FIN 6550: BEHAVIORAL FINANCE AND MARKET MICROSTRUCTURE

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General and content questions go on the WebCT Bulletin Board; ask personal questions via e-mail!

This syllabus and other information can be accessed via my web page at www.fiu.edu/~daiglerr.
See the “For My Students” link in the left frame.
* WebCT: go to student.fiu.edu and click the icon at the bottom to enter WebCT.
Your username is your PanterID
Your password is your birthday in MMDDYYYY format

Textbooks: Harris, Trading and Exchanges: Market Microstructure for Practitioners
Shefrin, Greed and Fear
The textbooks are important to buy!

PART I: THE COURSE

Topic Areas Covered:
*Market microstructure examines issues related to trading and exchanges, including how markets act
within the day. The trading behavior of different types of traders provides valuable information
concerning market structure. The course emphasizes the types of traders in the market, liquidity, and
market structure. We also examine the role of volatility and volume in market activity.
*Behavioral Finance: examines how individual’s attitudes and behavior affect their financial decisions.
Basically “Behavioral Finance” links psychology and finance. It investigates how decision making is
affected by personal factors, such as the tendency to “sell winners too soon and hold losers too long.”
Key issues are heuristic-driven biases, frame dependence, and inefficient markets. An examination of
how behavioral finance concepts affect markets will provide investors and money managers with
valuable information on how to make better decisions.

Approach to the Material: The material for this course differs from most Finance courses. First, it is
not quantitative. Second, there are few “financial economic theories.” Most of the material is
understandable from the sources. We will cover the material via my and your discussion in class.

Learning Objectives: In addition to understanding the behavior and structure of markets, this course
focuses on the process of thinking, comprehending, and communicating knowledge. This process is
beneficial both for other subject areas and for a life-long ability to examine and analyze information.

Background: A course “on the markets” is important. Such courses include Financial Markets, Security
Analysis, Risk Management. If you do not have such a background then the terms will be strange to
you.

Using WebCT for Questions, etc.: WebCT is a computer interface on the web where you can post
questions about the material (or even links or articles relating to the material) and questions and
suggestions regarding the Trading Game and Tradestation.
PART II: GRADING AND ASSIGNMENTS

The A and A- choice:
Quizzes on material 60 (best 12 of 15) (max 60 points)
“Writeups” on chapters 45 (do 3)
Takehome exam 60
Attendance and paying attention 50
Misc 40

PLUS either the “Pines” or “Dade” alternatives listed here:

“Pines” (NOT taken Fin 6487) “Dade” (Taken Fin 6487)
Trading Game 75 Trading Game Leader 40
TradeStation project** 75 TradeStation project** 75
CHOICE OF TWO of:
TradeStation project** 75 Class Discussion 50
Class Discussion 50 Discussion Leader Class 40
Discussion Leader Class 40 Trading Game 50
Presentation technical analysis 50 TradeStation Leader* 40
articles 50 Empirical Project (spreadsheet) 75

The B+/B choice: this choice has fewer assignments and less expectations for quizzes and other items.
Quizzes 50 (best of 10 of 15; only first 13 taken count) (max 50 points)
“Writeups” on chapters 30 (do 2)
Takehome exam 45
Attendance and paying attention 45
Misc 35

PLUS either the “Pines” or “Dade” alternatives listed here:

“Pines” (NOT taken Fin 6487) “Dade” (Taken Fin 6487)
Trading Game 75 TradeStation project** 60
CHOICE OF TWO of:
TradeStation project 60 CHOICE OF TWO of:
Class Discussion 35 Class Discussion 35
Discussion Leader class 35 Discussion Leader Class 35
Presentation technical analysis 40 Trading Game 75
articles 40

The B- and below choice:
Quizzes 45 (best 10 of 15; only first 13 taken count) (max 45 points)
“Writeups” on chapters 25 (do 2)
Takehome exam 35
Attendance and paying attention 40
Misc 30

PLUS either the “Pines” or “Dade” alternatives listed here:

