

**MASTERCLASS TITLE**

Household Finance Masterclass

COURSE COORDINATOR

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COURSE VENUE & DATES

Online via Zoom
Monday 20 June to Friday 24 June, 2022, 9.45am - 1:00pm (Australian Eastern Standard Time)

CONSULTATION TIMES

Mon 27, Tues 28, Thurs 30 June, Friday 1 July, 9.45am - 1:00pm (Australian Eastern Standard Time). Bookings for consultation appointments to be made via on-line form.

COURSE DESCRIPTION

This Ph.D. course introduces students to the field of household finance, the study of how households interact with financial instruments and financial markets. The course will cover theory and evidence on individuals' asset allocation and saving, financial product design, financial literacy, financial advice, nudges, housing, debt, financial distress, and annuities.

COURSE OBJECTIVE

Students should come away with the foundational knowledge that is common to most household finance researchers, as well as with a sense of where many of the active frontier research questions in the field lie. An important secondary objective of the course is to teach students the art of empirical research: (1) identifying important and interesting questions, (2) identifying the challenges to answering those questions convincingly, (3) understanding common empirical methodologies to overcome those challenges, along with each method's strengths and weaknesses.

COURSE SCHEDULE

Mon 20 June: Stock market non-participation; lifecycle portfolio choice
Tues 21 June: Financial product complexity; savings adequacy
Wed 22 June: Financial literacy; financial advice and nudges
Thurs 23 June: Housing; mortgages; financial distress and bankruptcy
Fri 24 June: Credit cards; annuities

COURSE PRE-REQUISITE KNOWLEDGE

Students in the course should have a good understanding of a Ph.D. level microeconomics course as well as the first Ph.D. level asset pricing theory course. Students should also have knowledge of statistics and econometrics at the Ph.D. level.

ASSESSMENT

The assessment is comprised of four referee reports written to inform the “editor” of a top-three finance journal about whether the paper should be accepted as-is, be revised and resubmitted to the journal, or rejected without an option to resubmit to the journal. Read Berk, Harvey, and Hirshleifer, “Preparing a referee report: Guidelines and a perspective” beforehand for guidance on how to write a referee report (<https://www.aeaweb.org/content/file?id=222>). Each report will determine 25% of the course grade.

Due dates: 1 July, 8 July, 15 July, 22 July

FIRN COURSES GRADING POLICY

A standardized grading system has been implemented across all FIRN-endorsed PhD courses and applies to all PhD students undertaking the course. Course coordinators are asked to calculate final assessment grades using a percentage basis which can then be converted to a grading of 1 through 7 as follows:

7	85-100%	Pass with High Distinction / H1 Honours
6	75-84%	Pass with Distinction / H2 Honours
5	65-74%	Pass with Credit / H3 Honours
4	50-64%	Weak Pass
3	less than 50%	Did not pass / Fail
2		Did not complete all assessments
1		Did not complete the course

STATEMENT ON PLAGIARISM

Plagiarism is a broad term referring to the practice of appropriating someone else’s ideas or work and presenting them as your own without acknowledgement. Plagiarism is literary or intellectual theft. It can take a number of forms, including:

- copying the work of another student, whether that student is in the same class, from an earlier year of the same course, or from another tertiary institution altogether;
- copying any section, no matter how brief, from a book, journal, article or other written source, without duly acknowledging it as a quotation;
- copying any map, diagram or table of figures without duly acknowledging the source;
- paraphrasing or otherwise using the ideas of another author without duly acknowledging the source.

Whatever the form, plagiarism is unacceptable both academically and professionally. By plagiarising you are both stealing the work of another person and cheating by representing it as your own. Any instances of plagiarism can therefore be expected to draw severe penalties.

Cheating means to defraud or swindle. Students who seek to gain an advantage by unfair means such as copying another student's work, or in any other way misleading a lecturer about their knowledge or ability or the amount of work they have done, are guilty of cheating. Students who condone plagiarism by allowing their work to be copied will also be subject to severe disciplinary action.

READING LIST

The reading list has been kept on the shorter end because in my experience, overwhelmingly long reading lists discourage any reading at all. Those looking for additional readings can go to the papers cited in the lecture notes.

