



Australian School of Business

**Banking and Finance**

Never Stand Still

Australian School of Business

# **FINS 3655 BEHAVIOURAL FINANCE**

**Course Outline  
Semester 1, 2013**

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## PART A: COURSE-SPECIFIC INFORMATION

### 1 STAFF CONTACT DETAILS

Name	Email	Location	Availability	Phone
Elise Payzan-LeNestour	elise@unsw.edu.au	ASB 359A	See below	93854273

How to ask questions about the course, and/or discuss private matters?

**At the end of each lecture:** please feel free to come and chat with me at the end of each course.

**In the discussion forums in Blackboard:** if you have questions regarding the course, you should always ask them first in the discussion forums in Blackboard. This way, every student will benefit from both the question and its answer, and the amount of information available to everyone will be greatly improved. I will personally reply to questions at least once every 24h during the week, as well as at least once during the weekends. Each student is also strongly encouraged to reply to others' questions and discuss any replies made. The quality and number of forum posts will weight strongly in the participation component of the assessment (see details in section 4.3). Further details on how to use the forums are available in Blackboard.

**During office hours:** office hours will be held each Thursday from 2pm to 4pm. If you plan to come, send me an email first to schedule an appointment, not later than the day before. This way, each student will benefit from one-to-one time without waiting in front of the office. Office hours should be used only if you need to discuss either 1) private matters or personal requests that require a face-to-face discussion 2) course-related questions that you feel have not been adequately replied to through the discussion forums.

**By email:** please feel free to contact me by email at any time with any question that cannot be posted in the discussion forums (such as private requests or personal matters).

### 2 COURSE DETAILS

#### 2.1 Teaching Times and Locations

This course consists of weekly three-hour lectures.

Because of the nature of the course, it is essential that you attend all FINS3655 lectures. **If you FAIL TO ATTEND MORE THAN 3 of the scheduled classes without justification, you WILL BE REFUSED FINAL ASSESSMENT.**

#### 2.2 Units of Credit

This course has 6 units of credit.

## 2.3 Summary of Course

In this course, we will examine how people make predictable and repeatable mistakes in financial decision-making. We will describe the nature of these mistakes and their origin, using insights from psychology, neurosciences and experimental economics on how the human mind works. We will then discuss how incorporating these mistakes into our finance theories can markedly improve standard finance models studied in other courses. We will also consider how understanding the functioning of the human mind allows us to design a better world –in particular, better stock markets, retirement and healthcare systems. As such, this course is markedly multidisciplinary, lying at the intersection of financial economics and cognitive sciences, with both experimental and theoretical components.

This course is very interactive in nature. For instance, you will participate in eleven mini experiments. The first will be conducted during our first class. The next ones will be web-based. Most of the time, participating simply entails answering a short question (or a couple of questions) upon receiving an email invitation to participate. You'll also have the opportunity to conduct one mini experiment (under my guidance of course); see "Opportunity to earn bonus points" below. In the last experiment conducted in the context of this class, you'll be playing a computerized money game.

For each experiment, the aggregated results of all students will be presented and discussed in class collectively. These experiments are meant to illustrate in a vivid format the cognitive biases I will teach you at a more abstract (conceptual) format during the lectures. Please note that your *individual* answers are NOT an assessment. They are anonymous and hence will not be looked at, and are systematically discarded after each class.

Before each lecture, you are expected to familiarize yourself with the material corresponding to the lecture. This material is available on Blackboard, well in advance of the class itself. Do NOT wait until the day before to look at the material. Plan to spend at least 2-3 hours each week to study this material. The material comprises, in addition to the lecture notes of the previous lectures, a number of teaching tools; e.g., articles, supplementary lecture notes, short documentary movies, etc.

## 2.4 Course Aims and Relationship to Other Courses

This course is an elective course in finance. It introduces cognitive biases and discusses the impact of these on financial decision-making as introduced in other courses. As such, this course is intended to complement other finance courses. In particular, FINS1613 Business Finance is a prerequisite for this course.

## 2.5 Student Learning Outcomes

The Course Learning Outcomes are what you should be able to DO by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

The Learning Outcomes in this course also help you to achieve some of the overall Program Learning Goals and Outcomes for all undergraduate coursework students in the ASB. Program Learning Goals are what we want you to BE or HAVE by the time

you successfully complete your degree (e.g. 'be an effective team player'). You demonstrate this by achieving specific Program Learning Outcomes - what you are able to DO by the end of your degree (e.g. 'participate collaboratively and responsibly in teams').

### **ASB Undergraduate Program Learning Goals and Outcomes**

**1. Knowledge: Our graduates will have in-depth disciplinary knowledge applicable in local and global contexts.**

You should be able to select and apply disciplinary knowledge to business situations in a local and global environment.

**2. Critical thinking and problem solving: Our graduates will be critical thinkers and effective problem solvers.**

You should be able to identify and research issues in business situations, analyse the issues, and propose appropriate and well-justified solutions.

**3. Communication: Our graduates will be effective professional communicators.**

You should be able to:

- a. Prepare written documents that are clear and concise, using appropriate style and presentation for the intended audience, purpose and context, and
- b. Prepare and deliver oral presentations that are clear, focused, well-structured, and delivered in a professional manner.

**4. Teamwork: Our graduates will be effective team participants.**

You should be able to participate collaboratively and responsibly in teams, and reflect on your own teamwork, and on the team's processes and ability to achieve outcomes.

**5. Ethical, social and environmental responsibility: Our graduates will have a sound awareness of the ethical, social, cultural and environmental implications of business practice.**

You should be able to:

- a. Identify and assess ethical, environmental and/or sustainability considerations in business decision-making and practice, and
- b. Identify social and cultural implications of business situations.

For more information on the Undergraduate Coursework Program Learning Goals and Outcomes, see Part B of the course outline.

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed (they may also be developed in tutorials and other activities):

<b>Program Learning Goals and Outcomes</b>		<b>Course Learning Outcomes</b>	<b>Course Assessment Item</b>
<i>This course helps you to achieve the following learning goals for all ASB undergraduate students:</i>		<i>On successful completion of the course, you should be able to:</i>	<i>This learning outcome will be assessed in the following items:</i>
1	Knowledge	Understand how cognitive biases predictably and consistently affect our decisions, and how our intuitions on how the mind works are faulty.  Understand how these biases affect the decisions of finance practitioners.	<ul style="list-style-type: none"> <li>• Participation: in-class and forums</li> <li>• Group presentation</li> <li>• Case-study tutorial</li> <li>• Participation in experiments</li> </ul>

		Understand experimental methods in cognitive sciences.	<ul style="list-style-type: none"> <li>• Experimental report</li> <li>• Mid-term and final exams</li> </ul>
2	Critical thinking and problem solving	<p>Apply this understanding to traditional models and techniques as taught in other courses.</p> <p>Apply this understanding to help promote more efficient financial decisions for different categories of actors (e.g., individual investors, professional traders).</p> <p>Suggest new experimental designs to test new behavioral hypotheses</p>	<ul style="list-style-type: none"> <li>• Forum posts (in the context of open discussions)</li> <li>• Forum posts (in the context of organized “forum contests”/debates)</li> <li>• Experimental report</li> <li>• Case-study tutorial</li> </ul>
3a	Written communication	Write in an accurate, concise and logical style	<ul style="list-style-type: none"> <li>• Forum posts</li> <li>• Experimental report</li> <li>• Problem sets</li> </ul>
3b	Oral communication	Explain new concepts to fellow students, bring new ideas and convince the audience of their relevance, produce remarkable oral presentations	Oral team presentations in front of other students
4	Teamwork	<p>Prepare a group discussion in collaboration and teamwork.</p> <p>Interact in a constructive way with fellow students during in-class debates.</p>	<ul style="list-style-type: none"> <li>• Group presentations</li> <li>• Case-study tutorial</li> <li>• In-class brainstorming sessions under lecturer’s guidance</li> <li>• Forum interactions between students</li> </ul>
5a.	Ethical, environmental and sustainability responsibility	Analyze the root cause of corporate malfeasance and suggest institutional innovations to improve modern business environments.	Part of tutorial participation mark for last lecture in-class debate
5b.	Social and cultural awareness	Use knowledge learnt from this course to share with others novel insights on fundamental social questions such as: Why do some people gamble? Why do the elderly take excessive risks? Why do people save too little?	<ul style="list-style-type: none"> <li>• Forum posts (in the context of open discussions)</li> <li>• Forum posts (in the context of organized “forum discussions”)</li> <li>• In-class tutorial discussions</li> </ul>

