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WARWICK BUSINESS SCHOOL  
THE UNIVERSITY OF WARWICK

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# BEHAVIOURAL FINANCE IB9Y20

An introduction.

- My name is Costas Antoniou, the module leader for Behavioural Finance IB9Y20.
- I am an Associate Professor of Finance & Behavioural Science at WBS.
- The purpose of this presentation is to give you a broad overview of what behavioural finance is, and what the module contains.

## What is Behavioral Finance all about?

- Traditional economic models assume that decision makers are rational
- These models arrive at certain predictions, e.g., the CAPM predicts that the stock market is efficient, and that *beta is the only factor that explains average stock returns*.
- Reality, however, is much more complex. More than 300 variables have been shown to predict stock returns!!
- And... CAPM beta is not one of them!!!
- These **anomalies** are inconsistent with our standard models.

# What is Behavioral Finance all about?

- Behavioural is an alternative school of thought, that relaxes the assumption of rationality in an attempt to explain these.
- It employs more realistic assumptions about investors' behaviour, which are grounded in psychology, in an attempt to resolve these anomalies, and provide an explanation of how financial markets work.
- **By taking this course you gain a rigorous exposure to this fast-growing, and exciting field in finance!**

# What is Behavioral Finance all about?

- We will define rationality and explain the key ways that human behaviour can depart from this definition.
  - Loss aversion
  - Biases in expectations
  - Investor sentiment
  - Overconfidence
  - etc
- Then, we will look at whether these deviations from rationality can explain the anomalies we observe in financial markets.

# Why take Behavioural Finance?

1. Behavioural finance has gained acceptance within governments, central banks and investment banks. Therefore, this knowledge has practical application, providing useful and transferrable skills.
2. The course nicely complements theoretical knowledge gained in other courses (e.g., asset pricing and corporate finance), which explained how markets **ought to be behave**, if everyone is rational. The course will teach you a new perspective, thus making your knowledge more well-rounded, allowing you to be critical.

# Delivery and Assessment

- One 2-hour live lecture per week, one 1-hour live seminar.
- Assessment entails one exam carrying 90% of the final mark. The remaining 10% is based on short quizzes related to the material of each week.

- In the past, the students who took the module really enjoyed it, with module evaluation scores being consistently high. (4.56/5 in 2023).
- In conversations with students, I was told that the course provided knowledge that helped them in interviews.
- Over the years students gave us useful feedback on many aspects of the module, which we incorporated in our teaching, so the quality of the module is improving.



# Thank you for attention!

## Hope to see you in Term 2!

A short “taster” lecture follows (a recording from last year’s lectures), so that you get a some idea of the kind of stuff you will be doing in this module.

*In that part of the lecture I introduce Prospect Theory, which is a psychologically founded model of decision under risk. This model has been successful in explaining, among other things, the equity risk premium puzzle.*