Georg-August-Universität Göttingen

Faculty of Economic Sciences
Chair of Experimental Economics
("Juniorprofessur")

Bachelor Block Seminar in Behavioral Economics

„Behavioral Finance“

Winter Term 2019/20

In the winter term 2019/20 the chair of Experimental Economics offers a block seminar in Behavioral Finance. The main focus of the seminar will be the analysis of irrational investor behavior on financial markets. The seminar will deal with several aspects such as psychological approaches, decision heuristics, the impacts of investor sentiments, and neuro economic approaches. The topics are based on 2-3 economic research papers. These papers will serve as main sources (and should cover 75% of the seminar paper). However, the participants have the possibility to extend the literature.

Participants are required to present a seminar talk in class (20 minutes) and to submit a seminar paper (approx. 15 pages) after the presentation.

Max. number of participants: 15 participants

Language: English

Dates:

First Meeting: October 24, 2019
Time: 4:00-5:00 pm
Room: MZG, 6.115 (Labor)

Topic assignment: Topics will be assigned in the first meeting. Afterwards, the remaining topics may be requested by sending an e-mail to holger.rau@uni-goettingen.de (Please indicate your ranked top 3 preferences). Topics will be assigned on a "first-comefirst-serve" basis.

Deadline to enroll and (withdraw): October 31, 2019 in FlexNow

Date for the blocked seminar: December 17, 2019
(10 am to 5 pm, room: MZG 6.115)

Deadline for seminar paper: January 10, 2020
(upload via e-mail to: holger.rau@uni-goettingen.de)

Contact: If you have further questions, please contact Prof. Dr. Rau

Seminar Topics

1. Market Efficiency

Topic (a):	***The Efficient Markets Theory and the Movement toward Behavioral Finance***
Paper(s):	The Efficient Market Hypothesis and its Critics Burton Malkiel (2003), *Journal of Economic Perspectives* 17, 59-82. From Efficient Markets Theory to Behavioral Finance Robert Shiller (2003), *Journal of Economic Perspectives* 17, 83-104.
Topic (b):	***Market Bubbles – Experimental Evidence***
Paper(s):	Bubbles, Crashes, and Endogenous Expectations in Experimental Spot Asset Markets Vernon Smith, Gerry Suchanek, and Arlington Williams (1988), *Econometrica* 56, 1119-1151. Bubbles and Experience: An Experiment Martin Dufwenberg, Tobias Lindqvist, and Evan Moore (2005), *American Economic Review* 95, 1731-1737. In the Mind of the Market: Theory of Mind Biases Value Computation during Financial Bubbles Bendetto De Martino, John P. O' Doherty, Debajyoti Ray, Peter Bossaerts, Colin Camerer (2013), *Neuron* 79, 12221231.

2. Decision under Uncertainty

Topic (a):	***Heuristics, Biases and the Hot-Hand Phenomenon***
Paper(s):	Judgment under Uncertainty: Heuristics and Biases Amos Tversky, and Daniel Kahneman (1974), *Science* 27, 1124-1131. Does the Basketball Market Believe the „HotHand"? Colin Camerer (1989), *American Economic Review* 79, 1257-1261. Do Hot Hands Exist among Hedge Fund Managers? An Empirical Evaluation Jagannathan, R., Malakhov, A., & Novikov, D. (2010), *The Journal of Finance* 65, 217-255.

Topic (b): Paper(s):	***Prospect Theory and its Application*** Prospect Theory: An Analysis of Decision under Risk Daniel Kahneman and Amos Tversky (1979), *Econometrica* 47, 263-291. Toward a Positive Theory of Consumer Choice Richard Thaler (1980), *Journal of Economic Behavior & Organization* 1, 39-60
3. Loss Aversion	
Topic (a): Paper(s):	***The Equity Premium Puzzle*** An Experiment on Risk Taking and Evaluation Periods Uri Gneezy, and Jan Potters (1997), *Quarterly Journal of Economics* 112, 631-645. The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test Richard Thaler, Amos Tversky, Daniel Kahneman, and Alan Schwartz (1997), *Quarterly Journal of Economics* 112, 647-661. The Equity Premium Puzzle Jeremy Siegel and Richard Thaler (1997), *Journal of Economic Perspectives* 11, 191-200.
Topic (b): Paper(s):	***The Endowment Effect*** Experimental Tests of the Endowment Effect and the Coase Theorem Daniel Kahneman, Jack Knetsch, and Richard Thaler (1990), *Journal of Political Economy* 98, 1325-1348. Does Market Experience Eliminate Market Anomalies? John List (2003), *Quarterly Journal of Economics* 118, 41-72.
4. Risk and Ambiguity	
Topic (a): Paper(s):	***The Role of Risk Preferences*** Examining risk preferences under high monetary incentives: Experimental evidence from the People's Republic of China Kachelmeier, and Shehata (1992), *American Economic Review* 82, 1120-1141. Individual Risk Attitudes: Measurement, Determinants, and Behavioral Consequences Thomas Dohmen, Armin Falk, David Huffman, Uwe Sunde, Jürgen Schupp, Gert Wagner (2011), *Journal of the European Economic Association* 9, 1542-4774.

