Description of the Course:

Over the past several decades, the field of finance has developed a successful paradigm based on the notions that investors and managers are generally rational and the prices of securities are generally “efficient.” In recent years, however, anecdotal evidence as well as theoretical and empirical research has shown this paradigm to be insufficient to describe various features of actual financial markets. In this course we examine how the insights of behavioral finance complement the traditional paradigm and shed light on the behavior of asset prices, corporate finance, and various Wall Street institutions and practices.

The course is taught through lectures, case studies, and some selected research articles which I will make available. There is no required textbook, as there is not yet a suitable textbook available in this field. Grading is as follows:

45% Problem sets (2) and case write-up (1)
55% Final exam

For the problem sets and case write-up, teams of up to three (but no more than three) may hand in joint solutions. Assignments are due at the beginning of the denoted class, with a 15% penalty for each calendar day turned in late. The final exam can’t be rescheduled except under cases of extreme hardship. In such a case you should notify me in advance of the date of the final exam. All grade appeals must be made within one week of the return of the assignment or exam. Grade appeals will not be permitted after this one week deadline has passed.
Carmen:
Carmen will be the site for all course materials. All information relevant to the course will be available there.

Course Approach:
This is an upper-level elective. Much of the material will be conceptually challenging and will often build on what has been taught in the core courses. You should not take the course if you are not fully prepared to make an appropriate commitment.

Standard of Integrity:
Students are expected to abide by the principles and standards set forth in The Ohio State University code of student conduct (studentaffairs.osu.edu/csc).

A reading list and tentative schedule are attached.
# Schedule

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<th>Class</th>
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<td>I. Non-Behavioral Finance</td>
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<td>I. Non-Behavioral Finance</td>
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<td>3. Tuesday Sep 1</td>
<td>II. Some Motivating Evidence</td>
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<td>4. Thursday Sep 3</td>
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<td>5. Tuesday Sep 8</td>
<td>III. Limits to Arbitrage</td>
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<td>11. Tuesday Sep 29</td>
<td>V. Behavioral Corporate Finance</td>
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<td>15. Tuesday Oct 13</td>
<td>Final Exam</td>
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Reading List

Required readings are marked with a (**) below. For those articles marked (*), I would suggest that you read the abstract and introduction, and at least skim the remainder of the article. When sitting down to read a paper on your own, try to take away the key intuition and results of the paper. Don’t dwell on the details unless you have a particular interest in the topic. Please do make a special effort at the required readings, which are less technical, and at least skim the supplemental readings. I will discuss all or almost all of the articles below in class, at least briefly.

Overview Survey Articles

**Thaler, Richard H., 1999, The End of Behavioral Finance, Perspectives.**


I. Non-Behavioral Finance

*Early work found strong empirical support for the efficient markets hypothesis.*


II. Some Motivating Evidence: Anomalies

*Over the past couple of decades a number of anomalies, or seeming deviations from market efficiency have been identified. These patterns in asset returns are not easy to reconcile with traditional asset-pricing models.*


III. Limits to Arbitrage

Traditional finance predicts that when prices deviate from fundamental value, rational traders will quickly arbitrage away this mispricing, restoring prices to their fundamental values. However, recent theory and evidence suggests that there exist impediments limiting the ability of arbitrageurs to restore prices to fundamental value.


IV. Investor Behavior

Behavioral finance argues that prices at times deviate from fundamental value due to the actions of investors who are not fully rational.


Dellavigna, Stefano, and Joshua M. Pollet, 2009, Investor Inattention and Friday Earnings Announcements, *Journal of Finance*.


Grinblatt, Mark, and Bing Han, 2005, Prospect Theory, Mental Accounting, and Momentum, *Journal of Financial Economics*.


V. Manager and Firm Behavior

The study of behavioral corporate finance takes one of two approaches. The rational managers approach examines how managers optimize corporate actions to take advantage of mispricing. The irrational managers approach examines how biases of managers can lead to actions that are less than optimal for the firm.