## 3 LEARNING AND TEACHING ACTIVITIES

### 3.1 Approach to Learning and Teaching in the Course

The goal is to ensure that this course will be relevant and meaningful to you in class and after you graduate. To help achieve this objective I have a number of teaching aims:

- Create a climate of commitment, responsibility and ongoing feedback between students and lecturer regarding the content, teaching strategies, learning experiences and outcomes.
- Cater for a variety of learning preferences and abilities by providing a wide range of learning activities, formats and methodological approaches: I will punctuate my lectures with discussions, will use lecture notes, papers, and movies to communicate the material of the lectures. Also, the approach of the course will be both theoretical and experimental.
- Develop independent learning skills, and create an environment that provides structure and guidance, while encouraging students to extend their learning. For example, one required reading will be clearly specified each week on the reading list (see Section 7). Alongside this required reading, students will have the opportunity to flesh out the topics discussed during the lecture, through supplemental readings indicated in the reading list.
- Develop skills in collaboration and teamwork, which is directly relevant to the skills required of a finance professional.

This course is thus designed both for students aiming to pursue research in finance, and for students planning to join the industry after graduation.

### 3.2 Learning Activities and Teaching Strategies

High levels of interaction and preparation are required for this class and are intended to provide the necessary foundation for success in the workplace. Writing and communication skills are essential; so are organizational skills and a strong sense of responsibility. You will participate in small experiments, and will have the opportunity to develop critical thinking and problem solving.

## 4 ASSESSMENT

### 4.1 Formal Requirements

In order to pass this course, you must achieve a composite mark of at least 50, and make a satisfactory attempt at all assessment tasks (see below).

### 4.2 Assessment Details

Assessment Task	Weighting	Learning Outcomes assessed	ASB Graduate Attributes assessed	Length	Due Date
Class preparation and participation	18% of final grade	1,2,3,4,5,6,7	1,2,3,4,5	Min 4 hours weekly (on average)	Every week, beginning in week 1

Mini-experiments participation (10)	8% of final grade	1,2	1,2,3,4	17 minutes each (on average)	Weeks 2-5, Week 7 (See details below)
Group presentation	15% of final grade	1,2,3,4,5,6,7	1,2,3,4,5	15 minutes	As assigned
Mid-Term exam	19% of final grade	1,2,3,4,5	1,2,3,4	1 hour	During Week 5 lecture
Optional assignments (opportunity to earn bonus points – NOT REQUIRED):  Problem sets (2), participation in forum contests, preparation or participation in optional experiment	Bonus points for each: between 0 and 5 points of final grade	1,2,3,4,5,6,7	1,2,3,4	Min 2 hours (on average)	TBD
Final exam	40% of final grade	1,2,3,4,5	1,2,3,4	2 hours	During the UNSW Final Exam Week (Date to be scheduled centrally)

## Details:

### 4.2.1 Class preparation and participation

Class preparation primarily consists of studying the material posted on the course website before each lecture. This weekly material includes lecture notes, journal articles and, occasionally, short documentary movies. Class preparation also involves preparing the discussions we'll have in the context of, e.g., the case-study tutorial during Week 3 lecture, or the *'forum contests'* (more on this course component in 4.2.5.1).

Class participation is highly important in this course. Students will be solicited for their critical thinking in a number of ways. E.g., they will be expected to actively participate in all in-class discussions (related to case studies, experimental results, course concepts, applications of behavioural finance in the industry, etc.). Also, students will regularly have the opportunity to answer questions I'll be asking during the lectures about topics of the 'mandatory article', which has to be read each week as part of class preparation.

An important component of class participation is to post high-quality posts in the discussion forums. Participation in the forums is easy since you can contribute whenever you want, not just during the course's three hours. You should feel free to use the forums in any way you like. Some examples could be:



- Ask questions about the course materials and concepts, both before or after a lecture: ask clarifications about a reading assignment to ensure you understand it before the course, ask follow-up questions about concepts seen in the classroom, ask additional reading material on a specific subject, etc.
- Reply to the questions asked by your fellow students: offer your explanation about a reading; offer your understanding about a concept seen in the classroom, etc.
- Discuss readings or concepts: you should feel free to offer your reflection on a reading or a concept if you would like to discuss about it with the rest of the students. These discussions will enrich everyone's understanding of the subjects discussed.
- Provide feedback on the course: point out especially useful or not-so-useful materials, provide feedback on the course pace, provide feedback on the course website structure (what works well and not so well), etc.
- Participate in the 'forum contests' we'll be running (more on this below).
- 

**As a general rule, the forums should always be your first choice for questions and discussions outside of classes since:**

1. They allow all the students in the class to benefit from each question, answer, discussion (as opposed to having the same exchange by email, where only one student benefits from it)
2. They allow us to build a pool of knowledge that can be archived and reused
3. They allow you to demonstrate class participation on your own terms by allowing you to post 24/7 (as opposed to trying to participate during the short 3-hours classroom course)

#### **4.2.2 Participation in mini online experiments**

Generally, each time you're assigned to participate in an experiment, you'll receive an email with a link to participate in the experiment. Participating takes about 10 minutes. The data are automatically collected by the system –meaning your answers are completely anonymous. I won't know *what* you answered; however, I'll know *who* did participate and who didn't.

The last experiment you'll participate in (Experiment 11) will have a different format: it will consist of participating in an online session of a board game for about 1h20. I'll send you an invitation email with the instructions to follow in due time.

Participation in all the experiments is compulsory. It is open till 24 hours before the lecture on which we'll be discussing the results of the experiment (afterwards it's too late to participate). Specifically, data collection is automatically closed 24 hours before the course and NO EXTENSION will be given, except if you qualify for special considerations of course.

#### **4.2.3 Group presentations**

You'll find in a subheader of Blackboard named "*Pick-Your-Brain*" short opinion pieces (which I call 'pick-your-brains') coming from a variety of sources, including finance newspapers, finance magazines, financial blogs... Each pick-your-brain relates to a subject studied in class.

Small groups (4 or 5 students) will briefly explain the main points of the piece and discuss them, in a 15-minutes oral presentation. All group members receive the same mark for the presentation. Groups will be formed during the first class. By default groups are formed following the alphabetical order but if you want to be grouped with specific persons, you are allowed to request it by week 4 lecture and I'll try to accommodate such requests.

Group presentations won't start before Week 8 lecture. Once we have sufficiently progressed in the course (around Week 6), group members are expected to acquaint themselves with all the pick-your-brains available, and choose the pick-your-brain they want to discuss. Just send me an email signalling the group's interest in commenting one of the pick-your-brains. If two groups have requested the same piece, they will be allocated the same pick-your-brain (in this case, we will have two presentations on the same topic). If more than two groups have requested the same pick-your-brain, I will randomly choose two groups among those. In the absence of expression of interest about one pick-your-brain, I will randomly allocate one. It is in the groups' best interest to carefully consider the pick-your-brains that are available, to choose the one they feel like discussing.

#### **4.2.4 Mid-term exam**

The mid-term examination tests material covered in the lecture notes and journal articles from weeks 1-4. It will take the form of a Multiple Choice Questionnaire. The examination is closed book. The mid-term exam is given in week 5 and results will be provided before Week 6 lecture. This means you will receive early feedback on your performance, which should help you decide whether you want to drop out the course (without financial penalty).

#### **4.2.5 Opportunity to earn bonus points**

There will be three ways to earn bonus points that will enter in the composition of the final grade. These bonus points will be added directly to your final grade for this course, so there is NO weighting for these bonus points, as they are added after your composite grade is defined. For example, if you achieve a composite grade of 75 (out of 100) for the course, and you have earned 2 bonus points during the course, then your final grade will be  $75+2=77$ . Bonus points are thus valuable and you should attempt to earn them.

