

BFX5014 - Advanced Behavioural Finance

MCom, Year 2, Behavioural Finance – Semester 2, 2023 – May 29, 2023

Lectures will take place on Tuesdays from 2-5 pm Melbourne time.

UNIT SCHEDULE**UNIT SCHEDULE**

Lecture	Date	Topic	Lecturer
1	25 July	<p>Introduction, conventional economics, preferences, prospect theory, integration vs. segregation, and framing</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Introduction and Lecture 1 	Chris Veld
2	1 August	<p>Loss aversion</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Pope, D.G. and Schweitzer, M.E.: "Is Tiger Woods loss averse? Persistent bias in the face of experience, competition, and high stakes", <i>American Economic Review</i> 101, 2011, 129-157. <p>The endowment effect</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Kahneman, D., Knetsch, J.L., and Thaler, R.H.: „Experimental tests of the endowment effect and the Coase theorem", <i>Journal of Political Economy</i> 98, 1990, 1325-1348. <p>Heuristics and biases</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Lecture 2, Parts 1-3 <p>Implications of heuristics and biases for financial decision-making</p> <p>Required literature</p> <ul style="list-style-type: none"> • Deaves, Lecture 3, Parts 4-7 <p>Recommended literature</p> <ul style="list-style-type: none"> • Shefrin, H. and Statman, M.: "Making sense of beta, size, and book-to-market", <i>Journal of Portfolio Management</i> 21(2), 1995, 26-34. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Cesarini, D., Johannesson, M., Lichtenstein, P., Sandewall, O., and Wallace, B.: "Genetic variation in financial decision-making", <i>The Journal of Finance</i> 65, 2010, 1725-1754. <p>Introduced by: Yuheng Xu</p>	Chris Veld

3	8 August	<p>Individual investors and the force of emotion</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Kaplanski, G. and Levy, H.: “Exploitable predictable irrationality: the FIFA World Cup Effect on the U.S. stock market”, <i>Journal of Financial and Quantitative Analysis</i> 45, 2010, 535-553. • Kaplanski, G., Levy, H., Veld, C., and Veld-Merkoulova, Y.V.: “Do happy people make optimistic investors?”, <i>Journal of Financial and Quantitative Analysis</i> 50, 2015, 145-168. <p>Household finance and the stock market participation puzzle</p> <ul style="list-style-type: none"> • Van Rooij, M., Lusardi, A., and Alessie, R.: “Financial literacy and stock market participation”, <i>Journal of Financial Economics</i>, 2011, 449-472. <p>Recommended literature:</p> <ul style="list-style-type: none"> • Campbell, J.Y.: “Household finance”, <i>The Journal of Finance</i> 61, 2006, 1553-1604. • Guiso, L., Sapienza, P., and Zingales, L.: “Trusting the stock market”, <i>The Journal of Finance</i> 63, 2008, 2557-2600. • Merkoulova, Y. and Veld, C., Does it pay to invest? Stock market participation and the personal equity risk premium, <i>Journal of Banking and Finance</i> 136, 2022b, 106220. • Merkoulova, Y. and Veld, C.: “Why do individuals not participate in the stock market?”, <i>International Review of Financial Analysis</i> 82, 2022c, 102292. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Gomes, F.J., Haliassos, M., and Ramadorai, T.: “Household finance”, IMFS Working Paper, 2020, No. 138, available at: https://www.econstor.eu/bitstream/10419/214836/1/1692350420.pdf¹ <p>Introduced by: Haochen Yu</p>	Chris Veld
4	15 August	<p>The stock market participation puzzle: continued</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Grinblatt, M., Keloharju, M., and Linnainmaa, J.: “IQ and stock market participation”, <i>The Journal of Finance</i> 66, 2011, 2121-2164. • Merkoulova, Y. and Veld, C.: “Stock return ignorance”, <i>Journal of Financial Economics</i> 144, 2022a, 864-884. <p>Paper to be discussed:</p>	Chris Veld

¹ This paper is published in the *Journal of Economic Literature* of September 2021. However, since Monash does not have that edition available on-line, I suggest to use the working paper version that is freely available.

