766 - Behavioral Finance

Description

The field of Behavioral Finance deals with how psychological factors influence consumers decision making and its implications for financial markets.

The goal of the Behavioral Finance course is to provide students with sufficient understanding of both optimal and actual decision making by individuals and how this impact markets.

In this course we analyze predictable decision errors, and discover where we are most susceptible to them.

We will discuss a case study and use interactive games to enhance interactive learning.

After passing the course, the students should be able to:

- Summarize and explain the main theories in Behavioral Finance and relate these to problems associated with traditional economic theory.
- Add up and explain the research methods that are used in Behavioral Finance and the results of this research.
- Explain and analyze how psychological factors influence both individual decisions and markets.

The course will include lectures, case studies, pop quizzes, class discussions, guest speakers, small tests, and student presentations. It will be highly interactive, and you are expected and encouraged to take part in class discussions. Students are expected to demonstrate a high level of independent learning and initiative.

Basic statistical inference knowledge is not required but helpful. Throughout the course, we will read and evaluate research papers. In order to weigh the importance of its conclusions students need to be able to judge the validity of the authors identification approach. Essential is students' willingness to acquire basic econometric inference skills by attending and reviewing supplied materials.

Literature

The course roughly follows:

- J Beshears, J Choi, d. Laibson and B Madrian, "Chapter 3 Behavioral Household Finance", in the Handbook of Behavioral Economics-Foundations and Application 1, editors: Douglas Bernheim, Stefano DellaVigna and David Laibson. Elsevier.
- https://doi.org/10.1016/bs.hesbe.2018.07.004

- **The Evolution of (Behavioral) Economics and Causal Inference**
    - Thaler, Richard H. (2016). "Behavioral Economics: Past, Present, and Future." American Economic Review,106 (7): 1577-1600.
    - Gelman, A., & Carlin, J. (2014). Beyond Power Calculations: Assessing Type S (Sign) and Type M (Magnitude) Errors. *Perspectives on Psychological Science*, *9*(6), 641–651.
- **Consumption and Saving 1**
    - Chapter 20: Consumption Charles I jones Stanford GSB
- **Consumption and Savings 2 (Mental Accounting)**
    - Richard Thaler, (1985) Mental Accounting and Consumer Choice, Marketing Science, Vol. 4, No. 3 , pp. 199-214
- **Borrowing 1**
    - Xavier Gabaix, David Laibson, (2006),Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive

Markets, *The Quarterly Journal of Economics*, Volume 121, Issue 2, May Pages 505–540

- Watts, T. W., Duncan, G. J., & Quan, H. (2018). Revisiting the Marshmallow Test: A Conceptual Replication Investigating Links Between Early Delay of Gratification and Later Outcomes. *Psychological Science*, *29*(7), 1159–1177.

- **Borrowing 2**
  - Gerardi, Lorenz Goette, Stephan Meier (2013) Numerical ability and mortgage default Kristopher Proceedings of the National Academy of Sciences Jul 2013, 110 (28) 11267-11271;

  - Bertrand and Morse. (2011) “Information Disclosure, Cognitive Biases, and Payday Borrowing.” The Journal of Finance, vol. 66, no. 6, 2011, pp. 1865–1893.
- **Payments**

  - Agarwal, Sumit, John C. Driscoll, Xavier Gabaix, and David Laibson. 2009. The age of reason: financial decisions over the life-cycle with implications for regulation. Brookings Papers on Economic Activity
  2:51-117.

  - Bursztyn, Leonardo & Ferman, Bruno & Fiorin, Stefano & Kanz, Martin & Rao, Gautam. (2018). Status Goods: Experimental Evidence from Platinum Credit Cards*. Quarterly Journal of Economics. 133. 1561-1595.

  - DellaVigna, Stefano, and Ulrike Malmendier. 2006. "Paying Not to Go to the Gym." *American Economic Review*, 96 (3): 694-719.

- **Asset Allocation 1**

  - Haliassos and Bertaut (1995) “Why Do so Few Hold Stocks?” The Economic Journal

- Vissing-Jorgensen (2004) Perspectives on behavioral finance: Does" irrationality" disappear with wealth? Evidence from expectations and actions NBER macroeconomics annual 18, 139-194

- Barberis, N., Huang, M., Thaler, R.H., 2006. Individual preferences, monetary gambles, and stock market participation: a case for narrow framing. American Economic Review

- **Asset Allocation 2**

  - Tversky, Amos, and Daniel Kahneman. "Advances in prospect theory: Cumulative representation of uncertainty." *Journal of Risk and uncertainty* 5.4 (1992): 297-323.

  - Kuhnen, Camelia M. & Miu, Andrei C., 2017. Socioeconomic Status and Learning from Financial Information, Journal of Financial Economics,

  - Barber, Brad M., and Terrance Odean. "Trading is hazardous to your wealth: The common stock investment performance of individual investors." *The journal of Finance* 55.2 (2000): 773-806.

  - Fama, Eugene F., and Kenneth R. French. "Luck versus skill in the cross-section of mutual fund returns." *The journal of finance* 65.5 (2010): 1915-1947

- **Insurance**

- **Interventions: Education, Information, Product design, Advice and Disclosure**

Examination

Grading will be based on:

1. Course participation, there will be 2 or maybe three mandatory guest lectures, if the students miss them, 20 credits will be deducted from their final exam

2. Assignment 1 (case study 1 and 2), if handed in and participated in the lectures that discusses the cases you can gain the option to skip question 1 on the exam and get full credits for that question.

3. Final Exam.

Assignments. (Pass/Fail)

Students will be assigned into groups that will present and participate in the two case studies that will be scheduled in the course. Passing Assignment 1 will give you the option to not answer question 1 on the written exam.

Written Exam (0-100 points)

The exam will consist of essay style questions totaling 100 points. Students who pass Assignment 1 will be given a full score without submitting an answer to the 1 question of their choice.

Retake exam Same circumstances as the original exam.