PhD Course: **Behavioral Finance**
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Description

The goal of behavioral finance is to make sense of important financial phenomena by improving the psychological realism of our models – in particular, by making more realistic assumptions about people's beliefs, their risk attitudes, and their cognitive limits more generally. This course will cover the classic contributions to the field, but also the most recent developments and debates. We will consider applications to asset prices (stock market fluctuations, the performance of investment strategies, bubbles); investor behavior; and corporate finance. A recurring theme in the course is that behavioral finance ideas play a key role in many financial phenomena, and that a full understanding of the financial world is impossible without some knowledge of behavioral finance.

Structure

Part I: Introduction
- Overview (Lecture Note 1)
- Facts in finance (Lecture Note 2)

Part II: Building Blocks
- Limits to arbitrage (Lecture Note 3)
- Psychology (Lecture Note 4)

Part III: Applications to Asset Prices and Investor Behavior
Part IIIA: Beliefs
- Beliefs about returns and cash flows (Lecture Note 5)
- Overconfidence, underreaction, and other belief biases (Lecture Note 6)
- Psychology-free approaches to beliefs (Lecture Note 7)

Part IIIB: Preferences
- Prospect theory applications in finance (Lecture Note 8)
- Other preference specifications (Lecture Note 9)

Part IIIC: Cognitive limits
- Bounded rationality approaches (Lecture Note 10)

Part IV: Applications to Corporate Finance
- Behavioral corporate finance (Lecture Note 11)

Part V: Conclusion
- Summary and conclusion (Lecture Note 12)