

**BFX5014 - Advanced Behavioural Finance****MCom, Year 2, Behavioural Finance – Semester 2, 2025 – July 9, 2025****Lectures will take place on Thursday from 2-5 pm Melbourne time.****UNIT SCHEDULE****UNIT SCHEDULE**

<b>Lecture</b>	<b>Date</b>	<b>Topic</b>	<b>Lecturer</b>
1	31 July	<p><b>Introduction, conventional economics, preferences, prospect theory, integration vs. segregation, and framing</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Deaves, Introduction and Lecture 1</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Thaler, R.H.: "Behavioral economics: past, present, and future", <i>American Economic Review</i> 106(7), 2016, 1577-1600.</li> </ul> <p>Introduced by: Dantong Li</p>	Chris Veld
2	7 August	<p><b>Loss aversion</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p><b>The endowment effect</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p><b>Heuristics and biases</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Deaves, Lecture 2, Parts 1-3</li> </ul> <p><b>Implications of heuristics and biases for financial decision-making</b></p> <p>Required literature</p> <ul style="list-style-type: none"> <li>Deaves, Lecture 3, Parts 4-7</li> </ul> <p>Recommended literature</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Afrouzi, H., Kwon, S.Y., Landier, A., Ma, Y., and Thesmar, D.: "Overreaction in expectations:</li> </ul>	Chris Veld

		<p>Evidence and theory”, <i>The Quarterly Journal of Economics</i> 138, 2023, 1713-1764.</p> <p>Introduced by: Wiebe de Jong</p>	
3	14 August	<p><b>Individual investors and the force of emotion</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul> <p><b>Household finance and the stock market participation puzzle</b></p> <ul style="list-style-type: none"> <li>Van Rooij, M., Lusardi, A., and Alessie, R.: “Financial literacy and stock market participation”, <i>Journal of Financial Economics</i>, 2011, 449-472.</li> </ul> <p>Recommended literature:</p> <ul style="list-style-type: none"> <li>Campbell, J.Y.: “Household finance”, <i>The Journal of Finance</i> 61, 2006, 1553-1604.</li> <li>Guiso, L., Sapienza, P., and Zingales, L.: “Trusting the stock market”, <i>The Journal of Finance</i> 63, 2008, 2557-2600.</li> <li>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.</li> <li>Merkoulova, Y. and Veld, C.: “Why do individuals not participate in the stock market?”, <i>International Review of Financial Analysis</i> 82, 2022c, 102292.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Bucher-Koenen, T., Alessie, R., Lusardi, A., and Van Rooij, M.: “Fearless woman: Financial literacy, confidence, and stock market participation”, <i>Management Science</i> (forthcoming), 2025.</li> </ul> <p>Introduced by: Ziming Jiang</p>	Chris Veld
4	21 August	<p><b>The stock market participation puzzle: continued</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Grinblatt, M., Keloharju, M., and Linnainmaa, J.: “IQ and stock market participation”, <i>The Journal of Finance</i> 66, 2011, 2121-2164.</li> <li>Merkoulova, Y. and Veld, C.: “Stock return ignorance”, <i>Journal of Financial Economics</i> 144, 2022a, 864-884.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Fernandes, D., Lynch, J.G., and Netemeyer, R.G.: “Financial literacy, financial education, and</li> </ul>	Chris Veld

		<p>downstream financial behaviors”, <i>Management Science</i> 60, 2014, 1526-5501.</p> <ul style="list-style-type: none"> <li>Introduced by: Dantong Li</li> </ul>	
5	28 August	<p><b>Negativity bias and Robinhood trading app</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>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.</li> <li>Welch, I.: “The wisdom of the Robinhood crowd”, <i>The Journal of Finance</i> 77, 2022, 1489-1527.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p>Introduced by: Thalassa de Waal</p>	Chris Veld
6	4 Sep.	<p><b>Working paper discussions: Session 1</b></p> <p>Working paper presentation 1. Paper:</p> <ul style="list-style-type: none"> <li>Beutel, J. and Weber, M.: “Beliefs and portfolios: Causal evidence”, <i>Working Paper, Chicago Booth</i>, March 5, 2025. Available at: <a href="https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4029090">https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4029090</a></li> <li>To be presented by Dantong Li and Wiebe de Jong</li> <li>To be discussed by Ziming Jiang</li> </ul> <p>Working paper presentation 2. Paper:</p> <ul style="list-style-type: none"> <li>Duraj, K., Grunow, D., Chaliasos, M., Laudenbach, C., and Siegel, S.: “Rethinking the stock market participation puzzle: A qualitative approach”, <i>Working Paper, SAFE</i>, October 30, 2024. Available at: <a href="https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5108485">https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5108485</a></li> <li>To be presented by Ziming Jiang</li> <li>To be discussed by Dantong Li and Wiebe de Jong</li> </ul>	Chris Veld
7	11 Sep.	<p><b>Anomalies and inefficiencies</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Deaves, Lecture 4, part 7.</li> <li>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.</li> </ul> <p><b>Do behavioural factors explain stock market puzzles?</b></p> <p>Required literature:</p>	Joshua Shemesh

