

FIN-471 – Behavioral Finance in Theory and Practice

Program	BBA & BS (Accounting & Finance)
Department Offering	Finance
Class ERP Number	101857
Instructor	Dr. Fawad Ahmad
Office Location	Room # 231, 2nd Floor, Aman Tower, Main Campus
Counseling Hours	Tuesday & Thursday, 12:30 pm - 2:30 pm
Class Timing and Room	2:30 pm - 3:45 pm; MAS-1
Session Day(s)	Tuesday & Thursday
Credit Hours	3 Credit Hours
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Course Description
Behavioral finance studies how psychological, social, and increasingly technological forces shape financial decision-making, and why real-world investor and manager behavior so often departs from the predictions of standard finance. This course introduces both the "first generation" of behavioral finance (the study of cognitive and emotional biases that lead investors astray) and the "second generation," which treats investors as normal people with legitimate utilitarian, expressive, and emotional wants, and distinguishes genuine wants from correctable errors. Behavioral finance today extends well beyond the trading floor into everyday digital life: robo-advisors, gamified trading apps, social-media-driven sentiment, and cryptocurrency markets all create new laboratories for behavioral bias and new tools for combating it. This course places equal weight on classical topics (prospect theory, heuristics, market anomalies, behavioral corporate finance) and contemporary topics (fintech, digital nudges, AI-assisted advice, and digital asset markets). The course is built around hands-on experiments, simulations, case discussions, and real-world audits rather than lecture alone, so that students experience the biases they are studying before they analyze them.

Program Learning Goals
1. Effective Communication Skills Students will be able to communicate effectively while presenting/defending business ideas and decisions.
2. Knowledge of Core Business Disciplines Students will be able to apply knowledge of major business disciplines for problem-solving and decision-making.
3. Critical Thinking Skills Students will manifest the ability to analyze a complex business situation to reach a diagnosis and prescribe resolution strategies.
4. Ethics Students will have the ability to demonstrate ethical behavior in a business setting.
5. Global Mindset

Students will develop an appreciation of diversity in business practices, both locally and globally.

Course Learning Outcomes

Students will be able to understand the main concepts underlying behavioral finance (including its fintech-era and digital-asset extensions) and apply those concepts and skills to understand and improve their own and others' financial decision-making.

After the course, students will know:

- Rationality, bounded rationality, and the "normal investor" concept of second-generation behavioral finance
- Main assumptions and ideas of prospect theory
- Theoretical and empirical foundations of, and challenges to, the efficient market hypothesis
- Key behavioral biases of individual investors, professional investors, and top managers
- Key anomalies in the markets that provide evidence of behavioral biases
- How corporate finance decisions are shaped by managers' behavioral biases
- Neuroscience applications that help explain biased investor behavior
- How fintech tools (robo-advisors, gamified trading apps, and AI-assisted advice) amplify or mitigate behavioral biases
- Behavioral dimensions of cryptocurrency and digital-asset markets, including herding, FOMO, and social-media sentiment

After the course, students will be able to:

1. Compare the expected utility theory with the prospect theory
2. Explain and demonstrate the challenges to the efficient market hypothesis
3. Explain the nature of and forecast the consequences of key behavioral biases of investors
4. Describe the process of behavioral biases' contribution to asset pricing anomalies
5. Describe how managers' behavioral biases affect a corporation's decision-making process
6. Evaluate digital investment tools (robo-advisors, trading apps, crypto platforms) for behavioral design and nudge effects
7. Design and interpret a simple behavioral finance experiment or survey

Teaching and Learning Methodology

1. Students must read the assigned material before each session. Class time is reserved primarily for discussing the theoretical underpinnings of topics, empirical evidence, and real-world implications, not for re-lecturing the readings.
2. Every teaching module includes at least one in-class activity, which may consist of an experiment, simulation, case discussion, or app/data audit (see the "In-Class Activities and Experiments" table below).
3. Real advertisements, market events, news items, and case studies anchor each topic in current practice.
4. In-class and take-home assignments accompany the lectures as companions throughout the course.
5. A course folder of articles and cases (in addition to the textbooks) will be uploaded to the Learning Management System (LMS). Students are expected to read the material posted there.
6. Home assignments, comprising cases and short exercises, will be given on a weekly basis. All assignments must be typed and submitted via LMS only; submissions by email, Dropbox, or any other channel will not be accepted.