##### **4.2.5.1 Forum contests**

On a few occasions, I'll announce at the beginning of a course that there will be a forum contest on the content of the course. I'll post the contest question in a dedicated forum thread. You will then have until the next Sunday midnight to post your answers in that forum thread.

At the following course, we will discuss in class the answers submitted, and I will

decide on the best entry based on its relevance and quality. The student who submitted the best answer will get the bonus points (how many points depends on the quality of his/her post). I can decide to allocate no points at all or on the contrary to allocate points to more than one entry.

Participation in the forum contests is purely optional. Not participating will not impact your composite grade. However, posting a bad-quality post may result in a 'malus' (whereby I *subtract* points to your final grade). This rule is meant to provide students with strong incentives to double-check the relevance of their post. A bad post is defined as a post that is either off-topic, or that contains inaccurate statements, or that is written in bad English.

#### **4.2.5.2 Advanced homework assignments**

On a couple of occasions, I'll also offer interested students the possibility to work on problem sets. These problem sets are optional and more advanced in difficulty than the assessments you will have to complete for the course. In particular, they require a good understanding of concepts seen in previous courses. Accordingly, they will be rewarded with bonus points.

I will post the problem sets on Blackboard. You will choose freely to return them by the deadline or not. There won't be any penalties for not completing these problem sets. They are purely optional and intended to reward students who want to demonstrate thorough understanding of concepts seen in class, without penalizing students who may have a less solid background.

#### **4.2.5.3 Running of a mini experiment under my guidance**

For Experiment 10, students will have the opportunity to volunteer to conduct the experiment under my guidance. This involves finding subjects (e.g., by asking other students to participate in the experiment), running the experiment (about a couple of hours), analysing the data (only very simple summary statistics are involved), and sending me the results. The more volunteers for the job, the better –we'll pool all the data and the more data we'll have, the more interesting the results will be to discuss. Participation is purely optional and intended to reward students who want to demonstrate their deep involvement in the course. Bonus points will be granted based on the quality of the work (number of subjects recruited, reliability of the findings, completeness and accuracy of report).

#### **4.2.6 Final exam**

The final examination tests material covered in the lecture notes from weeks 1-12. It will take the form of a Multiple Choice Questionnaire. The examination is closed book.

## 4.3 Assessment Criteria

### 4.3.1 Participation

Participation will be assessed based on quantity and quality of both discussion comments and forum posts. During our first lectures, I'll ask you to use nametags to facilitate assignment of participation marks.

### 4.3.2 Group presentations

Group presentations will be assessed based on both the content of the presentation and the speakers' communication skills. Note that it is impossible to disentangle the two aspects in an oral presentation: effective communication is key to transmit the content.

Regarding the content of the presentation, there are two key assessment criteria:

- i) Clear explanation of the main points of the pick-your-brain to the audience

Speakers should assume the other students know nothing at all about the topic; act like teachers i.e., be rigorous, clear, and accurate

- ii) Critical thinking about the piece

Being critical does not necessarily mean criticizing what is said. If you do agree with the authors, this is fine; in this case, try to demonstrate the relevance of the main points by giving concrete applications in real world finance. If you disagree, justify why you disagree.

Note that i) is the basis, so double-check your sound understanding of the article/podcast.

*Some tips related to the content of the presentations:*

- Beware of paraphrases: often crop up when i) is not satisfactory
- Beware of off-topic digressions: often crop up when ii) is not satisfactory

*Some tips to help you communicate more effectively:*

- Work hard on your slides: they should be clear, well structured, comprehensive, and (a major plus if you can) remarkable
- Rehearse your talk at least once before the actual presentation; check you meet the time constraint (15 min is quite short)
- Don't speak too quickly; try to control the pace of your speech

One more thing I expect from *group* presentations is that students do coordinate i.e., you have to meet and make sure you work together. Bad coordination may lead to:

- Having repetition of the same idea in several parts of the presentation
- Having contradictory statements (one student says something and the fellow says the opposite)
- Having a talk that is poorly structured (because each group student does his/her own part without considering the overall quality of the presentation)

Bear in mind a group presentation should never be the addition of the parts done in isolation by the group members. You have to work in team.

### **4.3.3 Experiments**

Students who will have participated in all ten experiments will receive the maximum number of points assigned to this assignment (as indicated in the table Section 4.2.) If you fail to participate in 1 experiment, you will only be given 50% of the maximum number of points. If you fail to participate in 2 experiments, you will be given 25% of the maximum number of points. If you fail to participate in 3 or more experiments, you will receive a grade of 0 for this assignment. Students won't be assessed based on the nature of their answers (which will always be anonymous).

### **4.4 Assignment Submission Procedure**

The deadline for participating in an experiment is 24 hours before the lecture on which the experiment results are discussed. For instance, Experiment 2 is indicated in Week 2 Lecture in the Course Schedule below. This means you'll have till 24 hours before Week 2 Lecture to participate. The deadlines to submit the optional problem sets will be provided in due time.

Please note that the deadlines for all assignments depend on the pace of the course, which varies from a Semester to another. The deadlines indicated on the Course Schedule below are therefore tentative and may be updated on Blackboard in due time. It is the students' responsibility to carefully check these deadlines throughout the course.

### **4.5 Late Submission**

You should not submit late unless you have a special acceptable reason. Any alleged reason needs to be backed up by an official certificate to be accepted as such; e.g., a car accident must be backed up by a police report.

Whatever the reason of a late submission, you'll have to submit to New South Central a request for special consideration due to illness or misadventure application (<https://my.unsw.edu.au/student/atoz/consideration.pdf>).

#### **Quality Assurance**

The ASB is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of ASB programs. All material used for such processes will be treated as confidential and will not be related to course grades.

## 5 COURSE RESOURCES

### Blackboard course website

The course website on Blackboard is the resources hub. All materials will be posted there and the discussion forums will be accessible on Blackboard as well. Chat sessions will also be organized through Blackboard on an as-needed basis.

Students have to acquaint themselves with the material posted on Blackboard to prepare each lecture. In particular, they should systematically consult in the header *LECTURES* the subheader that corresponds to each week's lecture: Lecture 1, Lecture 2, ..., Lecture 12.

### Lecture notes

One of the liberating features of the behavioural finance field is that there is not yet any full-blown textbook. In the absence of a suitable textbook, we will use my lecture notes.

Given the interactive nature of the course, the lecture notes for a class won't be posted ahead of a class but the evening following the class. I know that not having lecture notes to study before the class is intimidating for some of you, but you should not worry about this point: you will have the mandatory article to read before each lecture, which is a good way to prepare the lecture.

Please note: The lecture notes are quite rich and should be studied each week after the class to prepare the mid-term and final exams effectively. When reviewing the lecture notes after a class, ask on the Forum any clarifying questions that you may have.

### Reading list

We will also be reading straight from the original research papers indicated on the reading list (in annex of this document –updated reading lists will be posted on the course website as needed). I will discuss the content of most of the articles of the reading list in class. This reading list may seem intimidating at first glance, but note that there is only one reading that is mandatory before each course. The rest consists of supplemental readings, i.e., readings that are optional. Some of these supplementary readings are starred: I suggest that you at least read the abstract. So much of a paper is in the abstract (if the abstract is well written). Non-starred readings are for those possibly interested in doing research in behavioural finance at some point. When reading a paper on your own, try to take away the key intuitions, don't dwell on details.

The mandatory articles will be available on Blackboard (PDF format). The supplementary articles are available for download through the UNSW network by using the direct link provided; please ask me if you have any difficulty to access an article you would like to read.

### Other Resources

In some of the lectures, I will use documentary movies, which are posted on Blackboard (in *Multimedia*).

## **6 COURSE EVALUATION AND DEVELOPMENT**

Each year feedback is sought from students about the courses offered in the School and continual improvements are made based on this feedback. I am looking forward to your feedback, and a discussion forum will be specifically dedicated to receiving your feedback on the course. This way, you will be able to provide feedback continuously throughout the semester.