		<ul style="list-style-type: none"> Meeuwis, M., Parker, J.A., Schoar, A., and Simester, D.: "Belief disagreement and portfolio choice", <i>The Journal of Finance</i> 77, 2022, 3191-3247. <p>Introduced by Zhishi Tian</p> <ul style="list-style-type: none"> Individual referee report 1 due 	
5	22 August	<p>Negativity bias and Robinhood trading app</p> <p>Required literature:</p> <ul style="list-style-type: none"> Sias, R., Starks, L.T., and Turtle, H.J.: "The negativity bias and perceived return distributions: Evidence from a pandemic", <i>Journal of Financial Economics</i> 147, 2023, 627-657. Welch, I.: "The wisdom of the Robinhood crowd", <i>The Journal of Finance</i> 77, 2022, 1489-1527. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> Choi, J.J. and Robertson, A.Z.: "What matters to individual investors? Evidence from the horse's mouth", <i>The Journal of Finance</i> 75, 2020, 1965-2020. <p>Introduced by Yiming Zhang</p>	Chris Veld
6	29 August	<p>Working paper discussions: Session 1</p> <p>Working paper presentation 1. Paper:</p> <ul style="list-style-type: none"> Glossner, S., Matos, P., Ramelli, S. and Wagner, A.: "Do institutional investors stabilize equity markets in crisis periods? Evidence from COVID-19", Swiss Finance Institute, Research Paper Series, 2022, No. 20-56. Available at: https://www.ecgi.global/sites/default/files/working_papers/documents/covidfinal.pdf To be presented by Yucheng Xu and Haochen Yu To be discussed by Zhishi Tian and Yiming Zhang <p>Working paper presentation 2. Paper:</p> <ul style="list-style-type: none"> Laudenbach, C., Weber, A., Weber, R., and Wohlfahrt, J.: "Beliefs about the stock market and investment choices: Evidence from a field experiment", Working paper, Goethe University, October 3, 2022. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3969783 To be presented by Zhishi Tian and Yiming Zhang To be discussed by Yucheng Xu and Haochen Yu 	Chris Veld
7	5 Sep.	<p>Anomalies and inefficiencies</p> <p>Required literature:</p> <ul style="list-style-type: none"> Deaves, Lecture 4, part 7. Lamont, O.A. and R.H. Thaler: "Can the Market Add and Subtract? Mispricing in Tech Stock Carve-outs", <i>Journal of Political Economy</i>, 111 (2), 2003, 227-268. 	Joshua Shemesh

		<p>Do behavioural factors explain stock market puzzles?</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Lecture 4, part 8.b+c and Lecture 5, part 8.b. <p>Recommended literature:</p> <ul style="list-style-type: none"> • Ackert, L.F., Charupat, N., Church, B.K. and Deaves, R.: "Margin, short selling and lotteries in experimental asset markets", <i>Southern Economic Journal</i> 73, 2006, 419-436. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Da, Z., Engelberg, J., & Gao, P. (2015). The sum of all FEARS investor sentiment and asset prices. <i>The Review of Financial Studies</i>, 28(1), 1-32. <p>Introduced by: Yuheng Xu</p>	
8	12 Sep.	<p>Equity premium puzzle and myopic loss aversion</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Lecture 4, part 8.a and Lecture 5, part 8.a. • Benartzi, S. and Thaler, R.H.: "Myopic loss aversion and the equity premium puzzle", <i>Quarterly Journal of Economics</i> 110, 1995, 73-92. <p>Recommended literature:</p> <ul style="list-style-type: none"> • Mehra, R. and Prescott, E.C.: "The equity premium: A puzzle", <i>Journal of Monetary Economics</i> 15, 1985, 145-161. • Gneezy, U., A. Kapteyn, and J. Potters, 2003, Evaluation Periods and Asset Prices in a Market Experiment, <i>Journal of Finance</i>, 58(2), 821-837. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Cosemans, M. and Frehen, R., 2021. Saliency theory and stock prices: empirical evidence. <i>Journal of Financial Economics</i> 140(2), pp.460-483. <p>Introduced by: Haochen Yu</p>	Joshua Shemesh
9	19 Sep.	<p>Overconfidence</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Deaves, Lecture 2, part 4 and Lecture 3, part 3. • B. Barber and T. Odean: "Boys will be Boys: Gender, Overconfidence, and Common Stock Investment", <i>Quarterly Journal of Economics</i>, February 2001, Vol. 116, No. 1, 261-292. 	Joshua Shemesh
	26 Sep.	Mid-semester break: 25-29 September	
10	3 Oct.	<p>Behavioural corporate finance</p> <p>Required literature:</p>	Joshua Shemesh

		<ul style="list-style-type: none"> • Baker, M. and Wurgler, J.: “Behavioral Corporate Finance: An updated survey”, NBER working paper 17333, August 2011. Available at: https://ssrn.com/abstract=1918663 (only parts 2.1 and 3.1) <p>Rational managers and irrational investors</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Cooper, M.J., Dimitrov, O., and Rau, R.P.: “A rose.com by any other name”, <i>The Journal of Finance</i> 56, 2001, 2371-2388. <p>Recommended literature:</p> <ul style="list-style-type: none"> • De Jong, A. and Naumovska, I.: “A note on event studies in finance and management research”, <i>Review of Finance</i> 20, 2016, 1659-1672. <p>Managers matter</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Cain, M.D. and McKeon, S.B.: “CEO personal risk-taking and corporate policies”, <i>Journal of Financial and Quantitative Analysis</i>, 2016, 139-164. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> • Cronqvist, H., Makhija, A.K., and Yonker, S.E.: “Behavioral consistency in corporate finance: CEO personal and corporate leverage”, <i>Journal of Financial Economics</i> 103, 2012, 20-40. <p>Introduced by: Yiming Zhang</p> <ul style="list-style-type: none"> • Individual referee report 2 due 	
11	10 Oct.	<p>Behavioural corporate finance (cont.)</p> <p>Managers less than fully rational</p> <p>Required literature:</p> <ul style="list-style-type: none"> • Malmendier, U. and Tate, G.: “Who makes acquisitions? CEO overconfidence and the market’s reaction”, <i>Journal of Financial Economics</i>, 89, 2008, 20–43. <p>Recommended literature:</p> <ul style="list-style-type: none"> • Graham, J.R. and Harvey, C.R.: “The theory and practice of corporate finance: evidence from the field”, <i>Journal of Financial Economics</i> 60, 2001, 187-243. • Kida, T.E., Moreno, K.K. and Smith, J.F.: “The Influence of Affect on Managers’ Capital-Budgeting Decisions”, <i>Contemporary Accounting Research</i> 18, 2001, 477–94. • Camerer, C. and Lovallo, D.: “Overconfidence and excess entry: An experimental approach”, <i>American Economic Review</i> 89(1), 1999, 306-318. 	Joshua Shemesh

