BEHAVIORAL ECONOMICS AND FINANCIAL MARKETS
Course Load: 80 hours

Course Description:
In economic theory, the standard model of behavior is that of a perfectly rational, self-interested utility maximizer with unlimited cognitive resources. In many cases, this provides a fair approximation to the types of behavior that economists are interested in. However, over the past 30 years, psychologists, experimental and behavioral economists have documented ways in which the standard model is not just wrong but is wrong in ways that are important for economic outcomes. Understanding these behaviors, and their implications, is one of the most exciting areas of current economic inquiry. The aim of this course is to provide a grounding in the main areas of study within behavioral economics, including temptation, fairness and reciprocity and reference dependence.

Objectives:
For each area we study three things:
1. The evidence that indicates that the standard economic model is missing some important behavior;
2. The models that have been developed to capture these behaviors;
3. Applications of these models to the financial markets.

Program Content:
The course applies behavior economics to financial markets. We use a trading software with real time data where students apply, in practice, bounded rationality, herd behavior and choice under uncertainty - key elements from behavior economics. We create trading positions of stock indexes, interest rates and currencies. Using the software, students trade futures and derivatives. The choice of buying or selling any asset is a decision that is based on economic analysis but is also deeply affected by psychological reasoning. Our intention is to show that behavior economics can be applied to the financial markets in general, and to trading, in particular.

Basic Bibliography:
Books:
KREPS, D. 2018. Notes on the Theory of Choice (e-book version) New York: Routledge.
KAHNEMAN. D. 2011. Thinking Fast and Slow. (e-book version 2018). New York: Farrar, Straus and Giroux.
SCHILLER, R. 2000. Irrational Exuberance. (e-book version, 2015). New Haven: Princeton University Press.

Complementary Bibliography:
Books:
SARGENT, T. 1994. Bounded Rationality in Macroeconomics. New York: Claredon Press.
THALER, R. and CASS SUNSTEIN. 2009. Nudge: Improving decisions about Health, Wealth and Happiness (ebook version). New York: Penguin books.
MURPHY, J. 2011. Technical Analysis of the Financial Markets. New York: NYIF.
SHWAGER, Jack. Market Wizards (MW), New York: Harper Collins, 1989.
SCWAGER, Jack. The New Market Wizards (NMW), New York: Harper Collins, 1992.
Articles:
MULLANAITHAN, Sendhil; THALER, Richard. Behavioral Economics. NBER Working Paper 7948, http://nber.org/papers/w7948, October 2000
KAHNEMAN, D. (2003) "Maps of Bounded Rationality: Psychology for Behavioral Economics."American Economic Review, 93(5): 1449-1475.