1 Preliminaries

1.1 Course Objective

This course is designed to introduce students to key topics in behavioral economics and finance. Class time will be divided between lecture and discussion of assigned readings. We will begin with behavioral economics exploring theory, experimental tests, and empirical results that call into question the rational paradigm. From here, we will focus on applications in financial economics, touching on investor behavior, asset pricing, and corporate finance.

1.2 Assessment

Students will be assessed on the basis of class participation (15%, paper presentation), a series of short in-class quizzes, (15%), three problem sets (30%) and a final exam (40%).

1.2.1 Quizzes

There will be a short quiz administered at the beginning of each class that will consist of between one and three questions and should take no more than 15 minutes to complete. Questions will be related to material from the prior lecture and typically involve closing models, completing short proofs, or writing short responses. Students who complete required readings and attend lecture should have no problem with quizzes. I ask that you attempt all questions, but only your five highest scores will count to your final grade.

1.2.2 Problem Sets

There will be three problem sets during the course. Questions will be similar to quiz questions, but slightly more difficult. You will have two weeks to complete problem sets. The planned schedule for problem sets will be:

- Problem Set 1, distributed 2/8, due 2/22;
- Problem Set 2, distributed 3/1, due 3/15;
- Problem Set 3, distributed 3/29, due 4/12.
1.2.3 Final Exam (4/19)

Our final meeting will include a final exam. The final exam will consist of short essays, multiple-choice questions, numerical problems and short proofs. It will be cumulative. Materials from the required readings and from lecture will be fair game.

1.2.4 Paper Presentation

Each student is expected to present a paper from the syllabus (15% of your grade). The presentation would consist of discussing the content of paper and implications of theories from the lectures (I will provide more information about paper presentation in class).

2 University Policies

2.1 General

This course adheres to all University policies described in the academic catalog.

2.1.1 Students with Disabilities

Johns Hopkins University is committed to providing reasonable and appropriate accommodations to students with disabilities. Students with documented disabilities should contact the coordinator listed on the Disability Accommodations page. Further information and a link to the Student Request for Accommodation form can also be found on the Disability Accommodations page [http://advanced.jhu.edu/current-students/current-students-resources/disability-accommodations/] .

2.2 Ethics and Plagiarism

JHU Ethics Statement: The strength of the university depends on academic and personal integrity. In this course, you must be honest and truthful. Ethical violations include cheating on exams, plagiarism, reuse of assignments, improper use of the Internet and electronic devices, unauthorized collaboration, alteration of graded assignments, forgery and falsification, lying, facilitating academic dishonesty, and unfair competition. Report any violations you witness to the instructor. Read and adhere to JHU’s Notice on Plagiarism [http://advanced.jhu.edu/current-students/policies/notice-on-plagiarism-2/].

2.3 Dropping the Course

You are responsible for understanding the university’s policies and procedures regarding withdrawing from courses found in the current catalog. You should be aware of the current deadlines according to the Academic Calendar [http://advanced.jhu.edu/current-students/academic-calendar/].

2.4 Getting Help

You have a variety of methods to get help on Blackboard. Please consult the help listed in the ”Blackboard Help” link for important information. If you encounter technical difficulty in completing or submitting any online assessment, please immediately contact the designated help desk listed on the AAP online support page. Also, contact your instructor at the email address listed atop this syllabus.

3 Calendar

While problem set dates and the final exam are generally fixed, our schedule is subject to change. Based on class interest we may reallocate time to some topics and away from others. I will update the syllabus
accordingly. There is no textbook for the course. Lecture will draw heavily from published papers and working papers. While you need not read every paper listed below, I have selected certain required readings. These are marked with an asterisk. Please attempt to read these before coming to class. Papers with (*p) indicate papers that you are going to present in class.

3.0 Preliminary reading


3.1 Basics of Behavioral Economics

- The Rational Paradigm and Rational Decision making
  - Rational Preferences
  - Utility
  - von Neumann Morgenstern Expected Utility Theory
- Shortcomings of the Rational Paradigm
- Heuristics and Bias
• Decisions Under Uncertainty

• Time-Inconsistent Preferences

• Consumers

3.2 Behavioral Finance

3.2.1 Individual Financial Decisions

• Choice

• Home Bias

• Disposition Effect

• Social Interaction

• Savings

### 3.2.2 Asset Pricing

• Market Efficiency

• Puzzles

• Predictability

• Limits to Arbitrage

3.2.3 Trade
3.2.4 Managerial Decisionmaking

- **Irrational Investors**

- **Irrational Managers**