COURSE SYLLABUS

Behavioral Finance

(行为金融)

COURSE LEVEL	Undergraduate / Graduate	**CREDITS / HOURS**	2 credits / 32 contact hours
TEACHING LANGUAGE	Chinese and English	**PREREQUISITE**	Principles of Finance; familiarity with EMH and CAPM
INSTRUCTOR	Dr. Yapei Zhang	**CURRENT OFFERING**	2025-2026

Overview

This course studies how psychological preferences, biased beliefs, limited attention, disagreement, and social interaction affect investor behavior and asset prices. It develops behavioral explanations for departures from standard finance and connects theory with empirical research, market cases, and current questions about AI-mediated financial decision-making.

Learning Outcomes

- Explain the Efficient Market Hypothesis, its empirical challenges, and limits to arbitrage.
- Use prospect theory to analyze choice under risk, reference dependence, and loss aversion.
- Evaluate how attention, extrapolation, overconfidence, and disagreement affect prices and trading.
- Read, summarize, and critically discuss empirical research in behavioral finance.
- Analyze human bias, model bias, and human-AI interaction in modern financial markets.

Teaching and Learning Approach

Lectures are combined with research-paper discussion, market evidence, case analysis, exercise-based homework, group presentations, and a mini-project. The course emphasizes both conceptual clarity and the ability to interpret empirical findings.

Course Structure

UNIT	TOPIC	FOCUS
1	**Market Efficiency and Behavioral Finance**	Portfolio theory and the EMH; anomalies; limits to arbitrage; why behavioral finance is needed.
2	**Prospect Theory**	Expected utility as a benchmark; reference dependence; loss aversion; diminishing sensitivity; probability weighting.
3	**Preferences and Asset Pricing**	Disposition effect; realization utility; investor preferences and market outcomes.
4	**Inattention and Underreaction**	Limited attention; distraction; slow information diffusion; post-announcement responses.
5	**Extrapolation and Overreaction**	Representativeness; extrapolative beliefs; momentum and reversal; overreaction to signals.
6	**Disagreement, Herding, and Bubbles**	Heterogeneous beliefs; short-sale constraints; institutional herding; social influence and bubbles.
7	**Behavioral Finance in the Age of AI**	AI as decision-maker, information intermediary, and market infrastructure; model bias; framing; confidence; uniformity, herding, and fragility.
8	**Research Application**	Paper presentations and a mini-project that applies behavioral-finance ideas to a current research or market question.

Assessment

Participation - 10%	Attendance, preparation, and active contribution to class discussion.
Homework - 20%	Individual exercises and short analytical assignments.
Paper presentation - 30%	A group presentation evaluating a selected research paper.
Mini-project - 40%	A group project assessed through a presentation (40% of the project) and written report (60% of the project).

Teaching Materials and Cases

Selected articles from the Journal of Finance, Journal of Financial Economics, and Review of Financial Studies are used alongside instructor slides and market cases. A supplementary reference is James Montier, Behavioral Finance: Insights into Irrational Minds and Markets.

Academic Integrity

Students are expected to comply with ShanghaiTech University standards on academic integrity. All submitted work must be original, properly attributed, and completed in accordance with the stated collaboration rules.