		<ul style="list-style-type: none"> <li>Deaves, Lecture 4, part 8.b+c and Lecture 5, part 8.b.</li> </ul> <p>Recommended literature:</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Goetzmann, W. N., Kim, D., &amp; Shiller, R. J.: "Crash Narratives", Available at SSRN: <a href="https://ssrn.com/abstract=4153089">https://ssrn.com/abstract=4153089</a></li> </ul> <p>Introduced by: Wiebe de Jong</p>	
8	18 Sep.	<p><b>Equity premium puzzle and myopic loss aversion</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Deaves, Lecture 4, part 8.a and Lecture 5, part 8.a.</li> <li>Benartzi, S. and Thaler, R.H.: "Myopic loss aversion and the equity premium puzzle", <i>The Quarterly Journal of Economics</i> 110, 1995, 73-92.</li> </ul> <p>Recommended literature:</p> <ul style="list-style-type: none"> <li>Mehra, R. and Prescott, E.C.: "The equity premium: A puzzle", <i>Journal of Monetary Economics</i> 15, 1985, 145-161.</li> <li>Gneezy, U., A. Kapteyn, and J. Potters: "Evaluation Periods and Asset Prices in a Market Experiment", <i>The Journal of Finance</i>, 58(2), 2003, 821-837.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Levin, R., &amp; Vidart, D.: "Risk-Taking Adaptation to Macroeconomic Experiences: Theory and Evidence from Developing Countries", Available at SSRN: <a href="https://ssrn.com/abstract=3748186">https://ssrn.com/abstract=3748186</a></li> </ul> <p>Introduced by: Ziming Jiang</p>	Joshua Shemesh
9	25 Sep.	<p><b>Overconfidence</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Deaves, Lecture 2, part 4.</li> </ul> <p><b>Overconfidence and excessive trading</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Deaves, Lecture 3, part 3.</li> <li>B. Barber and T. Odean: "Boys will be Boys: Gender, Overconfidence, and Common Stock Investment", <i>The Quarterly Journal of Economics</i>, February 2001, Vol. 116, No. 1, 261-292.</li> </ul> <p>Recommended literature:</p> <ul style="list-style-type: none"> <li>Odean, T.: "Volume, volatility, price, and profit when all traders are above average" <i>The Journal of Finance</i> 53(6), 1998, 1887-1934.</li> </ul>	Joshua Shemesh

		<ul style="list-style-type: none"> <li>Barber, B. M., &amp; Odean, T.: "Trading is hazardous to your wealth: The common stock investment performance of individual investors" <i>The Journal of Finance</i> 55(2), 2000, 773-806.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Gödker, K., Jiao, P., &amp; Smeets, P: "Investor memory", <i>The Review of Financial Studies</i>, 38(6), 2025, 1595-1640.</li> </ul> <p>Introduced by: Dantong Li</p>	
	2 Oct..	<b>Mid-semester break: 29 September- 3 October</b>	
10	9 Oct.	<p><b>Behavioural corporate finance</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Baker, M. and Wurgler, J.: "Behavioral Corporate Finance: An updated survey", NBER working paper 17333, August 2011. Available at: <a href="https://ssrn.com/abstract=1918663">https://ssrn.com/abstract=1918663</a> (only parts 2.1 and 2.2)</li> </ul> <p><b>Rational managers and irrational investors</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Lauterbach, B., Mugerman, Y., and Shemesh, J.: "Prospect theory in M&amp;A: Do historical purchase prices affect merger offer premiums and announcement returns?" <i>Journal of Behavioral and Experimental Finance</i> 42, 2024.</li> <li>Lauterbach, B., Lorient, B., Mugerman, Y., and Shemesh, J.: "Holistic Bidding Strategies: Addressing Target Shareholders' Behavioral Resistance in M&amp;As", <i>Finance Research Letters</i>, 2025, 106822.</li> </ul> <p>Recommended literature:</p> <ul style="list-style-type: none"> <li>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.</li> <li>Baker, M., Pan, X. and Wurgler, J., 2012. The effect of reference point prices on mergers and acquisitions. <i>Journal of Financial Economics</i>, 106(1), pp.49-71.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Décaire, P. H., Sosyura, D., &amp; Wittry, M. D.: "Resolving Estimation Ambiguity", Available at SSRN: <a href="https://ssrn.com/abstract=4953859">https://ssrn.com/abstract=4953859</a></li> </ul> <p>Introduced by: Wiebe de Jong</p>	Joshua Shemesh
11	16 Oct.	<p><b>Behavioural corporate finance (cont.)</b></p> <p><b>Managers matter</b></p> <p>Recommended literature:</p>	Joshua Shemesh