## 7 COURSE SCHEDULE

	Lecture Topic	Reading	Assignments
1	<b>Introduction</b> [What's Behavioural Finance? Experiment 1 (in-class): <i>The Dollar Auction</i> ]	See Reading List	
2	<b>Limits to Arbitrage</b> [Friedman critique, Risks induced by arbitrage: <i>Fundamental risk</i> , <i>Noise trader risk</i> , <i>Horizon risk</i> ; Destabilizing arbitrage; Evidence on limited arbitrage]		Experiments 2&3
3	<b>Cognitive Biases—Preferences (2 hrs)</b> [ <i>Prospect Theory: Value and Probability Weighting functions</i> ] <b>Tutorial (1 hr)</b> [Case-study on limited arbitrage]		-Experiments 4&5 -Prepare case-study discussion
4	<b>Cognitive Biases—Preferences (cont.)</b> [ <i>Prospect Theory: Framing Effects</i> ]		Experiments 6&7
5	<b>Cognitive Biases—Preferences (cont.) (2 hrs)</b> [Non-consequentialism: <i>Disjunction Effect</i> , Self- deception] <b>Mid-term Exam (1 hr) [MCQ]</b>		Experiments 8&9
6	<b>Cognitive Biases—Preferences (Neurofinance)</b> [Emotions: <i>Somatic Marker Hypothesis</i> , <i>Ambiguity aversion</i> , <i>Hyperbolic discounting</i> ]		Experiment 10 (optional)
7	<b>Cognitive Biases—Beliefs</b> [Expert judgment, Learning]		Experiment 11 ( <i>'Boardgame'</i> )
8	<b>Cognitive Biases—Beliefs (cont.)</b> [Learning (cont.), Narratives & Superstitions]		Problem set 1 (optional)
9	<b>Applications: Behavioural Finance 1</b> [The aggregate stock market: Three Puzzles, Behavioural explanations]		Problem set 2 (optional)
10	<b>Applications: Behavioural Finance 1 (cont.)</b> [Cross-section of average returns: Anomalies, Behavioural explanations; Other puzzles: Closed- end funds puzzle, Comovement]		
11	<b>Applications: Behavioural Finance 2</b> [Understanding investor behaviour (Savings & Investment), what "Intelligence" means for investors (Self-Control, <i>Theory of Mind</i> , Adaptation skills)]		
12	<b>Applications: Behavioural Finance 2 (cont.)</b> [Discussion of Zimbardo and Milgram experiments and implications for corporate governance Visit of the ASB Lab if time permits]		Watch Zimbardo and Milgram movies to prepare in-class discussion



## **8 READING LIST**

The reading list is included below.

## Lecture 1

### Required Reading

- Johnson and Goldstein 2003

### Optional Readings

- Bazerman 1992 and Shell 2000\*
- Redelmeier and Shafir 1995
- Ariely 2008

## Full References and Direct Links

D Ariely. Predictably irrational: The hidden forces that shape our decisions. *citeulike.org*, Jan 2008. URL <http://www.citeulike.org/user/CSEE/article/2602869>.

M Bazerman. Nonrational escalation of commitment in negotiation. *European Management Journal*, Jan 1992. URL <http://linkinghub.elsevier.com/retrieve/pii/026323739290064B>.

EJ Johnson and D Goldstein. Medicine: Do defaults save lives? *Science*, Jan 2003. doi: DOI:10.1126/science.1091721. URL <http://www.sciencemag.org/cgi/content/summary/302/5649/1338>.

DA Redelmeier and E Shafir. Medical decision making in situations that offer multiple alternatives. *Jama*, Jan 1995. doi: 10.1001/jama.1995.03520280048038. URL <http://jama.ama-assn.org/cgi/content/abstract/273/4/302>.

G R Shell. Closing and gaining commitment. *Bargaining for Advantage : Negotiation Strategies for Reasonable People*, Chapter 10:179–189, Dec 2000.

## Lecture 2

### Required Reading

- Froot and Dabora 1999

### Optional Readings

- Friedman 1953
- Shleifer and Vishny 1997\*
- Brav and Heaton 2002

## Full References and Direct Links

A Brav and JB Heaton. Competing theories of financial anomalies. *Review of Financial Studies*, 15(2):575–606, Mar 2002. doi: 10.1093/rfs/15.2.575. URL <http://rfs.oxfordjournals.org/cgi/content/abstract/15/2/575>.

M Friedman. Essays in positive economics. *books.google.com*, pages 157–203, Jan 1953. URL <http://scholar.google.com/scholar?hl=en&lr=&q=info:vURa6wdh9JEJ:scholar.google.com/&output=search>.

KA Froot and Emil M Dabora. How are stock prices affected by the location of trade? *Journal of financial economics*, 53(2):189–216, 1999. doi: 10.1016/S0304-405X(99)00020-3. URL [http://dx.doi.org/10.1016/S0304-405X\(99\)00020-3](http://dx.doi.org/10.1016/S0304-405X(99)00020-3).

Andrei Shleifer and Robert Vishny. The limits of arbitrage. *The Journal of Finance*, 52(1):35–55, Mar 1997. URL <http://www.jstor.org/stable/2329555>.

## Lecture 3

### Required Reading

- Froot and Dabora 1999

### Optional Readings

- Fama 1970
- Long, Shleifer, Summers, and Waldmann 1990a\*
- Long, Shleifer, Summers, and Waldmann 1990b\*
- Wurgler and Zhuravskaya 2002
- Lamont and Thaler 2003\*
- Soros 2003

## Full References and Direct Links

E Fama. Efficient capital markets: A review of theory and empirical work. *Journal of finance*, Jan 1970. URL <http://www.jstor.org/stable/2325486>.

KA Froot and Emil M Dabora. How are stock prices affected by the location of trade? *Journal of financial economics*, 53(2):189–216, 1999. doi: 10.1016/S0304-405X(99)00020-3. URL [http://dx.doi.org/10.1016/S0304-405X\(99\)00020-3](http://dx.doi.org/10.1016/S0304-405X(99)00020-3).

Owen Lamont and Richard Thaler. Can the market add and subtract? mispricing in tech stock carve-outs. *The Journal of Political Economy*, 111(2):227–268, Apr 2003. URL <http://www.jstor.org/stable/3555203>.

J Long, Andrei Shleifer, Lawrence Summers, and Robert Waldmann. Noise trader risk in financial markets. *The Journal of Political Economy*, 98(4):703–738, Aug 1990a. URL <http://www.jstor.org/stable/2937765>.

J Long, Andrei Shleifer, Lawrence Summers, and Robert Waldmann. Positive feedback investment strategies and destabilizing rational speculation. *The Journal of Finance*, 45(2):379–395, Jun 1990b. URL <http://www.jstor.org/stable/2328662>.

G Soros. The alchemy of finance. *books.google.com*, Jan 2003. URL <http://books.google.com/books?hl=en&lr=&id=qxkiYul2wgoC&oi=fnd&pg=PR11&dq=The+Alchemy+of+Finance:+Reading+the+Mind+of+the+Market&ots=OpnQ3DysW-&sig=3RkrnH2qzTYTK2BGjaXmRRKV-xY>.

Jeffrey Wurgler and Ekaterina Zhuravskaya. Does arbitrage flatten demand curves for stocks?\*. *Journal of Business*, Jan 2002. URL <http://www.jstor.org/stable/3663847>.

## Lecture 4

### Required Reading

- Kahneman and Tversky 1979

### Optional Readings

- Allais 1953
- Tversky and Kahneman 1981\*
- Shefrin and Statman 1985
- Thaler and Johnson 1990\*
- Redelmeier and Tversky 1992\*
- Prelec 1998
- Rabin and Thaler 2001

## Full References and Direct Links

M Allais. Le comportement de l'homme rationnel devant le risque: Critique des postulats et axiomes de l'école américaine. *Econometrica*, 21(4):503–546, Oct 1953. URL <http://www.jstor.org/stable/1907921>.

Daniel Kahneman and Amos Tversky. Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2):263–291, Mar 1979. URL <http://www.jstor.org/stable/1914185>.

