BEX6014 Contemporary issues in finance

SYNOPSIS: The objective of this unit is to teach doctoral students topics that are on the forefront of the academic literature. The topic for this course is behavioural finance, which combines elements of finance and psychology into a new field that has gained a lot of importance in recent times. The unit will cover research papers and will also provide students with the skills to conduct finance research. (July 22, 2020)

Mode of delivery:	Online (Zoom)
Workload:	This is a six credit point unit with three hours class contact per week over 12 teaching weeks. It is expected that you will spend, on average, nine hours in self-directed study each week, in addition to the three hours of class contact. Self-directed study for a particular unit may exceed nine hours during weeks preceding a submission of a major assignment or final examination.
Prerequisites:	Student must be enrolled in course 0029 Doctor of Philosophy
Chief examiner:	Professor Yulia Merkoulova
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Lecturer:	Professor Chris Veld
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Mode of delivery:

Given the restrictions that are in place in Melbourne until at least mid/end August, the entire course will be taught only on-line. So, there will be no classroom attendance possible for any of the students. The zoom-link will be provided before the first lecture. All lectures will take place on Friday from 1-4 pm Melbourne time (see schedule below for the exact dates).

Please note: we will NOT record any lectures. The idea of a PhD-course is that students attend and interact with the lecturers. If FIRN students cannot participate because of other commitments, we recommend that they participate in the same course next year.

SEMESTER 2, 2020

ACADEMIC OVERVIEW

Assessment summary (only applies to Monash students)

ASSESSMENT TASK	DUE DATE	VALUE
Paper presentations	Weeks 1, 2, 3, 7, 8, 9	10%
Project proposal	August 30, 2020	5%
Project presentation	Weeks 11 and 12	15%
Project	November 9, 2020	30%
Final exam	Examination period	40%
TOTAL		100%

UNIT SCHEDULE

Lecture	Date	Topic	Lecturer
1	7 August	**Introduction, conventional economics, preferences, prospect theory, integration vs. segregation, and framing** Required literature: • Deaves, Introduction and Lecture 1 Paper to be discussed: • Thaler, R.H.: “Behavioral economics: past, present, and future”, *American Economic Review* 106(7), 2016, 1577-1600. Introduced by: Yaoyi Tao	Chris Veld
2	14 August	**Loss aversion** Required literature: • Pope, D.G. and Schweitzer, M.E.: “Is Tiger Woods loss averse? Persistent bias in the face of experience, competition, and high stakes”, *American Economic Review* 101, 2011, 129-157. **The endowment effect** Required literature: • Kahneman, D., Knetsch, J.L., and Thaler, R.H.: „Experimental tests of the endowment effect and the Coase theorem”, *Journal of Political Economy* 98, 1990, 1325-1348. **Heuristics and biases**	Chris Veld

		Required literature: • Deaves, Lecture 2, Parts 1-3 **Implications of heuristics and biases for financial decision-making** Required literature • Deaves, Lecture 3, Parts 4-7 Recommended literature • Shefrin, H. and Statman, M.: “Making sense of beta, size, and book-to-market”, *Journal of Portfolio Management* 21(2), 1995, 26-34. Paper to be discussed: • Cesarini, D., Johannesson, M., Lichtenstein, P., Sandewall, O., and Wallace, B.: “Genetic variation in financial decision-making”, *The Journal of Finance* 65, 2010, 1725-1754. Introduced by: Quoc Phan	
3	21 August	**Individual investors and the force of emotion** • Kaplanski, G. and Levy, H.: “Exploitable predictable irrationality: the FIFA World Cup Effect on the U.S. stock market”, *Journal of Financial and Quantitative Analysis* 45, 2010, 535-553. • Kaplanski, G., Levy, H., Veld, C., and Veld-Merkoulova, Y.V.: “Do happy people make optimistic investors?”, *Journal of Financial and Quantitative Analysis*, 2015, 145-168. Paper to be discussed: • Hirshleifer, D., Jiang, D., and DiGiovanni, Y.M.: “Mood beta and seasonalities in stock returns”, *Journal of Financial Economics* 137, 2020, 272-295. Introduced by: Zhaofeng Xu	Chris Veld
4	28 August	**The stock market participation puzzle** • Guiso, L., Sapienza, P., and Zingales, L.: “Trusting the stock market”, *The Journal of Finance*, 2008, 2557-2600. • Van Rooij, M., Lusardi, A., and Alessie, R.: “Financial literacy and stock market participation”, *Journal of Financial Economics*, 2011, 449-472. • Grinblatt, M., Keloharju, M. and Linnainmaa, J.: “IQ and stock market participation”, *The Journal of Finance*, 2011, 2121-2164.	Chris Veld
5	4 Sep.	**Do investors use past returns to predict future returns?** Required literature: • Kaplanski, G., Levy, H., Veld, C., and Veld-Merkoulova, Y.V.: “Past returns and the perceived Sharpe Ratio”,	Chris Veld