Mapping of Course Learning Outcomes to Program Goals

Course Learning Outcome #	Communication Skills	Knowledge of Business Areas	Critical Thinking	Ethics	Global Mindset
1			X		
2	X	X	X		X
3	X	X	X		X

4		X	X		
5		X	X		X
6		X	X		X
7	X	X	X		

Weekly Course Schedule

Chapters / Readings	Week	Session Topic & In-Class Activity
Baker & Nofsinger (BN) Ch 1-2 Pompian (PO) Ch 1-2 Statman (ST) Ch 1 – Normal Investors	1	Behavioral Finance: Foundations, First vs. Second Generation - What is behavioral finance? History and evolution - Traditional versus behavioral finance - First-generation vs. second-generation behavioral finance: from “irrational” to “normal” investors <i>Activity: “Are You a Rational Investor?” opening diagnostic survey and class discussion; syllabus and group project overview.</i>
Ackert & Deaves (AD) Ch 1-2	2	Foundations of Traditional Finance - Expected Utility Theory - Modern Portfolio Theory & the Capital Asset Pricing Model - Efficient Market Hypothesis - Agency Theory - The influence of psychology on finance <i>Activity: kickoff of a semester-long “Beat the Market” stock-picking simulation (revisited in Week 14).</i>
AD Ch 3-4 BN Ch 11, 12, 18, 19 Shefrin (SH) Ch 5-6 ST Ch 3 – Cognitive Shortcuts and Errors	3 & 4	Psychological Foundations I – Prospect Theory, Framing & Mental Accounting - Challenges to market efficiency - Prospect theory, framing, and mental accounting - Perception of risk and return - Cognitive shortcuts: framing, hindsight, confirmation, anchoring, and adjustment <i>Activity: Kahneman-Tversky style gamble-choice experiment illustrating prospect theory and loss aversion; “windfall vs. earned money” mental-accounting exercise.</i>
AD Ch 5-7 BN Ch 4, 6, 13, 14 SH Ch 1 ST Ch 4 – Emotional Shortcuts and Errors	5	Psychological Foundations II – Heuristics, Overconfidence & Emotions - Biases and heuristics - The framing effect - Overconfidence - Emotional factors: pride, regret, fear, and hope <i>Activity: Overconfidence calibration test (90% confidence-interval quiz on trivia/market facts); disposition-effect paper-trading simulation.</i>
ST Ch 2 – What Investors Really Want CFA Program Curriculum, “Behavioral Finance, Individual Investors, and Institutional Investors”	6	What Investors Really Want – Values, Status & Fairness (Second-Generation Deep Dive) - Utilitarian, expressive, and emotional benefits of investing - Wants for financial security, values, social status, inclusion, and fairness - Values-based and ESG investing