Drazen Prelec. The probability weighting function. *Econometrica*, 66(3):497–527, May 1998. URL <http://www.jstor.org/stable/2998573>.

Matthew Rabin and Richard H Thaler. Anomalies: Risk aversion. *The Journal of Economic Perspectives*, 15(1):219–232, Dec 2001. URL <http://www.jstor.org/stable/2696549>.

Donald Redelmeier and Amos Tversky. On the framing of multiple prospects. *Psychological Science*, 3(3):191–193, May 1992. URL <http://www.jstor.org/stable/40062783>.

Hersh Shefrin and Meir Statman. The disposition to sell winners too early and ride losers too long: Theory and evidence. *The Journal of Finance*, 40(3):777–790, Jul 1985. URL <http://www.jstor.org/stable/2327802>.

Richard Thaler and Eric Johnson. Gambling with the house money and trying to break even: The effects of prior outcomes on risky choice. *Management Science*, 36(6):643–660, Jun 1990. URL <http://www.jstor.org/stable/2631898>.

A Tversky and D Kahneman. The framing of decisions and the psychology of choice. *Science*, 211(4481):453–458, Jan 1981. doi: 10.1126/science.7455683. URL <http://www.sciencemag.org/content/211/4481/453.abstract>.

## Lecture 5

### Required Reading

- Quattrone and Tversky 1984

### Optional Readings

- Shafir and Tversky 1992\*
- Benartzi and Thaler 1995
- Thaler, Tversky, Kahneman, and Schwartz 1997\*
- Madrian and Shea 2001

## Full References and Direct Links

Shlomo Benartzi and Richard Thaler. Myopic loss aversion and the equity premium puzzle. *The Quarterly Journal of Economics*, 110(1):73–92, Feb 1995. URL <http://www.jstor.org/stable/2118511>.

Brigitte Madrian and Dennis Shea. The power of suggestion: Inertia in 401(k) participation and savings behavior. *The Quarterly Journal of Economics*, 116(4):1149–1187, Nov 2001. URL <http://www.jstor.org/stable/2696456>.

GA Quattrone and A Tversky. Causal versus diagnostic contingencies: On self-deception and on the voter's illusion. *Journal of personality and social psychology*, 46(2):237–248, 1984. URL <http://dx.doi.org/10.1037/0022-3514.46.2.237>.

E Shafir and A Tversky. Thinking through uncertainty: Nonconsequential reasoning and choice. *Cognitive Psychology*, 24(4):449–474, 1992. URL [http://dx.doi.org/10.1016/0010-0285\(92\)90015-T](http://dx.doi.org/10.1016/0010-0285(92)90015-T).

Richard H Thaler, Amos Tversky, Daniel Kahneman, and Alan Schwartz. The effect of myopia and loss aversion on risk taking: An experimental test. *The Quarterly Journal of Economics*, 112(2):647–661, 1997. URL <http://www.jstor.org/stable/2951249>.

## Lecture 6

### Required Reading

- Bechara, Damasio, Tranel, and Damasio 1997

### Optional Readings

1. “The *Somatic Marker Hypothesis*:” Shiv, Loewenstein, Bechara, Damasio, and Damasio 2005\*  
(kind of follow-up of Bechara, Damasio, Tranel, and Damasio 1997)
2. Ambiguity: Ellsberg 1961\*
3. Hyperbolic Discounting: Laibson 1997\*
4. Neurofinance:
  - LeDoux 1996
  - Loewenstein, Weber, Hsee, and Welch 2001
  - McClure, Laibson, Loewenstein, and Cohen 2004\*
  - Hsu, Bhatt, Adolphs, Tranel, and Camerer 2005
  - Kuhnen and Knutson 2005
  - Huettel, Stowe, Gordon, Warner, and Platt 2006
  - Preuschoff, Bossaerts, and Quartz 2006
  - Caldu and Dreher 2007
  - Apicella, Dreber, Campbell, Gray, Hoffman, and Little 2008
  - Coates and Herbert 2008\*
  - Sapienza, Zingales, and Maestripieri 2009
  - Coates, Gurnell, and Sarneyai 2010\*

## Full References and Direct Links

CL Apicella, A Dreber, B Campbell, PB Gray, M Hoffman, and AC Little. Testosterone and financial risk preferences. *Evolution and Human Behavior*, 29(6):384–390, 2008. doi: 10.1016/j.evolhumbehav.2008.07.001. URL [http://www.ehbonline.org/article/S1090-5138\(08\)00067-6/abstract](http://www.ehbonline.org/article/S1090-5138(08)00067-6/abstract).

Antoine Bechara, Hanna Damasio, Daniel Tranel, and Antonio Damasio. Deciding advantageously before knowing the advantageous strategy. *ScienceNew Series*, 275(5304):1293–1295, Feb 1997. URL <http://www.jstor.org/stable/2892390>.

X Caldu and J.-C Dreher. Hormonal and genetic influences on processing reward and social information. *Annals of the New York Academy of Sciences*, 1118(1):43–73, Sep 2007. doi: 10.1196/annals.1412.007. URL <http://onlinelibrary.wiley.com/doi/10.1196/annals.1412.007/abstract>.

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- JM Coates and J Herbert. Endogenous steroids and financial risk taking on a london trading floor. *Proceedings of the National Academy of Sciences*, 105(16):6167, 2008. URL <http://www.pnas.org/content/105/16/6167.full>.
- Daniel Ellsberg. Risk, ambiguity, and the savage axioms. *The Quarterly Journal of Economics*, 75(4):643–669, Nov 1961. URL <http://www.jstor.org/stable/1884324>.
- Ming Hsu, Meghana Bhatt, Ralph Adolphs, Daniel Tranel, and Colin F Camerer. Neural systems responding to degrees of uncertainty in human decision-making. *Science*, Jan 2005. doi: 10.1126/science.1115327. URL <http://www.sciencemag.org/cgi/content/abstract/310/5754/1680>.
- SA Huettel, CJ Stowe, EM Gordon, BT Warner, and ML Platt. Neural signatures of economic preferences for risk and ambiguity. *Neuron*, 49(5):765–775, 2006. doi: 10.1016/j.neuron.2006.01.024. URL <http://www.cell.com/neuron/retrieve/pii/S089662730600078X>.
- CM Kuhnen and B Knutson. The neural basis of financial risk taking. *Neuron*, Jan 2005. URL <http://linkinghub.elsevier.com/retrieve/pii/S0896627305006574>.
- David Laibson. Golden eggs and hyperbolic discounting. *The Quarterly Journal of Economics*, 112(2):443–477, May 1997. URL <http://www.jstor.org/stable/2951242>. In Memory of Amos Tversky (1937-1996).
- J LeDoux. The emotional brain. *New York*, Jan 1996. URL [http://books.google.com/books?hl=en&lr=&id=kB19aJKJLoEC&oi=fnd&pg=PA98&dq=Le+Doux&ots=trpB0j9B0r&sig=Zc-\\_zgeDhf6ox0p9VE4ARY2o5-c](http://books.google.com/books?hl=en&lr=&id=kB19aJKJLoEC&oi=fnd&pg=PA98&dq=Le+Doux&ots=trpB0j9B0r&sig=Zc-_zgeDhf6ox0p9VE4ARY2o5-c).
- GF Loewenstein, EU Weber, CK Hsee, and N Welch. Risk as feelings. *Psychological Bulletin*, 127(2):267–286, Aug 2001. URL [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=929947](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=929947).
- Samuel M McClure, David I Laibson, George Loewenstein, and Jonathan D Cohen. Separate neural systems value immediate and delayed monetary rewards. *Science*, 306(5695):503–507, Oct 2004. doi: 10.1126/science.1100907. URL <http://www.sciencemag.org/cgi/content/full/306/5695/503?ijkey=ebaecacac5b3fbf8a6168d414d5e77cc8851392>.
- K Preusschoff, P Bossaerts, and S Quartz. Neural differentiation of expected reward and risk in human subcortical structures. *Neuron*, 51(3):381–390, Aug 2006. doi: 10.1016/j.neuron.2006.06.024. URL <http://linkinghub.elsevier.com/retrieve/pii/S0896627306005046>.