“Pines” (NOT taken Fin 6487) “Dade” (Taken Fin 6487)
CHOICE OF ONE of:
Trading Game 60 Class Discussion 30
Class Discussion 30 Trading Game 60

* A “TradeStation Leader” helps those working with TradeStation. They MUST have a good working
knowledge of TradeStation, in particular they believe working with it for a previous project allows them to
provide others with knowledge of how to use it. (Although perhaps NOT how to use the trading indicators.)
** TradeStation is a group project (two people); the prof makes the groups; a presentation is also required
for an A, but NOT for a B+. 
IN ADDITION:
*Grades may be adjusted by 1/3 of 1 letter grade (either plus or minus, say from B to B+), for borderline or near borderline grades, based on the performance of individual components of your grade compared to the your overall average, and to how your grades compare to others with similar grades.
* Adjustments for unprofessional behavior/attitude or cheating may also be made

Objectives of grade adjustments:
(1) to assure that individuals with similar grades on individual components obtain the same term grade.
(2) to make sure that individuals attend and pay attention in class
(3) to develop a professional business approach; to avoid situations that would get you fired or a poor evaluation in the workplace.

NOTES:
“Base points” are the points in the denominator. Your percentage grade is the points you earn divided by the number of base points.

**Grades:**

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<th>Grade</th>
<th>Points</th>
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<tr>
<td>A</td>
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<tr>
<td>A-</td>
<td>3.7</td>
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<tr>
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<td>3.3</td>
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<tr>
<td>B</td>
<td>3.0</td>
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<tr>
<td>B-</td>
<td>2.7</td>
</tr>
<tr>
<td>C+</td>
<td>2.3</td>
</tr>
<tr>
<td>C</td>
<td>2.0</td>
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<tr>
<td>C-</td>
<td>1.7</td>
</tr>
<tr>
<td>D</td>
<td>Below 60%</td>
</tr>
</tbody>
</table>

“90 to 95%” means all grades from 90% to 94.99%, etc.

**PART III: INFORMATION ON ASSIGNMENTS, ETC.**

**In Class Exams:** None!

**Quizzes:** Quizzes will be on WebCT. The quizzes are more geared to see whether you read the material rather than concentrating on the most important material in the chapter.

“**Writeup on chapters**”: this assignment is geared toward making sure you read certain chapters. The assignment will be made early in the week before the chapter is due and then handed in on Friday. NOTE: the grading on these is very specific (consistent with a graduate course!)

“**Take Home**”: At the end of the term questions will be provided regarding material covered in the class plus some questions that are related to the class but are not specifically found in the books.

**Trading Game:** You will trade various instruments in a simulation. Separate instructions will be provided.

**Trading Game Leader:** You will help others who have not used Stocktrak to use this program and provide suggestions about trading. You must have used Stocktrak in Fin 6487 to take on this role.

**Class Discussion:** Students need to participate in the class discussions by asking and answering questions and presenting any relevant information concerning the topic being discussed. Class discussion is based on your relevant discussion of the reading material. (I would suggest marking the book regarding questions and comments you have.)

**Discussion Class Leader:** This involves looking up relevant information on one larger or two smaller topics to provide information to the class. Topics will be assigned by the professor. This will involve
leading the class in the discussion of this topic. In addition, you may be called upon at other times to add to the discussion of a topic at hand.

**Attendance and Paying Attention:** Attendance is an important part of the grade due to the subjective aspect of the material and due to the discussions. Being on-time for the class and after the break is part of this grade. **It is particularly important to be back in class in time after the break ends.** Being late disrupts the class. [If you have a consistent problem with arriving on time then see me.]

NOTE: do NOT contact me if you have to miss ONE class, as it will not be significant. However, if you will be out for several classes due to a health or related problem then contact me. Missing more than one class affects this grade geometrically as you miss more classes!

“Paying Attention” also is important for this class due to the subject matter. Using computers, sleeping, consistent talking, playing with your cell phones, etc. is both distracting and indicates a lack of interest in the class. This category could be called “being professional and in-class conduct.”