Hartzmark & Sussman (2019), “Do Investors Value Sustainability?”, Journal of Finance		Activity: Analyze real fund/insurance advertisements for utilitarian, expressive, and emotional appeals; in-class debate: “Should investors sacrifice returns for values?”
AD Ch 8, 9 & 10 SH Ch 13 ST Ch 6 – Behavioral Portfolios Shefrin & Statman (2000), “Behavioral Portfolio Theory,” JFQA	7	Investor Behavior & Behavioral Portfolio Theory • Implications of heuristics and overconfidence for financial decision-making • Individual investors and the force of emotion • Behavioral portfolio theory • Discussion of latest academic research Activity: Build a “layered pyramid” behavioral portfolio for a hypothetical client persona.
MID-TERM EXAM — Covers Weeks 1-7		
ST Ch 5 – Balancing Wants, Acquiring Knowledge, and Correcting Errors Thaler & Sunstein, Nudge (selected chapters) Benartzi & Thaler (2004), “Save More Tomorrow,” Journal of Political Economy	9	Balancing Wants & the Role of Financial Advice – Nudges and Choice Architecture • Financial-facts knowledge versus human-behavior knowledge • System 1 and System 2 thinking • Nudges and choice architecture • The role of the financial adviser in correcting errors Activity: Design a “nudge” to increase retirement-plan enrollment or reduce impulsive trading; advisor-client role-play.
ST Ch 7 – Behavioral Life Cycle of Saving and Spending Shefrin & Thaler (1988), “The Behavioral Life-Cycle Hypothesis,” Economic Inquiry	10	Behavioral Life Cycle of Saving & Spending – Personal Finance Applications • Self-control problems and mental budgeting • The standard life-cycle hypothesis versus behavioral reality • Applications to personal saving and spending decisions Activity: Personal saving/spending “bias audit” journal exercise.
AD Ch 13 & 14 SH Ch 13 ST Ch 8 – Behavioral Asset Pricing	11	Asset-Pricing Anomalies & Behavioral Explanations • Size effect and seasonality • Momentum and reversal • Post-earnings-announcement drift • The value premium and the equity premium puzzle • Excessive volatility and the behavioral asset pricing model • Behavioral explanations for stock market puzzles and bubbles Activity: Momentum/reversal mini-exercise using real historical stock data.
ST Ch 9 – Behavioral Efficient Markets Baker & Wurgler (2007), “Investor Sentiment in the Stock Market,” Journal of Economic Perspectives Shiller, Irrational Exuberance (selected chapter)	12	Behavioral (In)Efficient Markets, Sentiment & Bubbles • Two meanings of “efficient” markets • Investor sentiment and limits to arbitrage Activity: Group reconstruction and discussion of a historic bubble timeline (Dot-com, 2008 financial crisis, or GameStop/meme-stock episode).
AD Ch 15 & 16 BN Ch 21, 22, 23, 24, 25 & 26 SH Ch 4, 8, 9 & 10 Malmendier & Tate (2005), “CEO Overconfidence and Corporate Investment,” Journal of Finance	13	Corporate Finance and Behavioral Finance – Managers' Biases • Rational managers and irrational investors • Valuation and capital budgeting • Capital structure and dividend policy • Mergers and acquisitions • Agency conflicts and corporate governance Activity: Case debate on a real overinvestment or M&A decision.

Chapkovski, Khapko & Zoican (2026), “Trading Gamification and Investor Behavior,” Management Science D’Acunto & Rossi (2023), “Robo-Advice: Transforming Households into Rational Economic Agents” CFA Institute reading on AI and behavioral finance in fintech	14	Fintech, Robo-Advisors, Gamification & AI-Driven Investing • Gamification of trading and investing apps • Robo-advisors and algorithmic nudges • AI-assisted financial advice: promise and pitfalls • Regulatory responses to gamified “dark patterns” Activity: <i>Audit a real trading/investing app for gamified or behaviorally manipulative design features; group presentation of findings.</i>
Handouts – Neurofinance and Adaptive Markets Hypothesis Almeida & Gonçalves (2023), “A Systematic Literature Review of Investor Behavior in the Cryptocurrency Markets,” Journal of Behavioral and Experimental Finance Selected paper on herding/FOMO in crypto markets and emerging-market bias evidence	15	Cryptocurrency & Digital Assets Through a Behavioral Lens; Neurofinance and Emerging-Market Evidence • Herding, FOMO, and social-media sentiment in cryptocurrency markets • Neurofinance basics and brain mechanisms in financial decisions • The Adaptive Market Hypothesis • Financial crises and the limbic system • Evidence of behavioral biases from emerging markets Activity: <i>Crypto market sentiment mini-study (social-media/search-trend data vs. price); final group project presentations.</i>
FINAL-TERM EXAM		