- P Sapienza, L Zingales, and D Maestripieri. Gender differences in financial risk aversion and career choices are affected by testosterone. *Proceedings of the National Academy of Sciences*, 106(36):15268–15273, Sep 2009. doi: 10.1073/pnas.0907352106. URL <http://www.pnas.org/content/early/2009/08/20/0907352106.abstract>.
- B Shiv, G Loewenstein, A Bechara, H Damasio, and AR Damasio. Investment behavior and the negative side of emotion. *Psychological Science*, 16(6):435, 2005. doi: 10.1111/j.0956-7976.2005.01553.x. URL <http://pss.sagepub.com/content/16/6/435>.

## Lecture 7

### Required Reading

- Griffin and Tversky 1992

### Optional Readings

- Bruner and Potter 1964\*
- Oskamp 1965
- Slovic, Fleissner, and Bauman 1972
- Alpert... 1982
- Tversky... 1993
- Dijksterhuis, Bos, Nordgren, and van Baaren 2006\*

## Full References and Direct Links

M Alpert. . . . A progress report on the training of probability assessors. *Judgment under uncertainty: Heuristics and biases*, Jan 1982. URL <http://www.citeulike.org/user/sbarthelme/article/5428054>.

JS Bruner and MC Potter. Inference in visual recognition. *Science*, 144:424–425, Dec 1964. URL <http://mollylab-1.mit.edu/lab/publications/brunerpotter1964.pdf>.

A Dijksterhuis, Maarten W Bos, Loran F Nordgren, and Rick B van Baaren. On making the right choice: The deliberation-without-attention effect. *Science*, 311(5763):1005–1007, Feb 2006. doi: 10.1126/science.1121629. URL <http://www.sciencemag.org/cgi/content/abstract/sci;311/5763/1005>.

D Griffin and A Tversky. The weighing of evidence and the determinants of confidence. *Cognitive Psychology*, Jan 1992. URL <http://linkinghub.elsevier.com/retrieve/pii/001002859290013R>.

S Oskamp. Overconfidence in case-study judgments. *Journal of Consulting Psychology*, 29(3):261–265, Feb 1965. URL <http://dx.doi.org/10.1037/h0022125>.

Paul Slovic, Dan Fleissner, and W Bauman. Analyzing the use of information in investment decision making: A methodological proposal. *The Journal of Business*, 45(2):283–301, Apr 1972. URL <http://www.jstor.org/stable/2352034>.

A Tversky. . . . Belief in the law of small numbers. *A handbook for data analysis in the . . .*, Jan 1993. URL <http://books.google.com/books?hl=en&lr=&id=nxOFMQYMIlgC&oi=fnd&pg=PA341&dq=Belief+in+the+Law+of+Small+Numbers&ots=FJ2FCN9pRL&sig=jnT8dgyzIdv9j24oIr-cjct5A1o>.

## Lecture 8

### Required Reading

- Charness and Levin 2005

### Optional Readings

- Skinner 1948\*
- Wason 1960\*
- Chapman and Chapman 1967
- Kahneman and Tversky 1972
- Gilovich, Vallone, and Tversky 1985\*
- Shiller 1988
- Benartzi 2001\*
- Huberman and Regev 2001
- Vissing-Jorgensen 2003
- Barber and Odean 2007\*
- Seasholes and Wu 2007
- Cohen and Frazzini 2008
- Choi, Laibson, Madrian, and Metrick 2009

## Full References and Direct Links

B. M Barber and T Odean. All that glitters: The effect of attention and news on the buying behavior of individual and institutional investors. *Review of Financial Studies*, 21(2): 785–818, Dec 2007. doi: 10.1093/rfs/hhm079. URL <http://rfs.oxfordjournals.org/content/21/2/785>.

S Benartzi. Excessive extrapolation and the allocation of 401(k) accounts to company stock. *The Journal of Finance*, 56(5):1747–1764, Oct 2001. URL <http://www.jstor.org/stable/2697737>.

Loren J Chapman and Jean P Chapman. Genesis of popular but erroneous psychodiagnostic observations. *Journal of Abnormal Psychology*, 72(3):193–204, Jan 1967. doi: 10.1037/h0024670. URL <http://dx.doi.org.wwwproxy0.library.unsw.edu.au/10.1037/h0024670>.

Gary Charness and Dan Levin. When optimal choices feel wrong: A laboratory study of bayesian updating, complexity, and affect. *The American Economic Review*, 95(4): 1300–1309, Sep 2005. URL <http://www.jstor.org/stable/4132717>.

JJ Choi, D Laibson, BC Madrian, and A Metrick. Reinforcement learning and savings behavior. *The Journal of Finance*, 64(6):2515–2534, 2009. URL <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.2009.01509.x/abstract>.

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- T Gilovich, Robert Vallone, and A Tversky. The hot hand in basketball: On the misperception of random sequences. *Cognitive Psychology*, 17(3):295–314, 1985. URL [http://dx.doi.org.wwwproxy0.library.unsw.edu.au/10.1016/0010-0285\(85\)90010-6](http://dx.doi.org.wwwproxy0.library.unsw.edu.au/10.1016/0010-0285(85)90010-6).
- Gur Huberman and Tomer Regev. Contagious speculation and a cure for cancer: A nonevent that made stock prices soar. *The Journal of Finance*, 56(1):387–396, Feb 2001. URL <http://www.jstor.org/stable/222474>.
- D Kahneman and Amos Tversky. Subjective probability: A judgment of representativeness. *Cognitive Psychology*, 3(3):430–454, Jul 1972. doi: 10.1016/0010-0285(72)90016-3. URL [http://dx.doi.org.wwwproxy0.library.unsw.edu.au/10.1016/0010-0285\(72\)90016-3](http://dx.doi.org.wwwproxy0.library.unsw.edu.au/10.1016/0010-0285(72)90016-3).
- MS Seasholes and G Wu. Predictable behavior, profits, and attention. *Journal of Empirical Finance*, 14(5):590–610, 2007. doi: 10.1016/j.jempfin.2007.03.002. URL <http://dx.doi.org/10.1016/j.jempfin.2007.03.002>.
- Robert Shiller. Portfolio insurance and other investor fashions as factors in the 1987 stock market crash. *NBER Macroeconomics Annual*, 3:287–297, Jan 1988. URL <http://www.jstor.org/stable/3584957>.
- B Skinner. 'superstition' in the pigeon. *Journal of Experimental Psychology*, 38(2):168, Feb 1948. doi: 10.1037/h0055873. URL <http://psycnet.apa.org/journals/xge/38/2/168.html>.
- A Vissing-Jorgensen. Perspectives on behavioral finance: Does "irrationality" disappear with wealth? evidence from expectations and actions. *NBER Macroeconomics Annual*, Jan 2003. URL <http://www.jstor.org/stable/3585252>.
- P. C Wason. On the failure to eliminate hypotheses in a conceptual task. *The Quart. J. of Expt. Psych.*, 12(3):129–140, Jul 1960. doi: 10.1080/17470216008416717. URL <http://dx.doi.org/10.1080/17470216008416717>.

## Lecture 9

### Required Reading

- Barberis and Huang... 2001: don't dwell on details, try to get the main intuitions

### Optional Readings

- Shiller 1981\*
- Mehra and Prescott 1985
- Fama and French 1988
- Campbell and Cochrane 1999
- Taylor and Woodford 1999
- Maenhout 2004

## Full References and Direct Links

N Barberis and M Huang.... Prospect theory and asset prices\*. *Quarterly Journal of Economics*, Jan 2001. URL [http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?db=pubmed&cmd=Retrieve&dopt=AbstractPlus&list\\_uids=6686307720400602339related:4wRuNXKJylwJ](http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?db=pubmed&cmd=Retrieve&dopt=AbstractPlus&list_uids=6686307720400602339related:4wRuNXKJylwJ).

JY Campbell and JH Cochrane. By force of habit: A consumption-based explanation of aggregate stock market behavior. *Journal of political Economy*, Jan 1999. URL <http://www.jstor.org/stable/2990809>.