		Journal of Economic Behavior and Organization 123, 2016, 149-167. **Rational managers and irrational investors** Required literature: • Cooper, M.J., Dimitrov, O., and Rau, R.P.: "A rose.com by any other name", *The Journal of Finance* 56, 2001, 2371-2388. • De Jong, A. and Naumovska, I.: "A note on event studies in finance and management research", *Review of Finance* 20, 2016, 1659-1672. **Presentation of research proposals**	
6	11 Sep.	**Equity premium puzzle and myopic loss aversion** Required literature: • Benartzi, S. and Thaler, R.H.: "Myopic loss aversion and the equity premium puzzle", *Quarterly Journal of Economics* 110, 1995, 73-92. • Gneezy, U., A. Kapteyn, and J. Potters, 2003, Evaluation Periods and Asset Prices in a Market Experiment, *Journal of Finance*, 58(2), 821-837. Recommended literature: • Mehra, R. and Prescott, E.C.: "The equity premium: A puzzle", *Journal of Monetary Economics* 15, 1985, 145-161. **Presentation of research proposals**	Yulia Merkoulova
7	18 Sep.	**Equity premium puzzle and stock market participation puzzle** Required literature: • Merkoulova, Y. and Veld, C., 2020, Does it pay to invest? Stock market participation and the personal equity risk premium, Working paper, Monash University, June 2020. **Anomalies and inefficiencies** Required literature: • Deaves, Lecture 4, parts 1-7. • Lamont, O.A. and R.H. Thaler: "Can the Market Add and Subtract? Mispricing in Tech Stock Carve-outs", *Journal of Political Economy*, 111 (2), 2003, 227-268. Paper to be discussed: • Ang, J., and Mauck, N., 2011, Fire sale: Myth or reality?, *Journal of Banking and Finance* 35, 532-43. Introduced by: Xiangpei Zhang	Yulia Merkoulova
	25 Sep. and 2 Oct.	**Mid-semester break: September 21-October 2**	

8	9 Oct.	**Do behavioural factors explain stock market puzzles?** Recommended literature: • Ackert, L.F., Charupat, N., Church, B.K. and Deaves, R.: “Margin, short selling and lotteries in experimental asset markets”, *Southern Economic Journal* 73, 2006, 419-436. **Overconfidence** Required literature: • Deaves, Lecture 2, part 4. Paper to be discussed: • Barber, B. and Odean, T., 2000, Trading is hazardous to your wealth, *The Journal of Finance* 55, 773-806. Introduced by: Han Zhou	Yulia Merkoulova
9	16 Oct.	**Overconfidence (cont.)** Required literature: • Deaves, Lecture 3, part 3. • B. Barber and T. Odean: “Boys will be Boys: Gender, Overconfidence, and Common Stock Investment”, *Quarterly Journal of Economics*, February 2001, Vol. 116, No. 1, 261-292. Paper to be discussed: • Ben-David, I., Graham, J. and Harvey, C., 2013, Managerial Miscalibration, *Quarterly Journal of Economics* 128, 1547–1584. Introduced by: Haiying Yin	Yulia Merkoulova
10	23 Oct.	**Behavioural corporate finance** Required literature: • Malmendier, U. and Tate, G.: “Who makes acquisitions? CEO overconfidence and the market’s reaction”, *Journal of Financial Economics*, 89, 2008, 20–43. • Cain, M.D. and McKeon, S.B.: “CEO personal risk-taking and corporate policies”, *Journal of Financial and Quantitative Analysis*, 2016, 139-164. Recommended literature: • Baker, M. and Wurgler, J.: “Behavioral Corporate Finance: An updated survey”, NBER working paper 17333, August 2011. Available at: http://www.nber.org/papers/w17333 • Cronqvist, H., Makhija, A.K., and Yonker, S.E.: “Behavioral consistency in corporate finance: CEO personal and corporate leverage”, *Journal of Financial Economics* 103, 2012, 20-40.	Yulia Merkoulova