Textbooks and Readings
Course Textbooks (Required): • Ackert, L., & Deaves, R. (2010). Behavioral Finance: Psychology, Decision-Making, and Markets. Cengage Learning. • Baker, H. K., & Nofsinger, J. R. (2010). Behavioral Finance: Investors, Corporations, and Markets. John Wiley & Sons. • Shefrin, H. (2018). Behavioral Corporate Finance (2nd ed.). McGraw-Hill. • Statman, M. (2019). Behavioral Finance: The Second Generation. CFA Institute Research Foundation. Recommended Books: • Pompian, M. M. (2011). Behavioral Finance and Wealth Management: How to Build Investment Strategies That Account for Investor Biases. John Wiley & Sons. • CFA Program Curriculum. Behavioral Finance, Individual Investors, and Institutional Investors. CFA Institute. • Statman, M. (2017). Finance for Normal People: How Investors and Markets Behave. Oxford University Press. • Thaler, R. H., & Sunstein, C. R. (2021). Nudge: The Final Edition. Penguin. • Kahneman, D. (2011). Thinking, Fast and Slow. Farrar, Straus and Giroux. • Zweig, J. (2007). Your Money and Your Brain: How the New Science of Neuroeconomics Can Help Make You Rich. Simon & Schuster. Selected Journal Articles and Papers (assigned by week, see schedule above): • Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long. Journal of Finance, 40(3), 777-790. • Shefrin, H., & Statman, M. (2000). Behavioral portfolio theory. Journal of Financial and Quantitative Analysis, 35(2), 127-151. • Shefrin, H., & Thaler, R. (1988). The behavioral life-cycle hypothesis. Economic Inquiry, 26(4), 609-643. • Benartzi, S., & Thaler, R. (2004). Save More Tomorrow: Using behavioral economics to increase employee saving. Journal of Political Economy, 112(S1), S164-S187. • Barberis, N., & Thaler, R. (2003). A survey of behavioral finance. In Handbook of the Economics of Finance. • Baker, M., & Wurgler, J. (2007). Investor sentiment in the stock market. Journal of Economic Perspectives, 21(2), 129-152. • Malmendier, U., & Tate, G. (2005). CEO overconfidence and corporate investment. Journal of Finance, 60(6), 2661-2700. • Barber, B., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. Quarterly Journal of Economics, 116(1), 261-292.

- Hartzmark, S. M., & Sussman, A. B. (2019). Do investors value sustainability? A natural experiment examining ranking and fund flows. *Journal of Finance*, 74(6), 2789-2837.
- Chapkovski, P., Khapko, M., & Zoican, M. (2026). Trading gamification and investor behavior. *Management Science*. 72(1), 32-56.
- D'Acunto, F., & Rossi, A. G. (2023). Robo-advice: Transforming households into rational economic agents. *Annual Review of Financial Economics*, 15(1), 543-563.
- Almeida, J., & Gonçalves, T. C. (2023). A systematic literature review of investor behavior in the cryptocurrency markets. *Journal of Behavioral and Experimental Finance*, 100785.

Prerequisite Skills and Knowledge to Take This Course

Prerequisite: BF-II

Assessment

Assessment	Due Date	Remarks	Weight
Home Assignments / Class participation	Ongoing	Given on a weekly basis.	10%
Quizzes	Ongoing	Cover the previous topic; a missed quiz is a zero, with no retake.	10%
Class Project + Presentation	Weeks 2-15	Group project on a selected market anomaly, behavioral bias, or fintech/crypto behavioral topic.	20%
Mid-term Exam	Week 8	Covers material from Weeks 1-7.	25%
Final-term Exam	Week 16	Covers material from Weeks 9-15, plus selected topics from Weeks 1-7.	35%

Group Project

Students choose one of the following project types:

1. Behavioral Bias Analysis: Select a specific behavioral bias (e.g., overconfidence, loss aversion, anchoring) and analyze how it influences financial decision-making, using real-world examples and recommending mitigation strategies.
2. Market Behavior Analysis: Study a historical market event (e.g., a crash or bubble) and investigate the role of behavioral biases, investor sentiment, and herd behavior in that event.
3. Case Studies in Corporate Finance: Select a publicly traded company and analyze its financial decisions (investment, financing, M&A) through a behavioral finance lens, identifying biases and recommending improvements.
4. Investment Strategies: Design and back-test an investment strategy incorporating behavioral finance insights (sentiment, anomalies, biases) and evaluate its performance against a traditional benchmark.
5. Behavioral Finance Experiments: Conduct a simple experiment illustrating a specific bias or heuristic, analyze the results, and discuss implications for individuals and investors.
6. Behavioral Finance in Personal Finance: Explore how behavioral finance concepts apply to personal saving, investing, and spending decisions, and develop practical debiasing advice.
7. Behavioral Finance Research Proposal: Design a research proposal investigating a specific topic in behavioral finance, including research questions, hypotheses, and methodology.
8. Fintech & Robo-Advisory Behavioral Audit: Analyze a robo-advisor or trading/investing app for gamification and behavioral “nudge” design, and propose a de-biased redesign.
9. Cryptocurrency & Digital-Asset Investor Behavior: Analyze herding, FOMO, or social-media sentiment during a specific cryptocurrency market episode, using survey data, social-media data, or exchange/price data.

