

Columbia Business School

B9310
Seminar in Behavioral Finance
Spring 2023

Professor Kent Daniel
kd2371@columbia.edu
<http://kentdaniel.net/>

Seminar in Behavioral Finance - *Preliminary Syllabus* -

I. Administrative:

Class Times & Location:

- Weekly, on Thursdays from 2p-5:15pm in Kravis 410.
- ***There will be no class on February 9 or on April 20.*** We will schedule a minimum of two additional classes towards the end of the term, that will allow for the presentations of class research projects. We will set the dates of these additional classes in the first few weeks of class, and will find times for these when everyone is available.

Course Description:

- **Objectives:** This is a full-term course intended for advanced Masters and PhD students who intend to do research in economics and finance. This course will review the current state of knowledge in behavioral finance. Class sessions will be a mix of lecture and discussion, but most sessions will center around discussions of important papers in the academic literature. The papers will come from the behavioral economics, behavioral finance, and the experimental psychology literatures.
- **Topics:** empirical evidence on security markets (anomalies); evidence on individual and institutional behavior; limits of arbitrage; psychology, judgment and decision making; and other related topics. The course will be designed to have as little overlap as possible with other courses in the PhD sequence.
- **Experiments:** Behavioral economics and behavioral finance build on the results documented in experimental psychology. That field is largely experimental. Most weeks, we will begin the class with an experiment. Participation in the experiments is optional, and does not affect your course grade. If you wish to participate in these experiments, you should bring \$20 to each class.
- **Course requirements & grading:** You are expected to thoroughly read 3-4 papers per week, and to be prepared to discuss these papers in class. There will be several required homeworks and “referee-reports” due through the term. Finally,

you will be required to submit an original research proposal based on an idea that has some relation with the ideas discussed in class. The course grade will be based on class participation, grades on these assignments, and on your research proposal. I'll give more detail on this in the first class.

Canvas/Course Web Site:

- I will post all materials for the course on the **Canvas** site (CBS's course management system) including articles, material related to the experiments, lecture notes, *etc.*
- To enter Canvas, go to <https://canvas.gsb.columbia.edu/> (click here to go to course page) sign in, and if you are registered the course should show up. If this doesn't work (and you are in the course) email me.

Required Texts:

- You should probably purchase: the **Shleifer (2000)** book *Inefficient Markets*. (click for the Amazon link). You get it used on in paperback at very reasonable prices. This book is old now, but the content is excellent. It is mostly Andrei's early papers, but there is some additional material which is useful. *All other readings will be available on Canvas.*

Optional Texts:

- You do not need to buy these books. That said, all are valuable resources. Several of the readings this term will come from these collections. *However, all articles will be available online.*
- Richard Thaler's autobiography *Misbehaving* is also a really fun read and gives a lot of interesting background on the field. You should read this at some point.
- the **Bazerman and Moore (2013)** book *Judgment in Managerial Decision Making* is a great MBA-level intro to behavioral decision research. The 8th edition is really pricey, but used, slightly older editions are considerably less online.
- **Behavioral Finance – Collections of Articles:**
The *Advances* books are collections of some of the best cited papers in behavioral finance, plus a few survey articles. *The Winner's Curse* is a collection of the set of "Anomalies" articles that Thaler (and various coauthors) wrote for the *Journal of Economic Perspectives*.

– **Thaler (1991, 1993, 1994, 2005)**

- **Psychology**

- If you haven't already, you should read Kahneman's book – *Thinking Fast and Slow*.
- Michael's Lewis' book, *The Undoing Project*, is fantastic, covers some of the same material and gives a lot of interesting background on Kahneman and Tversky and the others who played a big role in developing the field.

- **Psychology – Collections of Articles:**

These books contain the seminal articles in the experimental psychology/heuristics and biases research agenda.