Topic (b):	***Ambiguity Aversion & the Home Bias***
Paper(s):	Ambiguity Aversion and Comparative Ignorance Craig Fox, and Amos Tversky (1995), *Quarterly Journal of Economics* 110, 585-603. Home Bias at Home: Local Equity Preference in Domestic Portfolios Joshua Coval, and Tobias Moskovitz (1999), *The Journal of Finance* 54, 2045-2073
Topic (c):	***Ambiguity Aversion on Markets***
Paper(s):	Reaction to Public Information in Markets: How Much does Ambiguity Matter? Brice Corgnet, Praveen Kujal, and David Porter (2013), *Economic Journal* 123, 699-737. Does Ambiguity Aversion Survive in Experimental Markets? Sascha Füllbrunn, Holger Rau, and Utz Weitzel (2014), *Journal of Economic Behavior & Organization* 107B, 810-826.

5. Investor Psychology

Topic (a):	***Overconfidence on Financial Markets***
Paper(s):	Overconfidence of Professionals and Lay Men: Individual Differences Within and Between Tasks? Markus Glaser, Thomas Langer, and Martin Weber (2005), *SFB 504 Working Paper* 05-25. Boys will be Boys: Gender, Overconfidence, and Common Stock Investment Brad Barber, and Terrance Odean (2001), *Quarterly Journal of Economics* 116, 261-292.
Topic (b):	***The Role of Weather Effects***
Paper(s):	Stock Prices and Wall Street Weather Edward Saunders, Jr. (1993), *American Economic Review* 83, 1337-45. Weather and Intraday Patterns in Stock Returns and Trading Activity Shao-Chi Chang, Sheng-Syan Chen, Robin Chou, and YuehHsiang Lin (2008), *Journal of Banking & Finance* 32, 1754- 1766. Spanish Stock Returns: Where is the Weather Effect? Angel Pardo, and Enric Valor (2003), *European Financial Management* 9, 117-126e.

Topic (c): Paper(s):	***The Influence of Mental Accounting*** Mental Accounting Matters Robert Thaler (1999), *Journal of Behavioral Decision Making* 12, 183-206. Do Investors Integrate Losses and Segregate Gains? Mental Accounting and Investors Trading Decisions Sonya Seongyeon Lim (2006), *Journal of Business* 79, 2539-2573.
6. Market Phenomena	
Topic (a): Paper(s):	***Investors and the Disposition Effect*** The Disposition to Sell Winners too Early and Ride Losers too Long: Theory and Evidence Hershel Shefrin and Meir Statman (1985), The Journal of Finance 40, 777-790. The Disposition Effect in Securities Trading: An Experimental Analysis Martin Weber and Colin Camerer (1998), *Journal of Economic Behavior* 33, 167-184. The Disposition Effect in Team Investment Decisions: Experimental evidence Holger Rau (2015), *Journal of Banking and Finance* 61. 272-282.
Topic (b): Paper(s):	***Herding on Markets*** Learning from the Behavior of Others: Conformity, Fads and Informational Cascades Sushil Bikchandani, David Hirshleifer, and Ivo Welch (1998), *Journal of Economic Perspectives* 12, 151-170. Herding and Contrarian Behavior in Financial Markets: An Internet Experiment Matthias Drehmann, Jörg Oechssler, and Andreas Roider (2005), American Economic Review 95, 1403-1426. An Empirical Analysis of Herd Behavior in Global Stock Markets Thomas Chiang, and Dazhi Zheng (2009), *Journal of Banking and Finance* 34, 1911-1921.

7. Gender Differences in Finance	
Topic Paper(s):	***Gender Differences on Financial Markets*** Men, Women and Risk Aversion: Experimental Evidence Catherine Eckel, and Philip Grosman (2008), *Handbook of Experimental Economics Results Vol. 1, Ch.113, pp. 10611073, C. Plott, V. Smith, eds., New York, Elsevier, 2008. Available at SSRN: http://ssrn.com/abstract=1883693* Thar 'She' Blows? Gender, Competition, and Bubbles in Experimental Asset Markets Catherine Eckel, and Sascha Füllbrunn (2015), *American Economic Review* 105, 906-920. The Disposition Effect and Loss Aversion: Do Gender Differences Matter? Holger Rau (2014), *Economics Letters* 123, 33-36.
8. The Neuroeconomic Perspective	
Topic (a) Paper(s):	***How Regret Influences Decision Making*** Anticipated Regret, Expected Feedback and Behavioral Decision Making Marcel Zeelenberg (1999), *Journal of Behavioral Decision Making* 12*,* 93-106. Brain, Emotion and Decision Making: The Paradigmatic Example of Regret Giorgio Coricelli, Raymond Dolan, and Angela Sirigu (2007), *Trends in Cognitive Sciences* 11*,* 258-265. Interdependent Utilities: How Social Ranking Affects Choice Behavior Nadège Bault, Giorgio Coricelli, and Aldo Rustichini (2008), *PloS one 3.10, e3477*.

Topic (b) Paper(s):	***Eye tracking and Investment Choices*** An overall probability of winning heuristic for complex risky decisions: Choice and eye fixation evidence Vinod Venkatraman, John Payne, and Scott Huettel (2014), *Organizational Behavior and Human Decision Processes* 125*,* 73-87. Sensitivity to Affective Information and Investors' Evaluation of Past Performance: An Eye-tracking Study Enrico Rubaltelli, Sergio Agnoli, and Laura Franchin (2016), *ournal of Behavioral Decision Making* 29*,* 295-306.