Project Requirements

1. The project may be a group project of up to 4 members or completed individually.
2. Select one project topic from the list above.
3. Collect and analyze data as required by the selected project.
4. The project should include an Introduction, Literature Review, Methodology, Analysis and Discussion, and Conclusion.
5. The project should contain at least 3,000 words, excluding references.
6. References must follow APA style for in-text citations and end-text references.

Proposal Format

- Font: 12-point Times New Roman
- Line spacing: 1.5

Plagiarism Policy

Zero tolerance for plagiarism. The allowed level of plagiarism is 19% (per HEC guidelines). Plagiarized work will be marked zero.

Students may use AI tools for grammar/formatting only. Case identification, source verification, analysis, and calculations must be the students' own work. Fabricated or unverifiable cases will receive zero credit for that component.

Late submissions will be penalized with a 10% deduction of marks per day.

Group Project Timeline

Group formation & group leader	Week 2 (6 th September 2026)
Project/case title due	Week 3 (13 th September 2026)
Progress report / mid-review	Week 9 (post-midterm)
Submission deadline	Week 14 (6 th December 2026)
Submission method	Online submission via LMS
Total marks	20 marks (presentation plus project paper)

In-Class Activities and Experiments

The table below is a bank of activities the instructor may draw on to keep each module hands-on; instructors may substitute equivalent activities as needed.

Activity	Concept Illustrated	Suggested Week
“Are You Rational?” diagnostic survey	Normal vs. rational investors	1
“Beat the Market” semester-long stock-picking simulation	EMH, overconfidence	2, revisited 14
Gamble-choice experiment (certain vs. risky gains/losses)	Prospect theory, loss aversion	3-4
“Windfall vs. earned money” spending exercise	Mental accounting	3-4
Overconfidence calibration test (90% confidence intervals)	Overconfidence	5
Disposition-effect paper-trading simulation	Disposition effect	5
Fund/insurance advertisement analysis	Utilitarian/expressive/emotional wants	6
Behavioral portfolio “pyramid” construction	Behavioral portfolio theory	7

Nudge-design challenge (retirement enrollment, spending app)	Choice architecture	9
Personal saving/spending bias-audit journal	Behavioral life cycle	10
Momentum/reversal exercise using real stock data	Asset-pricing anomalies	11
Historical bubble case reconstruction and timeline	Sentiment, bubbles	12
Real-company overinvestment / M&A case debate	Managerial biases	13
Trading/investing app “gamification audit”	Fintech, dark patterns, nudges	14
Crypto market sentiment mini-study (social data vs. price)	Herding, FOMO	15

Comments and/or Suggestions
- Active class participation will be rewarded by adjusting the grade upward when it is on the margin. - Since subsequent topics build on previously learned material, students must keep up with the material and ensure lectures are properly understood. - A student who misses a class is responsible for obtaining any handouts and information on course content, assignments, and due/test dates. - Unethical behavior (cheating, plagiarism, proxy attendance) will be strictly penalized.

Experiential Learning Exposure(s)
Students will complete a group project, participate in weekly in-class behavioral experiments and simulations, and conduct at least one real-world audit of a fintech/robo-advisory app or a cryptocurrency market episode as part of the course.

Academic Conduct

Academic Conduct	IBA policy
Attendance Policy	Attendance is mandatory.
Retake Policy	Quizzes, assignments, and final-term exams cannot be retaken. There is no N-1 policy for quizzes and assignments. However, midterm make-up may be allowed with a 25% penalty on the midterm marks. This is only applicable in case of a medical emergency.
Grading Policy	This course follows an absolute grading policy.
Use of Artificial Intelligence (AI)	Students may use AI tools for idea generation and argument development but must not fully rely on AI to complete assignments or projects; all work must be strictly backed by references, with the extent of AI use clearly acknowledged. Regardless of AI use, students remain fully responsible for the accuracy, quality, and integrity of all submitted work.
Plagiarism Policy	IBA policy
Withdrawal Policy	IBA policy