		<ul style="list-style-type: none"> <li>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.</li> </ul> <p><b>Managers less than fully rational</b></p> <p>Required literature:</p> <ul style="list-style-type: none"> <li>Baker, M. and Wurgler, J.: "Behavioral Corporate Finance: An updated survey", NBER working paper 17333, August 2011. Available at: <a href="https://ssrn.com/abstract=1918663">https://ssrn.com/abstract=1918663</a> (only part 3.1)</li> <li>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.</li> </ul> <p>Recommended literature:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Camerer, C. and Lovallo, D.: "Overconfidence and excess entry: An experimental approach", <i>American Economic Review</i> 89(1), 1999, 306-318.</li> <li>Malmendier, U. and Tate, G.: "CEO Overconfidence and Corporate Investment", <i>The Journal of Finance</i> 60, 2005, 2661-2700.</li> <li>Ben-David, I., Graham, J. and Harvey, C.: "Managerial Miscalibration", <i>The Quarterly Journal of Economics</i> 128, 2013, 1547–1584.</li> <li>Kaplan, S. N., Sørensen, M., and Zakolyukina, A. A.: "What is CEO overconfidence? Evidence from executive assessments" <i>Journal of Financial Economics</i> 145(2), 2022, 409-425.</li> </ul> <p>Paper to be discussed:</p> <ul style="list-style-type: none"> <li>Barrero, J.M.: "The micro and macro of managerial beliefs", <i>Journal of Financial Economics</i>, 143(2), 2022, pp.640-667.</li> </ul> <p>Introduced by: Ziming Jiang</p>	
12	23 Oct.	<p><b>Working paper discussions: Session 2</b></p> <p>Working paper presentation 1. Paper:</p> <ul style="list-style-type: none"> <li>Kieren, P., Mertes, L., &amp; Weber, M.: "Information Partitioning, Learning, and Beliefs", Available at SSRN: <a href="https://ssrn.com/abstract=4864622">https://ssrn.com/abstract=4864622</a></li> <li>To be presented by Dantong Li and Ziming Jiang</li> <li>To be discussed by Wiebe de Jong</li> </ul>	Joshua Shemesh

		Working paper presentation 2. Paper: <ul style="list-style-type: none"> <li>Chen, Z., &amp; Huang, J.: “Memory and Beliefs in Financial Markets: A Machine Learning Approach”, Available at SSRN: <a href="https://ssrn.com/abstract=5013622">https://ssrn.com/abstract=5013622</a></li> <li>To be presented by Wiebe de Jong</li> <li>To be discussed by Dantong Li and Ziming Jiang</li> </ul>	
27-31 October		SWOT VAC	
3-19 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 only do the final exam.

### **Assessment Task 1: Presentations**

**Weighting:** 25%

**Date:** at the end of each Lectures 1-5 and 7-11

Task details:

For specific lectures (see schedule above) one paper will be scheduled for discussion in the 3<sup>rd</sup> hour of the lecture. One student or a group of students 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.

In this assessment, you must not use generative artificial intelligence (AI) to generate any materials or content in relation to the assessment task.

**Learning outcomes assessed:** 1 and 2.

### **Assessment Task 2: Working paper presentation and discussion**

**Weighting:** 25%

**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 multiple 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).

In this assessment, you must not use generative artificial intelligence (AI) to generate any materials or content in relation to the assessment task.

**Learning outcomes assessed:** 2 and 3.

### **Assessment Task 3: 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

The final exam will consist of two referee reports on papers that will be communicated during the exam period. Students will get a period of one week to complete both reports. The exact period will be communicated during the semester.

**Note that these referee reports are individual projects (so not group projects).**

**Students are not allowed to discuss their reports with other students before handing them in.**

In this assessment, you must not use generative artificial intelligence (AI) to generate any materials or content in relation to the assessment task.

Learning outcomes assessed: 1, 2 and 3.