- [Kahneman, Slovic, and Tversky \(1982\)](#), [Kahneman and Tversky \(2000\)](#), [Gilovich, Griffin, and Kahneman \(2002\)](#),

- **Other Related/Interesting Books**

- [Shiller \(2000b\)](#), [Akerlof and Shiller \(2009\)](#), [Lehrer \(2009\)](#), [Gilovich \(1991\)](#), [Iyengar \(2010\)](#), [Gilbert \(2006\)](#)

Survey Articles:

- **Behavioral Finance:** [Barberis and Thaler \(2003\)](#), [Daniel, Hirshleifer, and Teoh \(2002\)](#), [Hirshleifer \(2001\)](#), [Baker, Ruback, and Wurgler \(2007\)](#)
- **Psychology:** [Camerer \(1995\)](#), [Kahneman and Riepe \(1998\)](#), [Rabin \(1998\)](#), [Thaler \(1999\)](#)
- **Accounting:** [Richardson, Tuna, and Wysocki \(2010\)](#), [Lewellen \(2010\)](#)

II. Course Outline and Reading List (*Preliminary*):

Notes:

- This outline/reading-list follows closely that of a similar course by Nick Barberis (at Yale). Many thanks to Nick for so generously sharing this material.
- **You will not need to read all of the papers listed here.** Before the first class, I will issue a revised syllabus which will indicate the required readings each week. I anticipate that there you will be required to read about 3-5 papers/week, and the papers must be read prior to the class in which they will be discussed.
- We probably will not be able to cover all of the topics listed here.

- Links of all of the articles will be posted on the course web site at some point before the start of the term.

I. INTRODUCTION AND HISTORICAL

- A. Friedman (1953b), Keynes (1936, Chapter 12), Friedman (1953a), Fama (1965), Jensen (1968), Fama, Fisher, Jensen, and Roll (1969), Fama (1970).

II. FACTS

A. FACTS: SECURITY MARKET ANOMALIES:

- **Inefficient Markets*, Chapter 1.
1. **Size:** Banz (1981), Keim (1983)
 2. **Long Term Overreaction:** DeBondt and Thaler (1985), Daniel and Titman (2006)
 3. **Value:** DeBondt and Thaler (1987), Rosenberg, Reid, and Lanstein (1985), Fama and French 1992; 1993; 1995; 1998, Lakonishok, Shleifer, and Vishny (1994), Daniel and Titman (1997), La Porta, Lakonishok, Shleifer, and Vishny (1997), Asness, Moskowitz, and Pedersen (2013)
 4. **Momentum:** Jegadeesh and Titman 1993; 2001, Moskowitz and Grinblatt (1999), Moskowitz, Ooi, and Pedersen (2012), Grundy and Martin (2001), Chabot, Remy, and Jagannathan (2009), Geczy and Samonov (2015), Daniel and Moskowitz (2016), Daniel, Jagannathan, and Kim (2015).
 5. **Short Term Reversals:** Jegadeesh (1990), Lehmann (1990), Nagel (2012). Da, Liu, and Schaumburg (2013).
 6. **Issuance:** Ritter (1991), Loughran and Ritter (1995), Teoh, Welch, and Wong (1998), Ikenberry, Lakonishok, and Vermaelen (1995), Daniel and Titman (2006), Pontiff and Woodgate (2008), Baker and Wurgler (2002).
 7. **Earnings Momentum (PEAD):** Bernard and Thomas (1990); Chan, Jegadeesh, and Lakonishok (1996), Bernard (1992) (Also, in *Advances* book, Ch. 11)
 8. **Accruals:** Sloan (1996), Richardson, Sloan, Soliman, and Tuna (2005).
 9. **Beta(s) and Future Returns:** Daniel and Titman (1997), Frazzini and Pedersen (2014)
 10. **Idiosyncratic Volatility:** Ang, Hodrick, Xing, and Zhang (2006), Ang, Hodrick, Xing, and Zhang (2009), Rachwalski and Wen (2016), Stambaugh, Yu, and Yuan (2015).
 11. **Equity Premium Puzzle:** Mehra and Prescott (1985), Mehra and Prescott (2007)
 12. **Excess Volatility:** Shiller (1981), Roll (1984), Roll (1988), Cochrane (1991).
 13. **Market Predictability:** Fama and French (1988b), Fama and French (1988a), Fama and French (1989), Baker and Wurgler (2000).

