Econ 672b Behavioral Finance

Course Type: Graduate  
Course term: Spring  
Year: 2018  
Instructor(s): Nicholas C. Barberis

Much of modern financial economics works with models in which agents are rational, in that they maximize expected utility and use Bayes’ law to update their beliefs. Behavioral finance is a large and active field which studies models in which some agents are less than fully rational. Such models have two building blocks: limits to arbitrage, which make it difficult for rational traders to undo the dislocations caused by less rational traders; and psychology, which catalogues the kinds of deviations from full rationality we might expect to see. We discuss these two topics, and then consider a number of applications: asset pricing (the aggregate stock market and the cross-section of average returns); individual trading behavior; and corporate finance (security issuance, corporate investment, and mergers). This is a research-oriented course aimed at Ph.D. students. Undergraduate students with outstanding academic records and prior experience of graduate courses may register with the instructor’s permission. Grades will be based on a small number of referee reports and a final exam.

Semester offered: Spring

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