FINA 6325 Behavioral Finance
Executive Summary

Carlson School of Management
University of Minnesota

Course: FINA 6325 Behavioral Finance
Credits: 2 credits
Prerequisites: 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

1. Provide theoretical arguments and early empirical evidence on the efficient market hypothesis
2. Provide an in-depth understanding why arbitrageurs' ability to eliminate asset mispricing is limited. Thus, the asset market could potentially be inefficient.
3. Provide detailed analysis on the human behavioral bias and its implications on stock prices. Make students be familiar with the systematic empirical evidence on market inefficiency and stock return predictability.

Learning Outcomes

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