



BEHAVIORAL ECONOMICS AND FINANCE

OVERVIEW

Behavioral Economics applies concepts of psychology to provide insights and certain frameworks to the field of finance and economics (or more generally, management decision making. Wikipedia defines behavioral economics, along with the related sub-field behavioral finance, as the study of the effects of psychological, social, cognitive, and emotional factors on the economic decisions of individuals and institutions and the consequences for market prices, returns, and resource allocation, although not always that narrowly, but also more generally, of the impact of different kinds of behavior, in different environments of varying experimental values."

In his now famous book *"Thinking – Fast and Slow"*, Nobel laureate Daniel Kahneman provides an interesting take on why understanding the psychological biases is important:

"So, this is my aim for watercooler conversations: improve the ability to identify and understand errors of judgment and choice, in others and eventually in ourselves, by providing a richer and more precise language to discuss them. In at least some cases, an accurate diagnosis may suggest an intervention to limit the damage that bad judgments and choices often cause."

COURSE DESCRIPTION AND MAIN OBJECTIVE

The purpose of this course is to inform future financial (or business) analysts, general (or portfolio) managers, consultants, and advisors of the psychological processes and biases underlying the decisions made by customers, competitors, colleagues, and themselves, with an emphasis on how to incorporate such insights into marketing and business strategies.

Successful portfolio management, marketing and business strategies depend on a thorough understanding of how customers (or investors) make decisions. However, traditional models of customer (or investor) decision making, especially so called normative or rational models, have serious limitations. Customers (or investors) often use a variety of rules and processes that lead

sometimes to counterintuitive decision behavior. For instance, customers (or investors) have an exaggerated tendency to select compromise or middle options when making choices. They are also easily seduced by features of a product that seem to differentiate it from other products, even when these features in fact add no value. The premise of the course is that a series of similar findings from research in customer (or investor) decision making have powerful business implications.

Good decision makers know how to recognize decision problems, how to represent the essential structure of the decision situation, and how to analyze the problem with the formal tools based on decision theory. They need to think effectively about the inputs in a decision analysis, whether to trust the analysis, and how to use the outputs to guide actions by themselves and their firms. And, most important of all, decision makers need to know how to make effective, unaided intuitive decisions, and to recognize the limits on their intuitive skills.

LEARNING OUTCOMES

After completion of this course delegates will be able to:

- Understand how to utilize insights into the psychological processes and biases underlying their decisions, and those of their customers, competitors and colleagues, in the development of business and marketing strategies
- Understand how people make decisions based on a broad overview of various behavioral sciences
- Apply this knowledge to topics in finance and management

CONTENTS

Topics will include:

- Challenges to Rational Behavior: Econs versus Humans
- Prospect Theory
- Loss Aversion
- Risk Perception
- Mental Accounting
- Emotion Affect & Choice
- Memory & Decisions
- Financial Decision Making
- Happiness Prediction
- Values, Objectives & Choices
- Group Decision Making
- Negotiations



The lecturer will indicate how behavioral aspects are utilized in managerial decision making, including but not limited to, stock selection and portfolio construction, distressed Investments, incentive planning and negotiations.

FACULTY MEMBER

Faisal A. Nawaz is a founding member and Group CEO at Asiya Investments – a Middle Eastern firm that specializes in investing in emerging Asia (China, Korea, Taiwan, India, ASEAN, etc.) and the Middle East. Asiya Investments counts a sovereign wealth fund and several large conglomerates & ultra-high net worth individuals/families as its shareholders and investors.

Faisal has worked in the industry for the last 23 years in areas as diverse as automotive, aerospace, distribution, logistics and, most recently, investment management. With a strong technical and business background, Faisal has been instrumental in spearheading several diverse and large-scale research, operations and investment projects that include a large-scale organizational restructuring of a large US-based automotive supplier, introduction of specialized friction material to provide necessary torque transmission in high-speed automotive transmissions, implementation of an annual long-range planning (LRP) process, etc. In his work, Faisal has extensively utilized behavioral concepts to invest in the stock market via hedge funds, etc. or distressed firms (debt or equity). In addition, he has devised personnel incentive plans that are based on psychological principles of loss aversion and conducted several high-stake negotiations that benefit from several behavioral insights.

Faisal has a dual Master of Science diploma in Electromechanical Engineering and Manufacturing Systems Engineering from the Georgia Institute of Technology. In addition, he also has an MBA from the University of Chicago, where he specialized in Analytical and Behavioral Finance.

TARGET GROUP

This course is designed for executives and managers interested in the psychological processes and biases underlying the decisions made by customers, competitors, colleagues, and themselves, with emphasis on how to incorporate such insights into marketing and business strategies.

ADMISSION REQUIREMENTS

It is assumed participants are able to understand learning material in English, and write assignments and follow/participate in discussions on behavioral finance in English.

TEACHING METHODS

- Synchronous teaching on MS Teams.
- Class discussions, case studies, articles, and exercises illustrating the main concepts.

CERTIFICATE OPTIONS

Delegates can select to follow one of the following two approaches:

- Obtain a “Certificate of Successful Completion” by demonstrating their knowledge, understanding and skills of the learning outcomes in practical assessments at the end of the course.
- Obtain a “Certificate of Attendance” and will not be required to complete any assessment.

DATES

12 hours: TBC 2021 (3 days of 4 hours each)

Time: 09h00 – 13h00

FEES

Certificate of Successful Completion – AED3000 (excluding VAT)

Certificate of Attendance – AED2750 (excluding VAT)

ENQUIRIES

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