

## Course Overview

Course Name & Number:	Behavioral Finance (FIN 579 I)
Quarter	Winter 2022 (1 <sup>st</sup> half)
Credits	2 credits
Instructor	Stephan Siegel, <a href="mailto:ss1110@uw.edu">ss1110@uw.edu</a>
Day and Time	Monday & Wednesday: 10:30 am to 12:20 pm
Classroom	Paccar 293
Course Website	<a href="https://canvas.uw.edu/courses/1516023">https://canvas.uw.edu/courses/1516023</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 and how investors who care about more than financial returns can influence these objectives.

### 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. Recognize and possibly counter your own behavioral patterns. But also utilize behavioral frameworks to accomplish your goals and to help others.
3. Apply behavioral finance concepts to evaluate possible market efficiencies and hence investment opportunities.
4. Evaluate how firms should respond to behavioral investors, while managing the challenges posed by of behavioral managers.
5. Contrast assumptions underlying difference objectives of (public) firms and assess ways to influence these objectives.

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# Faculty & TA Info

## INSTRUCTOR



**Stephan Siegel**  
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*By appointment*

## TEACHING ASSISTANT



**Yizhen Liu**  
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*By appointment*

## 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 individual investor behavior. Together with his co-authors, he has examined the globalization of financial markets, the integration of European capital markets, and most recently the pricing of political risk. 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.

**Yizhen Liu** will support the course as a Teaching Assistant. She is a PhD student in the Finance Department at Foster. Her research interests lie in the field of behavioral finance. Before joining Foster's PhD program, Yizhen got her bachelor's degrees in Economics and Math at Mount Holyoke College, Massachusetts. She is originally from Guangzhou, China. In her free time, she enjoys hiking and painting by numbers.

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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, see here: <https://itconnect.uw.edu/learn/tools/canvas/canvas-help-for-students/>

## Organization

This course is organized by topical modules, which correspond to the following classes:

<b>Module</b>	<b>Topic</b>	<b>Dates</b>
1	Behavior	Classes 1 and 2
2	Investors, Savers, and Borrowers	Class 3
3	Market (In)Efficiency	Classes 4 - 6
4	Anomalies and Bubbles	Classes 7 and 8
5	Firms and Managers	Classes 9 and 10

### **Course Format**

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

Under Modules on Canvas, a detailed overview for each class is provided, including videos and quizzes that students are expected to have reviewed before class. For weeks 1, 2, and 4, students should expect substantial pre-class work especially for Monday classes.

We will discuss three Harvard Business cases (in Classes 6, 8, and 9). All students are expected to have read the case and be prepared to offer their thoughts on the case questions.

Throughout the quarter, students (in groups of two) will present academic research papers. The list of papers is available on Canvas.

### **Office Hours**

Students should contact Stephan or Yizhen to schedule office hours individually. Office hours can be held in person or on Zoom.

### **Readings**

This course uses Thaler (2015), *Misbehaving: The Making of Behavioral Economics*, as the required text for this class. The book covers many of the topics of the class in an accessible manner. I will list the chapters roughly corresponding to a given Module and Class. However, the book is excellent. If you have time, I recommend you read it back-to-back. The book is available from the University Bookstore, but can also be ordered online, for example, from [Amazon](#).

A few additional readings as well as three 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 more rigorous optional reading material, I recommend David Hirshleifer's 2015 article "Behavioral Finance." The article 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 a good textbook treatment of behavioral finance.

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

- 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 on Canvas. 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. Case write-ups should be no more than five pages of double-spaced text, with no more than five 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 one traditional homework assignment, to be completed individually, as well as several 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.

The Strategic Management Capital case write-up (due in Class 6) is required for all students, students can choose between the AQR case (Class 8) and the MCI case (Class 9) for their second case-based team assignment. However, all students are expected to be familiar with all cases for our class discussions.

### Research Paper Presentation

All students (in groups of up to two) have to participate in the presentation of a research paper. See Canvas for details and to sign up for a paper.

### Participation

Participation is an important part of learning and 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. To ensure balanced participation during case and other class discussions, I will use a pre-announced random call list, which I will share on Canvas before class.

## Survey and Quizzes

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

The following table summarizes the different graded activities.

Activity:	#:	Value	Total:
Survey and 2 ungraded Quizzes	4	10	40
Assignments: Individual	1	60	60
Assignments: Team (up to <b>3</b> students)	2	80	160
Research Paper Presentation: Group (up to <b>2</b> students)	1	80	80
Participation throughout the course	1	80	80
Total points possible:			<b>420 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 each Class page as well as the Syllabus page on 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 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/>). 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/>)