Behavioral Economics and Finance

Advanced Academic Programs
Zanvyl Krieger School of Arts and Sciences
Johns Hopkins University
Course Number AS.440.645
Fall 2018
Tuesday, 6pm – 8pm

Instructor Information

Instructor: Matthew Flagge
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Office Hours: By appointment

Course Overview

This course is designed to introduce students to key topics in behavioral economics as they relate to finance. We will discuss the efficient markets hypothesis and its potential weaknesses, the role of noise trading, consumer choice anomalies and perception biases, and serial correlation in stock prices, as well as other topics in behavioral finance.

Course Materials

Textbook

Burton, Edwin and Sunit Shah (2013). *Behavioral Finance*. Wiley.

Other Recommended Reading

Kahneman, Daniel. *Thinking Fast and Slow*.

Grading

Problem Sets (25%)
Class Participation (15%)
In-Class Presentation (15%)
Midterm (20%)
Final (25%)

University Policies

General

This course adheres to all University policies described in the academic catalog. Please pay close attention to the following policies:

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.

Ethics & 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.

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.

Getting Help

You have a variety of methods to get help on Blackboard. Please consult the resource 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 in the syllabus.

Copyright Policy

All course material are the property of JHU and are to be used for the student's individual academic purpose only. Any dissemination, copying, reproducing, modification, displaying, or transmitting of any course material content for any other purpose is prohibited, will be considered misconduct under the JHU Copyright Compliance Policy, and may be cause for disciplinary action. In addition, encouraging academic dishonesty or cheating by distributing information about course materials or assignments which would give an unfair advantage to others may violate AAP's Code of Conduct and the University's Student Conduct Code. Specifically, recordings, course materials, and lecture notes may not be exchanged or distributed for commercial purposes, for compensation, or for any purpose other than use by students enrolled in the class. Other distributions of such materials by students may be deemed to violate the above University policies and be subject to disciplinary action.

Code of Conduct

To better support all students, the Johns Hopkins University non-academic Student Conduct Code has been integrated and updated to include all divisions of the University. In addition, it is important to note that all AAP students are still accountable for the Code of Conduct for Advanced Academic Programs.

Title IX

Confidentiality and Mandatory Reporting

As an instructor, one of my responsibilities is to help create a safe and inclusive learning environment on our campus. I also have mandatory reporting responsibilities related to my role as a Responsible Employee under the Sexual Misconduct Policy & Procedures (which prohibits sexual harassment, sexual assault, relationship violence and stalking), as well as the General Anti-Harassment Policy (which prohibits all types of protected status based discrimination and harassment). It is my goal that you feel able to share information related to your life experiences in classroom discussions, in your written work, and in our one-on-one meetings. I will seek to keep information you share private to the greatest extent possible. However, I am required to share information that I learn of regarding sexual misconduct, as well as protected status based harassment and discrimination, with the Office of Institutional Equity (OIE). For a list of individuals/offices who can speak with you confidentially, please see Appendix B of the JHU Sexual Misconduct Policies and Laws.

For more information on both policies mentioned above, please see: JHU Relevant Policies, Codes, Statements and Principles. Please also note that certain faculty and other University community members also have a duty as a designated Campus Safety Authority under the Clery Act to notify campus security of certain crimes, as well as a duty under State law and University policy to report suspected child abuse and/or neglect.

Tentative Schedule and Reading List

Sept. 11th	Introduction	Burton and Shah 1-3
	Noise Traders	
Sept. 18th	Noise Traders (Part 1)	Burton and Shah 4-5 DeLong, Bradford, Andrei Shleifer, Lawrence Summers, and Robert Waldman, (1990). “Noise Trader Risk in Financial Markets.” *Journal of Political Economy*
Sept. 25th	Noise Trading Feedback and Technical Trading	Burton and Shah 6-7 Martin, Katie. “The Vomiting Camel has escaped from Bitcoin zoo.” *Financial Times.* April 19, 2018. Hirshleifer, David, Avanidhar Subrahmanyam, and Sheridan Titman (2006). “Feedback and the Success of Irrational Investors.” *Journal of Financial Economics*. De Long, Bradford, Andrei Shleifer, Lawrence Summers, and Robert Waldman (1990). “Positive Feedback Investment Strategies and Destabilizing Rational Speculation.” *Journal of Finance*.

Behavioral Anomalies		
Oct. 2nd	The Rational Man and Prospect Theory	Burton and Shah 8-9 Kahneman, Daniel and Amos Tversky (1979). "Prospect Theory: An Analysis of Decision under Risk." *Econometrica*
Oct. 9th	Perception Biases and Inertial Effects	Burton and Shah 10-11 Shefrin, Hersh, and Meir Statman (1985). "The disposition to sell winners too early and ride losers too long: Theory and evidence." *Journal of Finance*
Oct. 16th	Causality, Statistics, and Illusions	Burton and Shah 12-13
Midterm		
Oct. 23rd	MIDTERM	
Serial Correlation		
Oct. 30th	Predictability of Stock Prices and Mean Reversion	Burton and Shah 14-15 Fama, Eugene and Kenneth French (1992). "The Cross-Section of Expected Stock Returns." *Journal of Finance*. De Bondt, Werner and Richard Thaler (1985). "Does the Stock Market Overreact?" *Journal of Finance*.
Nov. 6th	Short Term Momentum and Calendar Effects	Burton and Shah 16-17 Jegadeesh, Narasimhan and Sheridan Titman (1993). "Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency." *Journal of Finance*.
Other Topics		
Nov. 13th	The Equity Premium Puzzle and Liquidity	Burton and Shah 18-19 Mehra, Rajnish and Edward Prescott (1985). "The Equity Premium: A Puzzle." *Journal of Monetary Economics*.
Nov. 20th	THANKSGIVING BREAK!	
Nov. 27th	Irrational Investors and Irrational Managers	Shefrin, Hersh M., and Meir Statman, (1984) "Explaining investor preference for cash dividends," *Journal of Financial Economics* Stein, Jeremy C. (1996) "Rational Capital Budgeting in an Irrational World." *The Journal of Business* Kahneman, Daniel and Dan Lovallo (1993). "Timid Choices and Bold Forecasts: A Cognitive Perspective on Risk Taking," *Management Science* Malmendier, Ulrike, and Geoffrey Tate (2005). "CEO overcondence and corporate investment." *Journal of Finance*.

Dec. 4th	Home Bias, Savings, and Social Interaction	Coval, Joshua D., and Tobias J. Moskowitz (1999). "Home bias at home: Local equity preference in domestic portfolios," *The Journal of Finance*. Hong, Harrison, Jeffrey D. Kubik, and Jeremy C. Stein, (2004). "Social interaction and stock market participation," *The Journal of Finance*. Hong, Harrison, Jeffrey D. Kubik, and Jeremy C. Stein (2005). "Thy Neighbor's Portfolio: Word of Mouth Effects in the Holdings and Trades of Money Managers." *Journal of Finance*. Benartzi, Shlomo and Richard Thaler (2004). "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy*. Benartzi, Shlomo and Richard Thaler (2007). "Heuristics and Biases in Retirement Savings Behavior." *The Journal of Economic Perspectives*.
Dec. 11th	Neuroeconomics and Experimental Economics	Burton and Shah 20-21
Final		
Dec. 18th	FINAL	