

Enquire Teaching Timetable

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Course Outcome

ECON 4470 - Economics of Behavioural Finance

Learning Outcome

Upon completing this course, the student will be able to:

1. Demonstrate understanding of the key behavioral assumptions in economics and finance.
2. Argue for and against the plausibility of the theories.
3. Recognize how behavioural theories were tested and applied empirically.

Course Syllabus

Week 1-2

- Review of standard asset pricing models
- Does CAPM works in practice?
- Fama-French Three-Factor Model

Week 3-4

- The Deposition Effect: Reference-Dependent Preference
- Anticipatory Utility

Week 5-6

- Teaser Interest Rate: Time-inconsistency
- Projection Bias

Week 7

- Midterm

Week 8-9

- Savings and Retirement: Default Options
- Effects of Commitment Devices on Savings

Week 10-11

- Mental Accounting
- Overconfidence
- Efficiency of Market: Noise Traders and Momentum Traders

Week 12-13

- The Close-End Fund Puzzle
- Behavioral Models in Corporate Finance

Assessment Type

	Assessment Type	Current Percent
1	Essay test or exam	0
2	Others	0

Feedback for Evaluation

Course and teaching evaluation at end of course
 Informal feedback channels throughout the course (face-to-face, email, WebCT)
 Departmental Retreat
 Programme Review

Required Readings

Recommended Readings

Week 1-2

1. Fama, Eugene "Efficient Capital Markets: A Review of Theory and Empirical Work", *Journal of Finance*, Vol. 25, No. 2 (1970), pp. 383-417.
2. Fama, Eugene, "Efficient Capital Markets II", *Journal of Finance*, Vol. 46, No. 5 (1991), pp. 1575-1617.
3. Fama, Eugene F., Kenneth R. French. "Multifactor Explanations of Asset Pricing Anomalies." *Journal of Finance*, Vol. 51, No. 1 (March 1996), pp. 55-84.

Week 3-4

4. Benartzi, Shlomo and Richard H. Thaler. "Myopic Loss Aversion and the Equity Premium Puzzle." *Quarterly Journal of Economics*, Vol. 110, No. 1 (Feb., 1995), pp. 73-92.
5. Knetsch, Jack L. "The Endowment Effect and Evidence of Nonreversible Indifference Curves." *American Economic Review*, Vol. 79, No. 5 (Dec., 1989), pp. 1277-1284.
6. Kahneman, Daniel and Amos Tversky. "Prospect Theory: An Analysis of Decision under Risk." *Econometrica*, Vol. 47, No. 2 (Mar., 1979), pp. 263-292.
7. Odean, Terrance. "Are Investors Reluctant to Realize Their Losses?" *Journal of Finance*, Vol. 53, No. 5 (Oct., 1998), pp. 1775-1798.
8. Camerer, Colin, Linda Babcock, George Loewenstein and Richard Thaler. "Labor Supply of New York City Cabdrivers: One Day at a Time." *Quarterly Journal of Economics*, Vol. 112, No. 2 (May, 1997), pp. 407-441.

Week 5-6

9. Koszegi, Botond and Paul Heidhues. "Exploiting Naivete about Self-Control in the Credit Market." *American Economic Review*, Vol. 100, No. 5 (2010), pp. 2279-2303.
10. Frederick, Shane, George Loewenstein, and Ted O'Donoghue. "Time Discounting and Time Preference: A Critical Review." *Journal of Economic Literature*, Vol. 40, No. 2 (June 2002), pp. 351-401.
11. James J. Choi, David Laibson, Brigitte C. Madrian and Andrew Metrick. "Reinforcement Learning and Savings Behavior." *Journal of Finance*, Vol. 64, No. 6 (December 2009), pp. 2515-2534.
12. Loewenstein, George, Ted O'Donoghue and Matthew Rabin. "Projection Bias in Predicting Future Utility." *Quarterly Journal of Economics*, Vol. 118, No. 4 (Nov., 2003), pp. 1209-1248.

Week 8-9

13. Choi, James J., Gabriel D. Carroll, David Laibson, Brigitte C. Madrian, and Andrew Metrick. "Optimal Defaults and Active Decisions." *Quarterly Journal of Economics*, November 2009.
14. Thaler, Richard H. and Shlomo Benartzi, "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving," *Journal of Political Economics*, 2004, Vol. 112, pp. 164-187.
15. Ashraf, Nava, Dean Karlan, and Wesley Yin, "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines," *Quarterly Journal of Economics*, May 2006, Vol. 121, 635-672.
16. Mischel, W., Shoda, Y., & Rodriguez, M. L. "Delay of Gratification in Children." *Science*, Vol. 244 (1989), pp. 933-938.
17. Ariely, Dan and Klaus Wertenbroch. "Procrastination, Deadlines, and Performance: Self-Control by Precommitment." *Psychological Science*, Vol. 13 (May 2002), pp. 219-224.

Week 10-11

18. Bernartzi, Shlomo and Richard H. Thaler. "Risk Aversion or Myopia? Choices in Repeated Gambles and Retirement Investment." *Management Science*, Vol. 45 (1999): pp. 364-381.
19. Choi, James J., David Laibson and Brigitte C. Madrian. "Mental Accounting in Portfolio Choice: Evidence from a Flypaper Effect." *American Economic Review*, 2009.
20. Barber, Brad M. and Terrance Odean. "Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors." *The Journal of Finance*, Vol. 55, No. 2 (Apr., 2000), pp. 773-806.
21. Buehler, R., Griffin, D., & Ross, M. "Exploring the "planning fallacy": Why people underestimate their task completion times." *Journal of Personality and Social Psychology*, Vol. 67 (1994), pp. 366-381.
22. Svenson, Ola. "Are We All Less Risky and More Skillful than Our Fellow Drivers?" *Acta Psychologica*, Vol. 47 (1981), pp. 143-148.
23. Dunning, D., Griffin, D., Milojkovic, J. D., & Ross, L. "The Overconfidence effect in Social Prediction." *Journal of Personality and Social Psychology*, Vol. 58 (1990), pp. 568-581.
24. Hong, Harrison and Jeremy C. Stein. "A Unified Theory of Underreaction, Momentum Trading, and Overreaction in Asset Markets." *The Journal of Finance*, Vol. 54, No. 6 (Dec., 1999), pp. 2143-2184.
25. De Long, J. Bradford, Andrei Shleifer, Lawrence H. Summers and Robert J. Waldmann. "The Survival of Noise Traders in Financial Markets." *Journal of Business*, Vol. 64 No. 1 (1994), pp. 1-19.

Week 12-13

26. Chen, Nai-Fu, Raymond Kan, and Merton H. Miller, 1993, "Are the Discounts on Closed-End Funds a Sentiment Index", *Journal of Finance*, Vol. 48, No. 2, pp. 795-800.
27. Chopra, Lee, and Andrei Shleifer, 1993, "Yes, Discounts on Closed-End Funds are a Sentiment Index", *Journal of Finance*, Vol. 48, No. 2, pp. 801-808.
28. Lee, Charles M.C., Andrei Shleifer, and Richard H. Thaler, 1991, "Investor Sentiment and the Closed-End Fund Puzzle", *Journal of Finance*, Vol. 46, No. 1, pp. 75-109.
29. Tirole, Jean. *The Theory of Corporate Finance. Selected Chapters.*