		<ul style="list-style-type: none"> Malmendier, U. and Tate, G.: “CEO Overconfidence and Corporate Investment”, <i>The Journal of Finance</i> 60, 2005, 2661-2700. <p>Paper to be discussed:</p> <ul style="list-style-type: none"> Ben-David, I., Graham, J. and Harvey, C., 2013, Managerial Miscalibration, <i>Quarterly Journal of Economics</i> 128, 1547–1584. <p>Introduced by: Zhishi Tian</p>	
12	17 Oct.	<p>Working paper discussions: Session 2</p> <p>Working paper presentation 1. Paper:</p> <ul style="list-style-type: none"> Giustinelli, Pamela and Giustinelli, Pamela and Rossi, Stefano, “The Coherence Side of Rationality: Rules of Thumb, Narrow Bracketing, and Managerial Incoherence in Corporate Forecasts” (https://ssrn.com/abstract=4316556). To be presented by Haochen Yu and Zhishi Tian To be discussed by Yuheng Xu and Yiming Zhang <p>Working paper presentation 2. Paper:</p> <ul style="list-style-type: none"> Kaplan, Steven Neil and Sørensen, Morten and Zakolyukina, Anastasia A., “What is CEO Overconfidence? Evidence from Executive Assessments” (https://ssrn.com/abstract=3700681). To be presented by Yuheng Xu and Yiming Zhang To be discussed by Haochen Yu and Zhishi Tian 	Joshua Shemesh
23-27 October		SWOT VAC	
30 October - 17 November		OFFICIAL EXAMINATION PERIOD	
4 December		EXAMINATION RESULTS RELEASED	

ASSESSMENT REQUIREMENTS

NOTE: the following tasks and weights apply to Monash students. FIRN students outside Monash are only required to sit the final exam.

Assessment Task 1: Presentations

Weighting: 15%

Date: at the end of each Lectures 1-5 and 7-10

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.

Learning outcomes assessed: 1 and 2.

Assessment Task 2: Working paper presentation and discussion

Weighting: 15%

Due date: Weeks 6 and 12

Task details:

Lectures 6 and 12 will each consist of two working papers. For both papers, students will be divided in two groups: one group presents and discusses the paper (the defenders) and the other groups critiques the paper (the attackers). After the first paper, the groups change roles for the second paper.

The defenders are required to give a 30-minute presentation of a working paper (to be assigned). This presentation is a group project, since 2-3 students will prepare the presentation and present the paper together.

The attackers prepare together a 20-minute discussion of the paper. Also, this discussion will be a group project, because the students will prepare the discussion and present it together.

The defenders will then be given 15 minutes to reply to the discussion.

After both defenders and attackers have made their pitch, there will be group discussion (10 minutes).

Students will be evaluated as a group for each round (four rounds).

Learning outcomes assessed: 2 and 3.

Assessment Task 3: Referee reports

Weighting: 20%

Due date: End of Weeks 4 and 10

All students will be required to hand in two referee reports for two different papers. The papers will be distributed at the beginning of Weeks 3 and 9 and they will be due by the end of Weeks 4 and 10 (the Sunday after Weeks 4 and 10 at 23.59 pm).

The referee report for Week 3 will be on the paper: Merkoulova, Yulia and Veld, Chris: "How did Covid-19 affect stock market participation", Working Paper, Monash University, July 2023 (to be distributed).

The referee report for Week 9 will be on the paper: Barahona, Ricardo and Cassella, Stefano and Jansen, Kristy A.E., "Do Teams Alleviate or Exacerbate Biased Beliefs? Evidence from Extrapolation Bias in Mutual Funds" (<https://ssrn.com/abstract=3783421>).

Note that these referee reports are individual projects (so not group projects). Students are not supposed to discuss their reports with other students before handing them in.

Learning outcomes assessed: 2 and 3.

Assessment Task 4: Final Examination

Weighting: 50% (100% for FIRN students outside Monash)

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.

FIRN students will receive the exam by e-mail at the same time as Monash students do the exam

Materials examinable:

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

Task details:

Open book exam of 2 hours (plus 10 minutes reading time)

Learning outcomes assessed: 1, 2 and 3.