**TradeStation:** A project involving Tradestation will be done in groups of two. The project will examine a trading model with the data in Tradestation. The investigation should be relatively sophisticated but does not require that to write your own program using Easy language. See later for more information.

**Tradestation Leader:** Helping those who do the Tradestation project work with Tradestation. This will be particularly important when they start working with Tradestation (when they are most unfamiliar with it). One needs to have a working knowledge of Tradestation from working with it in Fin 6487.

**Miscellaneous Grade:**

**WebCT Participation:** max = 15
Your activity on WebCT (bulletin board, etc., a type of class participation). Do NOT litter the BB with messages such as “Thanks,” “Good Job” or “Mike, let’s meet at 7 pm.” There is the MAIL function for those messages!

“Being Smart”: max = 20
How do you/would you treat your boss and colleagues. Would you ask what is in the policy manual on page 12? Would you ask him/her the same question four times? Look before you leap.

Special Positive: max = 10
Aiding the class/Professor in a way not covered by the syllabus

Special Negative: range = 0 to -20
Examples: late arrival/departure on important days, such as the first day or being in class the first day. Not reading the syllabi/instructions.

Special Items: max = 15
Bonus questions/writeups. Anything that does not appear elsewhere.

**Presentation of technical analysis articles:** You will be given a list of studies on technical analysis (research articles). You will read them and prepare a presentation of four of these articles to the class about how well the technical methods in the article work according to the research in the articles.

**Empirical Project:** you will use data provided to you and choose a topic (ideas provided to you) to empirically test a research topic using spreadsheets. Need to have completed Fin 6487 and need to be very competent in using spreadsheets.

**TradeStation Project:**
This project involves testing out a trading model on TradeStation. This may be accomplished in many ways, for example one can test several different trading models, or test one model that is more complicated, or one may use different sets of data and time periods, etc. My suggestion is to use one model for various different sets of data.
There needs to be two people to each project group. The professor chooses the groups.
You will need to understand how TradeStation works before attempting to simulate trading models with it. This project involves several different steps, and you can not wait until the end of the term to do them. Each step has a time deadline.
Steps to the project:
1) E-mail to me the topic or concept of what you are going to do in one or two sentences as soon as possible, but no later than May 20.
2) By June 3 provide an outline of what you intend to do. The outline should include what model you are going to study, any parameters you are going to use, what data you are going to employ, and whatever other information that might be useful for me to make any suggestions to help you out.
3) If one of the group members is attempting an A grade then make a presentation to the class on June 16 or 23 that includes slides, what you did, and the results. The presentation should be around six to eight minutes plus any questions from the class.
5) The final writeup deadline is Monday, June 26. Make sure to include a table and or graphs that show the results of your study. The write-up should include an introduction that states what you studied, what data you used, and other basic information. A second section should provide any detailed information on the model or method that you examined and what parameters you used. The next section should discuss the results that you obtained. Put in the final section any conclusions you wish to provide. The write up should be detailed enough to fully explain what you did, but not ramble on. I would expect five to seven pages of text would be sufficient, plus any graphs or tables. However, do not try to stretch it to five pages if you do not have the information to fill that amount of space.
Appendix I. Intellectual Honesty
Cheating and plagiarism are inappropriate in college. Cheating includes obtaining answers from notes and other individuals and obtaining the questions or answers of quizzes before you take the quiz. Plagiarism includes taking the work (wording) used by others and not giving the appropriate reference to the source.

Statement of Understanding between Professor and Student:

Code of Academic Integrity
Every student must respect the right of all to have an equitable opportunity to learn and honestly demonstrate the quality of their learning. Therefore, all students must adhere to a standard of academic conduct, demonstrating respect for themselves, their fellow students, and the educational mission of the University. As a student enrolled in the College of Business Administration at FIU, I will not represent someone’s else’s work as my own.

