Mini Course in Behavioral Finance (4 ECTS)

Course director: Professor Tarun Chordia, Emory University

Course times and dates:
April 20, 2020: 13.00 – 17.15
April 21, 2020: 14.00 – 17.15
April 22, 2020: 14.00 – 17.15
April 23, 2020: 14.00 – 17.15

Course location: Room "Fama" at the Swedish House of Finance, Drottninggatan 98

Assessment: Written examination after the course; date TBA

Overview of the Course

Behavioral finance is often presented as a challenge to rational decision making and market efficiency. Borrowing from the literature on market efficiency, we can group departures from rational behavior into three familiar categories (weak, semi-strong, and strong). In the weak-form, psychological biases affect investing behavior and can influence welfare but have no lasting impact on asset prices. In the semi-strong form, behavioral biases also have an effect on corporate managers but any suboptimal behavior is recognized by the market and incorporated into security prices. Finally, in the strong form behavioral biases are so pervasive that they can lead asset prices to depart nontrivially from fundamental values.

This course is designed to provide students with exposure to behavioral finance. We'll begin with an overview of behavioral biases documented in the cognitive psychology literature and then discuss their implications for finance.

Readings

Many of the books on behavioral finance are collections of journal articles. We'll focus on the articles themselves with references to some of the helpful literature surveys. Two books you might want to check out are *Thinking Fast and Slow* by Daniel Kahneman and *The Myth of the Rational Market* by Justin Fox.

Readings

Overview

Kahneman, Daniel, and Amos Tversky, 1979, Prospect theory: An analysis of decision under risk, Econo*metrica* 27, 263-292.

Surveys

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Commentaries

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Investor Behavior

Portfolio Contruction

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- Benartzi, S. and Thaler, R., 2001, "Naive diversification strategies in defined contribution savings plans" *American Economic Review*.
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- Bianchi, Milo, 2018. Financial Literacy and Portfolio Dynamics: Financial Literacy and Portfolio Dynamics. *The Journal of Finance*
- Calvet, Laurent, John Campbell, and Paolo Sodini, 2009, "Fight or Flight? Portfolio rebalancing by individual investors," *Quarterly Journal of Economics*.
- Chetty, Raj, John N. Friedman, Soren Leth-Petersen, Torben Heien Nielsen, and Tore Olsen, 2013, "Active vs. passive decisions and crowd-out in retirement savings accounts: Evidence from Denmark," *Quarterly Journal of Economics*.
- Cole, Shawn, Anna Paulson, and Gauri Kartini Shastry, 2014, Smart money? The effect of education on financial outcomes, *Review of Financial Studies*.
- Cronqvist, Henrik, Alessandro Previtero, Stephan Siegel, Roderick E. White, 2015, The Fetal Origins Hypothesis in Finance: Prenatal Environment, the Gender Gap, and Investor Behavior, *Review of Financial Studies*.
- Dimmock, Stephen, Roy Kouwenberg, Olivia Mitchell, and Kim Peijnenburg, 2016, Ambiguity aversion and household portfolio choice puzzles: Empirical evidence, *Journal of Financial Economics*.
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- von Gaudecker, Hans-Martin, 2015, How does household portfolio diversification vary with financial literacy and financial advice? *Journal of Finance*.
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Home Bias

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Trading

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Attention

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Weather / Mood

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Corporate Finance – Manager Behavior

Manager Response to Investor Biases

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Manager Bias

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Analyst Bias

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Limits of Arbitrage – Theory

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Limits of Arbitrage – Empirical

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Behavioral Models

Prospect Theory

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