14. **Closed-End Funds:** Lee, Shleifer, and Thaler (1991), Thompson (1978).
15. **Factor Based Explanations:** Daniel and Titman (1997), Daniel and Titman (2012), Lewellen and Nagel (2006), Lewellen, Nagel, and Shanken (2010), Frazzini and Pedersen (2014).
16. **Options Market Behavior:** Rubinstein (1994), Gârleanu, Pedersen, and Poteshman (2009), Dumas, Fleming, and Whaley (1998), Xing, Zhang, and Zhao (2010).
17. **Commodities:** Roll (1992), Mou (2010)
18. **Foreign Exchange:** Froot and Thaler (1990), Brunnermeier, Nagel, and Pedersen (2008).
19. **Real Estate:** Genesove and Mayer (2001),

B. FACTS: INVESTOR BEHAVIOR:

1. Odean (1998), Odean (1999), Barber and Odean (2001), Campbell (2006), Calvet, Campbell, and Sodini (2007)

C. FACTS: ANALYST BEHAVIOR:

1. *** Womack (1996)

D. FACTS: CORPORATE FINANCE:

1. Allen and Michaely (2003), Andrade, Mitchell, and Stafford (2001), Andrade (1999), Fama and French (2001), Stein (2003)

III. THEORETICAL CONSTITUENTS:

A. CONSTITUENTS: LIMITS TO ARBITRAGE:

- **Inefficient Markets*, Chapters 2 & 4.
- *Barberis and Thaler (2003), Sections 1-2.
- Abreu and Brunnermeier (2002), Abreu and Brunnermeier (2003), DeLong, Shleifer, Summers, and Waldmann (1990a), DeLong, Shleifer, Summers, and Waldmann (1990b), DeLong, Shleifer, Summers, and Waldmann (1991), Fama and French (2007), Gromb and Vayanos (2010), Lamont and Thaler (2003b), Lamont and Thaler (2003a), Mitchell, Pulvino, and Stafford (2002), Shleifer (1986), Shleifer and Vishny (1997), Wurgler and Zhuravskaya (2002), Yan (2008)

B. CONSTITUENTS: PSYCHOLOGY:

1. *Survey Articles:* *Barberis and Thaler (2003), Section 3, Camerer (1995), Kahneman and Riepe (1998), Rabin (1998), Thaler (1999)
2. *Research Articles:* Tversky and Kahneman (1974), Kahneman and Tversky (1979), Tversky and Kahneman (1992), Camerer (2000), Rabin (2000), Rabin and Thaler (2001)

IV. MODELS:

A. MODELS OF INVESTORS:

1. **Prospect Theory:** Barberis and Huang (2007), Barberis and Huang (2008), Barberis, Huang, and Santos (2001), Benartzi and Thaler (1995), Coval and Shumway (2005), Frazzini (2006), Genesove and Mayer (2001), Grinblatt and Han (2005), Thaler and Johnson (1990), Thaler, Tversky, Kahneman, and Schwartz (1997)
2. **Ambiguity Aversion:** Huberman (2001), Maenhout (2004)
3. **Other Utility Specifications:** Brunnermeier and Parker (2005), Chapman and Polkovnichenko (2009), Polkovnichenko (2005)
4. **Heterogeneous Beliefs:** Chen, Hong, and Stein (2002), D’Avolio (2002), Diether, Malloy, and Scherbina (2002), Miller (1977), Ofek and Richardson (2003), Scheinkman and Xiong (2003)
5. **Overconfidence:** Daniel, Hirshleifer, and Subrahmanyam (1998), Daniel, Hirshleifer, and Subrahmanyam (2001)
6. **Other Belief Biases:**
 - *Inefficient Markets*, Chapter 6.
 - Barberis, Shleifer, and Vishny (1998), DeLong, Shleifer, Summers, and Waldmann (1990b), Grinblatt and Keloharju (2001), La Porta, Lakonishok, Shleifer, and Vishny (1997), Lakonishok, Shleifer, and Vishny (1994), Rabin and Vayanos (2010)
7. **General Sentiment:**
 - *Inefficient Markets*, Chapter 3.
 - Baker and Wurgler (2006), Frazzini and Lamont (2008), Jones and Lamont (2002)
8. **Bounded Rationality:** Barber and Odean (2008), Barberis and Shleifer (2003), Barberis, Shleifer, and Wurgler (2005), Benartzi and Thaler (2001), Cohen and Frazzini (2008), Hong, Lim, and Stein (2000), Hong and Stein (1999), Huberman and Jiang (2006), Modigliani and Cohn (1979), Mulinathan (2001)
9. **Group Dynamics & Crowd Behavior** Asch (1956), Milgram (1963), Shiller (2000a)