- I will not cheat, nor will I aid in another’s cheating.
- I will be honest in my academic endeavors.
- I understand that if I am found responsible for academic misconduct, I will be subject to the academic misconduct procedures and sanctions as outlined in the FIU Student Handbook.

Academic Honesty Policy

Code of Standards
A University is a learning community that follows a tradition of more than 1,000 years. Florida International University is such a community, dedicated to generating and transmitting knowledge through excellent teaching and research, the rigorous and respectful exchange of ideas, and community service. As a member of this community:

I. I will respect the tradition of academic inquiry, the University’s rules of conduct, and its mission.
II. I will respect the opinions and differences of all members of the FIU community.
III. I will practice civility and avoid behavior that undermines the normal functioning of the University.
IV. I will respect the rights and property of the University and its members.
V. I will be diligent and honest in my personal and academic endeavors.

Code of Academic Integrity

This Code of Academic Integrity was adopted by the Student Government Association on November 28, 2001 and reflects the values articulated in the Student Code of Standards. All students are expected to adhere to a standard of academic conduct, which demonstrates respect for themselves, their fellow students, and the educational mission of Florida International University.

Pledge
As a student in the College of Business:
- I will respect the tradition of academic inquiry, the University’s rules of conduct, and its mission.
- I will respect the opinions and differences of all members of the FIU community.
- I will practice civility and avoid behavior that undermines the normal functioning of the University.
- I will respect the rights and property of the University and its members.
- I will be diligent and honest in my personal and academic endeavors.

All students are deemed by the University to understand that if they are found responsible for academic misconduct, they will be subject to the Academic Misconduct procedures and sanctions, as outlined in the Student Handbook.

Sexual Harassment:
“Florida International University recognizes the basic right and freedoms of students. The following rights and freedoms are recognized as basic to the educational process: Sexual Harassment: Students are entitled to work and study in an atmosphere free from unsolicited and unwelcome sexual overtures or innuendos.”

Religious Holy Days:
“Faculty are encouraged to make accommodations for students who wish to observe religious holidays. For a listing of religious holidays, you may visit: http://www.interfaithcalendar.org Students should make their requests known at the beginning of the semester.”

Disability Services
“Students with disabilities who are unable to complete regular course requirements should request, in consultation with ODS, the course modifications needed from their professors. Requests should be made as early as possible. ODS will cooperate with the student and the professor to secure appropriate accommodations.” Office of Disability Services Web-page: http://www.fiu.edu/~disser/
BEHAVIORAL FINANCE AND MARKET MICROSTRUCTURE SCHEDULE

SELECTION OF ARTICLES START AT (NO EARLiER THAN) 1 PM ON Sunday Sept 4. The third and fourth class presentations MUST be chosen before any others can be chosen (I will delete others and any choices before 1 pm). Changes cannot be made until 1 pm Sunday Sept 9 (for presentations AFTER class #3 only!)

IMP TRADESTATION: see dates under the project discussion.

NOTE: The “topic choice deadline is moved from Sept 4 to Friday Sept 9 at the BEGINNING OF CLASS.
The takehome deadline will be Monday October 17. (Plan ahead if you do both the takehome and the writeup of Tradestation.)

Harris: MARKET MICROSTRUCTURE
Shefrin: BEHAVIORAL FINANCE

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<thead>
<tr>
<th>Class</th>
<th>Chapter Nos</th>
<th>Pages</th>
<th>Minutes</th>
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<td>Shefrin 1 (Instructor)</td>
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<td>Shefrin 2+3</td>
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<tr>
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<td>Shefrin 14+15</td>
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<td>TradeStation projects</td>
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TradeStation projects
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NOTE TO ME: for TS project

points
5 pts pick topic (all on time)
8 pts outline
12 pts report
35 pts final report (if perfect, 1 pt each item)

15 pts if give presentation

note: 60 to 75 point: worth 10 more than listed

categories are
Quality project
quality report
Eng
methodology
depth
difficulty
uniqueness

if all excell then 35 points ...... 1 point for each (vg one item be 1 point)