

ECON 4470 Economics of Behavioral Finance

Lecture: Tue 10:30-1:15am ELB 303

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Purpose of this Course

This course introduces you to the field of behavioral finance. Starting off with various topics in standard financial economics, we gradually explore implications of non-standard behavioral assumptions. We will cover both theoretical and empirical aspects of the field.

Learning Outcomes

Upon completing this course, students will be able to demonstrate an understanding of the key behavioral assumptions in economics and finance, argue for and against the plausibility of the theories, and recognize how behavioral theories were tested and applied empirically.

Textbook

There is no required textbook for the course—you will only be tested on materials covered in class.

Data Analytics

Some problem sets will require you to do empirical analysis. We will have demonstrations in class before each such assignment.

Tentative Grading

Assignments - 30%
Term Paper - 35%
Final - 35%

Assignments

There will be 4-6 assignments throughout the course. Short assignments will be graded on a scale of check-plus-check-check-minus. There may be up to two long assignments that will be graded on a numerical scale.

Term Paper

You will need to write and present a short paper on behavioral economics or behavioral finance. Samples from previous years will be provided on Blackboard.

Re-grades

If you feel that an error has been made in the grading of the question on an examination you can submit the exam in question for a regrade. Regrade requests have to be submitted no more than one week after the examination in question was returned to you. Please note that the entire exam will be reviewed for accuracy.

Tentative Class Schedule

Week 1-2

- Review of standard asset pricing models
- The Deposition Effect: Reference-Dependent Preference

Week 3-4

- Does CAPM works in practice?
- Fama-French Three-Factor Model

Week 5

- Ambiguity Aversion

Week 6-7

- Teaser Interest Rate: Time-inconsistency
- Savings and Retirement: Default Options
- Effects of Commitment Devices on Savings

Week 8

- Analyst Recommendation

Week 9

- Law of Small Numbers

Week 10

- Investor Sentiment
- Efficiency of Market: Noise Traders and Momentum Traders
- The Close-End Fund Puzzle

Week 11

- Overconfidence
- Behavioral Models in Corporate Finance

Week 12-13

- Term Paper Presentations