B. MODELS OF FIRMS:

1. **Rational Managers & Irrational Firms:** Baker, Stein, and Wurgler (2003b), Baker and Wurgler (2000), Baker and Wurgler (2002), Baker, Greenwood, and Wurgler (2003a), Baker and Wurgler (2004), Baker, Pan, and Wurgler (2009), Blanchard, Rhee, and Summers (1993), Morck, Shleifer, and Vishny (1990), Polk and Sapienza (2008), Shefrin and Statman (1984), Shleifer and Vishny (2003), Stein (1996)
2. **Irrational Managers & Firms:** Bergman and Jenter (2007), Dittmann, Maug, and Spalt (2010), Heaton (2002), Landier and Thesmar (2009) Malmendier and Tate (2005), Malmendier and Tate (2008), Roll (1986), Spalt (2008)

V. MISCELLANEOUS TOPICS:

A. Extrapolation

- [Bordalo, Gennaioli, La Porta, and Shleifer \(2019\)](#), [Bordalo, Gennaioli, and Shleifer \(2018\)](#); [Bordalo, Gennaioli, La Porta, and Shleifer \(2020\)](#)
- [Bordalo, Gennaioli, and Shleifer \(2022a\)](#); [Blank, Kwon, and Tang \(2022\)](#); [Bordalo, Gennaioli, and Shleifer \(2022b\)](#)
- [Nagel and Xu \(2021\)](#)

B. Inattention/Belief Stickiness

- Information Rigidities: [Bouchaud, Krueger, Landier, and Thesmar \(2019\)](#)
- [Sims \(2003\)](#); [DellaVigna and Pollet \(2009\)](#); [Gabaix \(2019\)](#)

C. Disagreement

- [Miller \(1977\)](#); [Hong and Stein \(2007\)](#); [Daniel, Klos, and Rottke \(2022\)](#)
- [Scheinkman and Xiong \(2003\)](#); [Yu \(2011\)](#); [Fama and French \(2007\)](#)

D. Stories/Narratives

E. Experience effects

- [Malmendier \(2021\)](#)

F. Overconfidence

- [Malmendier and Tate \(2015\)](#), [Daniel and Hirshleifer \(2015\)](#)

G. Profitability:

- [Novy-Marx \(2013\)](#), [Ball, Gerakos, Linnainmaa, and Nikolaev \(2015\)](#), [Bouchaud, Krueger, Landier, and Thesmar \(2019\)](#), [Fama and French \(2006\)](#).

H. Selective Attention:

- [Karlsson, Loewenstein, and Seppi \(2009\)](#), [Sicherman, Loewenstein, Seppi, and Utkus \(2016\)](#)

I. Neuroeconomics: [Camerer, Loewenstein, and Prelec \(2006\)](#), [Kuhnen and Knutson \(2005\)](#), [Knutson, Wimmer, Rick, Hollon, Prelec, and Loewenstein \(2008\)](#), [Rubinstein \(2008\)](#), [Camerer \(2008\)](#)

J. Genetics:

K. Delegated Fund Management: [Sirri and Tufano \(1998\)](#), [Chevalier and Ellison \(1997\)](#), [Wermers \(1999\)](#), [Berk and Green \(2004\)](#).

L. News: [Chan \(2003\)](#), [Kelley and Tetlock \(2013\)](#); [Tetlock \(2010\)](#); [Tetlock, Saar-Tsechansky, and Macskassy \(2008\)](#); [Tetlock \(2011\)](#)

M. Culture/Trust: [Guiso, Sapienza, and Zingales \(2006\)](#), [Grinblatt and Keloharju \(2001\)](#), [Guiso, Sapienza, and Zingales \(2008\)](#)

VI. CONCLUSIONS:

- **Inefficient Markets*, Chapter 7.
- [Fama \(1998\)](#), [Rubinstein \(2000\)](#), [Lehrer \(2010\)](#), [Loewenstein and Ubel \(2010\)](#),

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