request an accommodation for religious observances.

**Grading Procedure**

Grades reflect your performance on assignments and adherence to deadlines. Grades will be posted in the gradebook on the course site.

## Course Calendar

MODULE:	TOPIC:	DATES:	ACTIVITIES:	POINTS:	DUE BY:
1	Homo Economicus vs. Homo Sapiens	Week 1	Survey	10	JAN. 4
			Quiz 1.1: Individual	10	JAN. 5
			Assignment 1.1: Individual	50	
			Live Class Session		JAN. 6
			Discussion 1.1	10	JAN. 15
2	Investors	Week 2	Quiz 2.1: Individual	10	JAN. 12
			Assignment 2.1: Individual	40	
			Live Class Session		JAN. 13
			Discussion 2.1	10	JAN. 22
3	Market (In)Efficiency	Week 3	Quiz 3.1: Individual	10	JAN. 19
			Assignment 3.1: Group	80	
			Live Class Session		JAN. 20
			Discussion 3.3	10	Jan. 29

4	Anomalies and Bubbles	Week 4	Quiz 4.1: Individual	10	JAN. 26
			Assignment 4.1: Group	60	
			Live Class Session		JAN. 27
			Discussion 4.1	10	FEB. 5
5	Firms and Managers	Week 5	Assignment 5.1: Group	80	FEB. 2
			Live Class Session		FEB. 3
			Discussion 5.1	10	FEB. 12

## Course Policies

### Academic Integrity and Student Conduct

This program employs the principles and procedures espoused by the [University of Washington Community Standards and Student Conduct guidelines](#) to maintain academic integrity in the course. The Code establishes the expectation that students will practice high standards of professional honesty and integrity.

In particular, implementation of the Code at the Foster School of Business prohibits cheating, attempted cheating, and plagiarism—including improper citations of source material—as it pertains to academic work. Suspected violations will be handled in compliance with the [University of Washington Student Conduct Code](#) as outlined in [Washington Administrative Code 478-121](#).

### Copyright

The course content is for class purposes only and are to be used only by the student enrolled in the course. All rights reserved. No part of this course may be reproduced, distributed, or transmitted in any form or by any means, including photography, video recordings, screenshots, or other electronic or digital methods, without the prior written permission of the instructor.

### Access and Accommodations

Your experience in this class is important. If you have already established accommodations with Disability Resources for Students (DRS), please communicate your approved accommodations to the instructor at your earliest convenience so we can discuss your needs in this course.

DRS offers resources and coordinates reasonable accommodations for students with disabilities and/or temporary health conditions. Reasonable accommodations are established through an interactive process between you, your instructor(s) and DRS. It is the policy and practice of the University of Washington to create inclusive and accessible learning environments consistent with federal and state law.

If you have not yet established services through DRS, but have a temporary health condition or permanent disability that requires accommodations (conditions include but not limited to; mental

health, attention-related, learning, vision, hearing, physical or health impacts), you are welcome to contact DRS at:

Website: <http://depts.washington.edu/uwdrs/>

Guide: [Getting Started / Accessing Resources](#)

Email: [uwdrs@uw.edu](mailto:uwdrs@uw.edu)

Phone: 206-543-8924

Fax: 206-616-8379

### **Religious Accommodations Policy**

Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to request an accommodation, is available at [Religious Accommodations Policy \(https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy/\)](https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy/). Accommodations must be requested within the first two weeks of this course using the [Religious Accommodations Request form \(https://registrar.washington.edu/students/religious-accommodations-request/\)](https://registrar.washington.edu/students/religious-accommodations-request/)