Overview papers/book

Beshears, John, James Choi, David Laibson, and Brigitte Madrian, 2018. "Household finance." *Handbook of Behavioral Economics – Foundations and Applications 1*. Available on my website.

Choi, James, and Adriana Robertson, 2020. "What matters to individual investors? Evidence from the horse's mouth." *Journal of Finance*.

Campbell, John, and Luis Viceira, 2002. *Strategic Asset Allocation: Portfolio Choice for Long-Term Investors*.

Zinman, Jonathan, 2015. "Household debt: Facts, puzzles, theories, and policies." *Annual Review of Economics*.

Stock market non-participation

Briggs, Joseph, David Cesarini, Erik Lindqvist, and Robert Östling, 2021. "Windfall gains and stock market participation." *Journal of Financial Economics*.

Lifecycle portfolio choice

Campbell, John, and Luis Viceira, 2002. *Strategic Asset Allocation*, chapters 6-7

Fagereng, Andreas, Charles Gottlieb, and Luigi Guiso, 2017. "Asset market participation and portfolio choice over the life-cycle." *Journal of Finance*.

Complexity in financial products

Carlin, Bruce, 2009. "Strategic price complexity in retail financial markets." *Journal of Financial Economics*.

Célérier, Claire, and Boris Vallée, 2017. "Catering to investors through security design: Headline rate and complexity." *Quarterly Journal of Economics*.

Savings adequacy

Aguiar, Mark, and Erik Hurst, 2005. "Consumption versus expenditure." *Journal of Political Economy*.

Angeletos, George-Marios, David Laibson, Andrea Repetto, Jeremy Tobacman, and Stephen Weinberg, 2001. "The hyperbolic consumption model: Calibration, simulation, and empirical evaluation." *Journal of Economic Perspectives*.

Scholz, John Karl, Ananth Seshadri, and Surachai Khitatrakun, 2006. "Are Americans saving 'optimally' for retirement?" *Journal of Political Economy*.

Financial literacy

Hastings, Justine, Brigitte Madrian, and William Skimmyhorn, 2013. "Financial literacy, financial education, and economic outcomes." *Annual Review of Economics*.

Financial advice

Egan, Mark, Gregor Matvos, and Amit Seru, 2019. "The market for financial adviser misconduct." *Journal of Political Economy*.

Inderst, Roman, and Marco Ottaviani 2012. "How (not) to pay for advice: A framework for consumer financial protection." *Journal of Financial Economics*.

Nudges

Carroll, Gabriel, James Choi, David Laibson, Brigitte Madrian, and Andrew Metrick, 2009. "Optimal defaults and active decisions." *Quarterly Journal of Economics*.

Chetty, Raj, John Friedman, Søren Leth-Petersen, Torben Heien Nielsen, and Tore Olsen, 2014. "Active vs. passive decisions and crowd-out in retirement savings accounts: Evidence from Denmark." *Quarterly Journal of Economics*.

Housing

Chetty, Raj, and Adam Szeidl, 2017. "Consumption commitments and risk preferences." *Quarterly Journal of Economics*.

Yao, Rui, and Harold Zhang, 2005. "Optimal consumption and portfolio choices with risky housing and borrowing constraints." *Review of Financial Studies*.

Mortgages

Bailey, Michael, Eduardo Dávila, Theresa Kuchler, and Johannes Stroebel, 2019. "House Price Beliefs and Mortgage Leverage Choice." *Review of Economic Studies*.

Ganong, Peter, and Pascal Noel, 2020. "Liquidity vs. wealth in household debt obligations: Evidence from housing policy in the Great Recession." *American Economic Review*.

Credit cards

Gathergood, John, Neale Mahoney, Neil Stewart, and Jörg Weber, 2019. "How do individuals repay their debt? The balance-matching heuristic." *American Economic Review*.

Ponce, Alejandro, Enrique Seira, and Guillermo Zamarripa, 2017. "Borrowing on the wrong credit card? Evidence from Mexico." *American Economic Review*.

Annuities

Brown, Jeffrey, 2007. "Rational and behavioral perspectives on the role of annuities in retirement planning." NBER Working Paper.