		• Graham, J.R. and Harvey, C.R.: "The theory and practice of corporate finance: evidence from the field", *Journal of Financial Economics* 60, 2001, 187-243. • Kida, T.E., Moreno, K.K. and Smith, J.F.: "The Influence of Affect on Managers' Capital-Budgeting Decisions", *Contemporary Accounting Research* 18, 2001, 477–94. • Malmendier, U. and Tate, G.: "CEO Overconfidence and Corporate Investment", *The Journal of Finance* 60, 2005, 2661-2700.	
11	30 Oct.	**Project presentation**	Chris Veld
12	6 Nov.	**Project presentation**	Yulia Merkoulova
9-13 November		**SWOT VAC**	
16-30 November		**OFFICIAL EXAMINATION PERIOD**	
17 December		**EXAMINATION RESULTS RELEASED**	

NB. Articles may be subject to change.

ASSESSMENT REQUIREMENTS

Important note for FIRN students: the grade for FIRN students will be 100% based on the final exam.

Assessment Task 1: Presentations

Weighting: 10%

Date: at the end of each lecture in Weeks 1, 2, 3, 7, 8, and 9

Task details:

For specific lectures (see schedule above) one paper will be scheduled for discussion in the 3rd hour of the lecture. One student will be asked in advance to prepare a short presentation of the paper (15-20 minutes) and that presentation will be followed by a group discussion of the paper (what do we learn from the paper? What are the major strengths and weaknesses of the paper?, etc.). This presentation itself will be part of the evaluation. In addition, the evaluation will be based on the discussion part. Students will be assessed on the extent to which they demonstrate that they have completed the assigned reading prior to attending class together with the ability to demonstrate that they have thought through the topic and the issues associated with it.

Assessment Task 2: Research Proposal

Weighting*:* 5%

Due date: August 30 to submit proposals; Weeks 5-6 presentations in class

Task details:
Students are required to submit a short proposal (2 pages) for their planned replication project, together with the original paper they plan to replicate, by August 30. The proposals should discuss

the paper they plan to replicate and give details on how to replicate the study. At the end of Lectures 5 and 6, one hour is reserved for presenting the proposals in the class, with a time limit of 15 minutes per presentation.

Assessment Task 3: Project Presentation

Weighting: 15%

Due date: Weeks 11 and 12 (in class)

Students are required to give a 30-minute presentation about their (almost) completed replication project. They will present the paper they replicated and they will give details on how they replicated the study. They will be assessed by the lecturer on the quality of the presentation, the quality of the planned replication, and the ability to answer questions on their own presentation as well as the ability to ask questions during the presentations of the other students.

Assessment Task 4: Project

Weighting: 30%

Due date: 9 November 2020

Students have to do a project, based on an empirical analysis. They can either come up with their own idea for an empirical study, or they can replicate prior work from a paper published in top tier finance journals. For replications, they can select a paper from one of the following journals and replicate the findings:

- *The Journal of Finance*
- *Journal of Financial Economics*
- *Review of Financial Studies*
- *Journal of Financial and Quantitative Analysis*
- *Financial Management*
- *Journal of Banking and Finance*
- *Journal of Corporate Finance*
- *Critical Finance Review*

Students can choose to either literally replicate the study (using exactly the same data as the authors) or to replicate the study for a different time period and/or sample (for example, they can replicate a US study with Australian data). Each assignment will be structured in the form of an empirical paper with a short introduction, literature review and testable hypothesis, data and methods, empirical findings and conclusions not exceeding 3000 words. The project is entirely based on the student's own work, so students are not expected to consult lecturers on details of the project.

Penalties for late lodgement
A penalty of 5% of the total mark allocated to the assessment tasks will be deducted for each day they are late.

Examination

Weighting: 40%

Duration: 2-hour examination

Task details:

Only papers and textbook parts that are described as “required reading” in the table in this document will be part of the exam. Papers discussed by students (and indicated as such in this document) will NOT be part of the materials for the final exam

Date and location:
This examination will be held during the official examination period. The examination timetable which provides full details of the examination schedule can be accessed through the my.monash portal.

Materials examinable:
All material covered in lectures and seminars will be examinable, including some nominated reading material.