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PJ Maenhout. Robust portfolio rules and asset pricing. *Review of Financial Studies*, 17 (4):951, 2004. URL <http://rfs.oxfordjournals.org/content/17/4/951.full>.

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JB Taylor and M Woodford. Handbook of macroeconomics. *books.google.com*, Chap 19:1231–1303, Jan 1999. URL <http://books.google.com/books?hl=en&lr=&id=XaHyEhLTANwC&oi=fnd&pg=PR5&dq=Taylor+Handbook+of+macroeconomics+Asset+prices,+consumption+and+the+business+cycle&ots=ajp9fWa8wq&sig=WT8ECV00NRKaGOLx3CDpPv0ohFQ>.

## Lecture 10

### Required Reading

- Barberis, Shleifer, and Vishny 1998: don't dwell on details, try to get the main intuitions

### Optional Readings

- Miller 1977
- Harrison and Kreps 1978
- Bondt and Thaler 1985\*
- Bernard and Thomas 1989
- Fama and French 1992
- Fama and French 1993
- Jegadeesh and Titman 1993
- Lakonishok, Shleifer, and Vishny 1994
- Loughran and Ritter 1995
- Brav and Gompers 1997
- Daniel and Titman 1997\*
- Fama and French 1998
- Baker and Wurgler 2000
- Daniel, Hirshleifer, and Subrahmanyam 2001\*
- Baker and Wurgler 2002
- Jones and Lamont 2002
- Grinblatt and Han 2005
- Lee, Shleifer, and Thaler 1991 Barberis and Shleifer 2003

### Full References and Direct Links

M Baker and J Wurgler. The equity share in new issues and aggregate stock returns. *The Journal of Finance*, Jan 2000. URL <http://www3.interscience.wiley.com/journal/119004554/abstract>.

Malcolm Baker and Jeffrey Wurgler. Market timing and capital structure. *The Journal of Finance*, 57(1):1–32, Feb 2002. doi: 10.1111/1540-6261.00414. URL <http://onlinelibrary.wiley.com/doi/10.1111/1540-6261.00414/abstract>.

N Barberis and A Shleifer. Style investing. *Journal of financial economics*, 68(2):161–199, 2003. URL [http://dx.doi.org/10.1016/S0304-405X\(03\)00064-3](http://dx.doi.org/10.1016/S0304-405X(03)00064-3).

N Barberis, A Shleifer, and R Vishny. A model of investor sentiment. *Journal of financial economics*, 49(3):307–343, 1998. URL [http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?db=pubmed&cmd=Retrieve&dopt=AbstractPlus&list\\_uids=4230264630342555706related:0ph3tUTrtDoJ](http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?db=pubmed&cmd=Retrieve&dopt=AbstractPlus&list_uids=4230264630342555706related:0ph3tUTrtDoJ).

- Victor Bernard and Jacob Thomas. Post-earnings-announcement drift: Delayed price response or risk premium? *Journal of Accounting research*, 27:1–36, Jan 1989. URL <http://www.jstor.org/stable/2491062>.
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- Kent Daniel and Sheridan Titman. Evidence on the characteristics of cross sectional variation in stock returns. *The Journal of Finance*, 52(1):1–33, Mar 1997. URL <http://www.jstor.org/stable/2329554>.
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## Lecture 11

### Required Reading

- Barberis and Huang 2001: don't dwell on details, try to get the main intuitions

### Optional Readings

- Milgrom and Stokey 1982
- French and Poterba 1991
- Odean 1998
- Coval and Moskowitz 1999
- Barber and Odean 2000\*
- Barber and Odean 2001\*
- Benartzi and Thaler 2001\*
- Benartzi 2001\*
- Coval and Moskowitz 2001
- Grinblatt and Keloharju 2001
- Madrian and Shea 2001
- Barber and Odean 2002
- Thaler and Sunstein 2003
- Thaler and Benartzi 2004\*
- Guiso, Sapienza, and Zingales 2008
- Grinblatt, Linnainmaa, and Keloharju

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- M Grinblatt, J Linnainmaa, and M Keloharju. Iq and stock market participation. *papers.ssrn.com*. URL [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1441512](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1441512).
- Mark Grinblatt and Matti Keloharju. How distance, language, and culture influence stock holdings and trades. *The Journal of Finance*, 56(3):1053–1073, Jun 2001. doi: 10.1111/0022-1082.00355. URL <http://onlinelibrary.wiley.com/doi/10.1111/0022-1082.00355/abstract>.
- Luigi Guiso, Paola Sapienza, and Luigi Zingales. Trusting the stock market. *The Journal of Finance*, 63(6):2557–2600, Dec 2008. doi: 10.1111/j.1540-6261.2008.01408.x. URL <http://www3.interscience.wiley.com/journal/121511885/abstract>.
- Brigitte Madrian and Dennis Shea. The power of suggestion: Inertia in 401(k) participation and savings behavior. *The Quarterly Journal of Economics*, 116(4):1149–1187, Nov 2001. URL <http://www.jstor.org/stable/2696456>.
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## Lecture 12

### Required Reading

- Coricelli and Nagel 2009

### Optional Readings

- Epstein and Rock 1960
- Boven and Loewenstein 2003
- Bruguier, Quartz, and Bossaerts 2010\*
- Payzan-LeNestour 2010

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Leaf Van Boven and George Loewenstein. Social projection of transient drive states. *pers soc psychol bull*, 29(9):1159–1168, Sep 2003. doi: 10.1177/0146167203254597. URL <http://psp.sagepub.com/content/29/9/1159.abstract>.

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## PART B: KEY POLICIES, STUDENT RESPONSIBILITIES AND SUPPORT

### 1 PROGRAM LEARNING GOALS AND OUTCOMES

The Australian School of Business Program Learning Goals reflect what we want all students to BE or HAVE by the time they successfully complete their degree, regardless of their individual majors or specialisations. For example, we want all our graduates to HAVE a high level of business knowledge, and a sound awareness of ethical, social, cultural and environmental implications of business. As well, we want all our graduates to BE effective problem-solvers, communicators and team participants. These are our overall learning goals for you.

You can demonstrate your achievement of these goals by the specific outcomes you achieve by the end of your degree (e.g. be able to analyse and research business problems and propose well-justified solutions). Each course contributes to your development of two or more program learning goals/outcomes by providing opportunities for you to practise these skills and to be assessed and receive feedback.

Program Learning Goals for undergraduate and postgraduate students cover the same key areas (application of business knowledge, critical thinking, communication and teamwork, ethical, social and environmental responsibility), which are key goals for all ASB students and essential for success in a globalised world. However, the specific outcomes reflect different expectations for these levels of study.

We strongly advise you to choose a range of courses which assist your development of these skills, e.g., courses assessing written and oral communication skills, and to keep a record of your achievements against the Program Learning Goals as part of your portfolio.

#### ASB Undergraduate Program Learning Goals and Outcomes

**1. Knowledge: Our graduates will have in-depth disciplinary knowledge applicable in local and global contexts.**

You should be able to select and apply disciplinary knowledge to business situations in a local and global environment.

**2. Critical thinking and problem solving: Our graduates will be critical thinkers and effective problem solvers.**

You should be able to identify and research issues in business situations, analyse the issues, and propose appropriate and well-justified solutions.

**3. Communication: Our graduates will be effective professional communicators.**

You should be able to:

- a. Prepare written documents that are clear and concise, using appropriate style and presentation for the intended audience, purpose and context, and
- b. Prepare and deliver oral presentations that are clear, focused, well-structured, and delivered in a professional manner.

**4. Teamwork: Our graduates will be effective team participants.**

You should be able to participate collaboratively and responsibly in teams, and reflect on your own teamwork, and on the team's processes and ability to achieve outcomes.

**5. Ethical, social and environmental responsibility: Our graduates will have a sound awareness of the ethical, social, cultural and environmental implications of business practice.**

You should be able to:

- a. Identify and assess ethical, environmental and/or sustainability considerations in business

- decision-making and practice, and
- b. Identify social and cultural implications of business situations.

