

Informational Cascades

Syllabus for Stockholm PhD Minicourse

Ivo Welch
June 5- 9, 2023

Introduction

This course introduces informational cascades (a form of rational herding) to interested PhD students. Although this subject is economic theory (and not really finance, although it has many applications therein), informational cascades are a very accessible theory. Even undergraduate economics senior students should be able to follow. The emphasis of this course is to convey the key economic insights with as little algebra as necessary.

The instructor understands that students are busy. Students are not expected to read anything before the course begins. However, they are asked to devote their full attention to this course during its five days. In addition to physical class attendance, they are asked to read papers in the four evenings in between the sessions. (These readings usually elaborate on the topics after they have been explained in the class sessions themselves, and are necessary to foster an adequate understanding.)

The class will require active (friendly) interaction between instructor and students attending the class. There will be no ipads, cell phones, computers, or zoom. Students should be expected to be asked questions and/or to ask questions.

There are no quizzes or exams and the class is pass-fail. (We may or may not have [audio] recordings. Students are allowed to miss one day if they can catch up before the following day.) Students that miss more than one day will not receive a pass.

I will also take class attendees out for a casual pizza-and-pasta like dinner on Thu May 8.

Topics

1. Mon, June 5: Introduction and Basics
 - req. eve reading: Welch JF 1992; Bikhchandani, Hirshleifer, Welch JPE 1992.
 - opt. reading: Banerjee QJE 1992. Vives (ReStud 1993), Chamley (Book), Chs 1-4.
2. Tue, June 6: Robustness of Model
 - req. eve reading: Chamley (Book), Chs 1-4. Zhang (Rand 1997). Welch (WP 2024).
 - opt. reading: Chamley (Book), Ch 6-7. Vives (Games 1997). Ali (EL 2018). Lee (JET 1993). Smith-Sorenson (Ecmt 2000). Chamley-Gale (Ecmt 1994).

3. Wed, June 7: Special Models and Extensions

- req. eve reading: Bikhchandani, Hirshleifer, Tamuz, Welch (WP 2024)
- opt. reading: Bernardo-Welch (JEMS 2001), Avery-Zemsky (AER 1998).

4. Thu, June 8: Applications

- req. eve reading: Anderson-Holt (2008). catch up.
- opt. reading: Kuran (World Politics, 1991); Lomann (World Politics 1994); Gu (JET 2011), Alevy-Haigh-List (2007). [maybe Drehmann AER 2005 or IJIO 2007]

5. Fri, June 9: Open Student Discussion — cascades, modeling, theory, research, questions.

- This session is not necessarily related to anything earlier in this course. It should be a discussion about economics research. It could be about students wanting to discuss their own interests, brainstorming about what interesting work could be done, what big questions are, etc. Students who want to discuss their own research (no more than 10 minutes each) need to bring one slide with 5-10 key bullet points. (What is the question? What are the problems? What is your answer?) Or it could be me talking about my (completely unrelated) research on climate change.

I apologize for the “Welch-heavy” reading list. I know the papers better and I obviously worked on aspects that I considered to be interesting. Other IC researchers would probably and reasonably include different papers, too. The survey (BHTW) lists many of them.

Administrativa

Registration etc. will be handled by the Doctoral Course at the [Swedish House of Finance](#). Please contact [Jenny Wahlberg Andersson](#)

Planned Room at SSE: Torsten