

**Institut für Volkswirtschaftslehre**  
**- Geld, Währung und Internationale Finanzmärkte –**  
Prof. Dr. Thomas Lux

**BA-Seminar in Monetary Economics**

The seminar will cover a range of topics introducing key concepts, modelling principles and results from the field of “behavioral finance”, i.e., approaches that deviate from the paradigm of perfectly rational actors. The seminar will run as a 4-6 (half) day course during the winter term 2019/20. Students register via the central seminar registration group on OLAT (“Seminar Registration BA-VWL”).

The submission deadline for the seminar paper is January 7<sup>th</sup>, 2020. A kick-off meeting will be held July 31<sup>st</sup> at 10 a.m. in WSP 1-R.506 to fix dates for the seminar presentations.

Students are required to write a seminar paper (12- 15 pages) and to present this paper, consisting of a 30 minutes oral presentation on their chosen topic and 5 minutes discussion of another topic, which will be randomly assigned. Successful participation is rewarded with 5 ECTS.

**1. Noise Traders and the Limits to Arbitrage**

De Long, J., A. Shleifer, L. Summers and R. Waldman (1990) Noise Trader Risk in Financial Markets, *Journal of Political Economy* 98, 703-738

Shleifer, A. and R. Vishny (1997). The limits of arbitrage, *Journal of Finance* 52

**2. Rational Herd Behavior**

Banerjee, A. (1992). A simple model of herd behavior, *Quarterly Journal of Economics* 107

Scharfstein, P. and J. Stein (1990), Herd behavior and investment, *American Economic Review* 80

**3. Selection Mechanisms and the Survival of Irrational Traders**

Benos, A. (1998). Aggressiveness and survival of overconfident traders, *Journal of Financial Markets* 1

Hirshleifer; D. and G. Luo (2001). On the survival of overconfident traders in competitive securities markets, *Journal of Financial Markets* 4

#### **4. Experimental Asset Markets, Bubbles and Crashes**

Smith, V. et al. (1988), Bubbles, crashes and endogenous expectations in experimental spot asset markets, *Econometrica* 56

Porter, D. and V. Smith (2003). Stock market bubbles in the laboratory, *Journal of Behavioral Finance* 4

Caginalp, G. et al. (2001). Financial bubbles: Excess cash, momentum and incomplete information, *Journal of Psychology and Financial Markets* 2

#### **5. Experimental Asset Markets: More Recent Results**

Sutter, M. et al. (2011). Bubbles and Information: An Experiment, *Management Science* 58

Michailova, J. and U. Schmidt (2016). Overconfidence and bubbles in experimental asset markets, *Journal of Behavioral Finance* 17.

Kirchler, M. et al., That she bursts: Reducing confusion reduces bubbles, *American Economic Review* 102, 2012

#### **6. Beauty Contest Games**

Nagel, R. (1995). Unraveling in guessing games: An experimental study, *American Economic Review* 85

Ho, T-H. et al. (1998). Iterated dominance and iterated best response in experimental “p-beauty contests” , *American Economic Review* 88

Bosch-Domenèch, A. et al. (2002). One, two, (three), infinity,...: Newspaper and lab beauty-contest experiments, *American Economic Review* 92

#### **7. Financial Market Models with Heterogeneous Strategies**

Vigfusson, R. (1997). Switching between chartists and fundamentalists: A Markov regime-switching approach, *International Journal of Finance and Economics* 2

Day R. H. and Huang W. (1990) Bulls, bears, and market sheep, *Journal of Economic Behavior and Organization* 14, 299–329

#### **8. Behavioral Aspects of Financial Analysts' Forecasts I**

Trueman, B. (1994). Analyst forecasts and herding behavior. *Review of Financial Studies* 7, 97- 124.

Olsen, R. (1996). Implications of herding behavior for earnings estimation, risk assessment, and stock returns. *Financial Analysts Journal* 52, 37 - 41.

## **9. Behavioral Aspects of Financial Analysts' Forecasts II**

Glaeson and Lee (2003). Analyst forecast revisions and market price discovery. *Accounting Review* 78, 93 - 225.

Clement, M. B. and Tse, S. Y. (2005). Financial analyst characteristics and herding behavior in forecasting. *Journal of Finance* 60, 307 - 341.

## **10. Friendship, Networks and Management Decisions**

Engelberg, J., Gao, P., and Parsons, C. (2012). Friends with money. *Journal of Financial Economics*, 103, 169 - 188.

Nguyen, B. (2012). Does the rolodex matter? Corporate elite's small world and the effectiveness of boards of directors. *Management Science* 58, 236 - 252.

Supervisor for topics 1-4: Dr. Matthias Raddant

Supervisor for topics 5-10: Lutz Honvehlmann, MSc