## 2 ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For UNSW policies, penalties, and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html> as well as the guidelines in the online ELISE and ELISE Plus tutorials for all new UNSW students: <http://info.library.unsw.edu.au/skills/tutorials/InfoSkills/index.htm>.

To see if you understand plagiarism, do this short quiz:

<http://www.lc.unsw.edu.au/plagiarism/plagquiz.html>

For information on how to acknowledge your sources and reference correctly, see:

<http://www.lc.unsw.edu.au/onlib/ref.html>

For the *ASB Harvard Referencing Guide*, see ASB Referencing and Plagiarism webpage (ASB >Learning and Teaching>Student services>Referencing and plagiarism)

## 3 STUDENT RESPONSIBILITIES AND CONDUCT

Students are expected to be familiar with and adhere to university policies in relation to class attendance and general conduct and behaviour, including maintaining a safe, respectful environment; and to understand their obligations in relation to workload, assessment and keeping informed.

Information and policies on these topics can be found in the 'A-Z Student Guide':

<https://my.unsw.edu.au/student/atoz/A.html>. See, especially, information on 'Attendance and Absence', 'Academic Misconduct', 'Assessment Information', 'Examinations', 'Student Responsibilities', 'Workload' and policies such as 'Occupational Health and Safety'.

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### 3.1 Workload

It is expected that you will spend at least **nine to ten hours** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

We strongly encourage you to connect with your Blackboard or Moodle course websites in the first week of semester. Local and international research indicates that students who engage early and often with their course website are more likely to pass their course.

### 3.2 Attendance

Because of the nature of the course, you should attend all FINS3655 lectures. **If you FAIL TO ATTEND MORE THAN 3 of the scheduled classes without justification, you WILL BE REFUSED FINAL ASSESSMENT.**

### 3.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: <https://my.unsw.edu.au/student/atoz/BehaviourOfStudents.html>

### 3.4 Occupational Health and Safety

UNSW Policy requires each person to work safely and responsibly, in order to avoid personal injury and to protect the safety of others. For more information, see <http://www.ohs.unsw.edu.au/>.

### 3.5 Keeping Informed

You should take note of all announcements made in lectures, tutorials or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information. It is also your responsibility to keep the University informed of all changes to your contact details.

## 4 SPECIAL CONSIDERATION AND SUPPLEMENTARY EXAMINATIONS

You must submit all assignments and attend all examinations scheduled for your course. You should seek assistance early if you suffer illness or misadventure which affects your course progress.

#### General Information on Special Consideration:

1. All applications for special consideration must be **lodged online through myUNSW within 3 working days of the assessment** (Log into myUNSW and go to My Student Profile tab > My Student Services channel > Online Services > Special Consideration). You will then need to submit the originals or certified copies of your completed Professional Authority form (pdf - [download here](#)) and other supporting documentation to Student Central. For more information, please study carefully the instructions and conditions at: <https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>

2. Please note that documentation may be checked for authenticity and the submission of false documentation will be treated as academic misconduct. The School may ask to see the original or certified copy.
3. Applications will **not** be accepted by teaching staff. The lecturer-in-charge will be automatically notified when you lodged an online application for special consideration.
4. Decisions and recommendations are only made by lecturers-in-charge (or by the Faculty Panel in the case of UG final exam special considerations), **not** by tutors.
5. Applying for special consideration **does not** automatically mean that you will be granted a supplementary exam or other concession.
6. Special consideration requests **do not allow** lecturers-in-charge to award students additional marks.

### **ASB Policy on requests for Special Consideration for Final Exams in Undergraduate Courses:**

The policy of the School of Banking and Finance is that the lecturer-in-charge will need to be satisfied on each of the following before supporting a request for special consideration:

1. Does the medical certificate contain all relevant information? For a medical certificate to be accepted, the degree of illness, and impact on the student, must be stated by the medical practitioner (severe, moderate, mild). A certificate without this will not be valid.
2. Has the student performed satisfactorily in the other assessment items? Satisfactory performance would require at least 50% and meeting the obligation to have attended 80% of tutorials.
3. Does the student have a history of previous applications for special consideration? A history of previous applications may preclude a student from being granted special consideration.

### **Special Consideration and the Final Exam:**

Applications for special consideration in relation to the final exam are considered by an ASB Faculty panel to which lecturers-in-charge provide their recommendations for each request. If the Faculty panel grants a special consideration request, this will entitle the student to sit a supplementary examination. No other form of consideration will be granted. The following procedures will apply:

1. Supplementary exams will be scheduled centrally and will be held approximately two weeks after the formal examination period. The dates for ASB supplementary exams for Session 1, 2012 are:  
 16 July 2013 – exams for the School of Accounting  
 17 July 2013 – exams for all Schools except Accounting and Economics  
 18 July 2013 – exams for the School of Economics  
 If a student lodges a special consideration for the final exam, they are stating they will be available on the above dates. Supplementary exams will not be held at any other time.
2. Where a student is granted a supplementary examination as a result of a request for special consideration, the student's original exam (if completed)

will be ignored and only the mark achieved in the supplementary examination will count towards the final grade. Failure to attend the supplementary exam will not entitle the student to have the original exam paper marked and may result in a zero mark for the final exam.

If you attend the regular final exam, you are extremely unlikely to be granted a supplementary exam. Hence if you are too ill to perform up to your normal standard in the regular final exam, you are strongly advised not to attend. However, granting of a supplementary exam in such cases is not automatic. You would still need to satisfy the criteria stated above.

The ASB's Special Consideration and Supplementary Examination Policy and Procedures for Final Exams for Undergraduate Courses is available at:  
<http://www.asb.unsw.edu.au/currentstudents/resources/forms/Documents/supplementaryexamprocedures.pdf>.

### **Special consideration and assessments other than the Final exam:**

Applications must be addressed to the lecturer in charge.

## **5 STUDENT RESOURCES AND SUPPORT**

The University and the ASB provide a wide range of support services for students, including:

- **ASB Education Development Unit (EDU)**  
<http://www.asb.unsw.edu.au/learningandteaching>  
Academic writing, study skills and maths support specifically for ASB students. Services include workshops, online and printed resources, and individual consultations. EDU Office: Room GO7, Ground Floor, ASB Building (opposite Student Centre); Ph: 9385 5584; Email: [edu@unsw.edu.au](mailto:edu@unsw.edu.au) **Visit us on Facebook: [www.facebook.com/educationdevelopmentunit](http://www.facebook.com/educationdevelopmentunit)**
- **ASB Student Centre** <http://www.asb.unsw.edu.au/requests>  
Advice and direction on all aspects of admission, enrolment and graduation. Ground Floor, West Wing, ASB Building; Ph: 9385 3189
- **Blackboard eLearning Support:** For online help using Blackboard, follow the links from [www.elearning.unsw.edu.au](http://www.elearning.unsw.edu.au) to *UNSW Blackboard Support / Support for Students*. For technical support, email: [itservicecentre@unsw.edu.au](mailto:itservicecentre@unsw.edu.au); ph: 9385 1333
- **UNSW Learning Centre** ([www.lc.unsw.edu.au](http://www.lc.unsw.edu.au))  
Academic skills support services, including workshops and resources, for all UNSW students. See website for details.
- **Library training and search support services:**  
<http://info.library.unsw.edu.au/web/services/services.html>
- **IT Service Centre:** Technical support for problems logging in to websites, downloading documents etc. <https://www.it.unsw.edu.au/students/index.html>  
UNSW Library Annexe (Ground floor)
- **UNSW Counselling and Psychological Services**  
(<http://www.counselling.unsw.edu.au>)  
Free, confidential service for problems of a personal or academic nature; and workshops on study issues such as 'Coping With Stress' and 'Procrastination'.



Office: Level 2, Quadrangle East Wing; Ph: 9385 5418

- **Student Equity & Disabilities Unit** (<http://www.studentequity.unsw.edu.au>)  
Advice regarding equity and diversity issues, and support for students who have a disability or disadvantage that interferes with their learning. Office: Ground Floor, John Goodsell Building; Ph: 9385 4734