

BEHAVIORAL FINANCE

Investors, Corporations,
and Markets

Editors

H. Kent Baker

John R. Nofsinger

The Robert W. Kolb Series in Finance



WILEY

John Wiley & Sons, Inc.

Contents

Acknowledgments	ix
PART I Foundation and Key Concepts	1
1 Behavioral Finance: An Overview	3
<i>H. Kent Baker, John R. Nofsinger</i>	
2 Traditional versus Behavioral Finance	23
<i>Robert Bloomfield</i>	
3 Behavioral Finance: Application and Pedagogy in Business Education and Training	39
<i>Rassoul Yazdipour, James A. Howard</i>	
4 Heuristics or Rules of Thumb	57
<i>Hugh Schwartz</i>	
5 Neuroeconomics and Neurofinance	73
<i>Richard L. Peterson</i>	
6 Emotional Finance: The Role of the Unconscious in Financial Decisions	95
<i>Richard J. Taffler, David A. Tuckett</i>	
7 Experimental Finance	113
<i>Robert Bloomfield, Alyssa Anderson</i>	
8 The Psychology of Risk	131
<i>Victor Ricciardi</i>	
9 Psychological Influences on Financial Regulation and Policy	151
<i>David Hirshleifer, Siew Hong Teoh</i>	

PART II Psychological Concepts and Behavioral Biases	169
10 Disposition Effect	171
<i>Markku Kaustia</i>	
11 Prospect Theory and Behavioral Finance	191
<i>Morris Altman</i>	
12 Cumulative Prospect Theory: Tests Using the Stochastic Dominance Approach	211
<i>Haim Levy</i>	
13 Overconfidence	241
<i>Markus Glaser, Martin Weber</i>	
14 The Representativeness Heuristic	259
<i>Richard J. Taffler</i>	
15 Familiarity Bias	277
<i>Hisham Foad</i>	
16 Limited Attention	295
<i>Sonya S. Lim, Siew Hong Teoh</i>	
17 Other Behavioral Biases	313
<i>Michael Dowling, Brian Lucey</i>	
PART III Behavioral Aspects of Asset Pricing	331
18 Market Inefficiency	333
<i>Raghavendra Rau</i>	
19 Belief- and Preference-Based Models	351
<i>Adam Szyszka</i>	
PART IV Behavioral Corporate Finance	373
20 Enterprise Decision Making as Explained in Interview-Based Studies	375
<i>Hugh Schwartz</i>	
21 Financing Decisions	393
<i>Jasmin Gider, Dirk Hackbarth</i>	

22 Capital Budgeting and Other Investment Decisions	413
<i>Simon Gervais</i>	
23 Dividend Policy Decisions	435
<i>Itzhak Ben-David</i>	
24 Loyalty, Agency Conflicts, and Corporate Governance	453
<i>Randall Morck</i>	
25 Initial Public Offerings	475
<i>François Derrien</i>	
26 Mergers and Acquisitions	491
<i>Ming Dong</i>	
PART V Investor Behavior	511
27 Trust Behavior: The Essential Foundation of Financial Markets	513
<i>Lynn A. Stout</i>	
28 Individual Investor Trading	523
<i>Ning Zhu</i>	
29 Individual Investor Portfolios	539
<i>Valery Polkovichchenko</i>	
30 Cognitive Abilities and Financial Decisions	559
<i>George M. Korniotis, Alok Kumar</i>	
31 Pension Participant Behavior	577
<i>Julie Richardson Agnew</i>	
32 Institutional Investors	595
<i>Tarun Ramadorai</i>	
33 Derivative Markets	613
<i>Peter Locke</i>	
PART VI Social Influences	629
34 The Role of Culture in Finance	631
<i>Rohan Williamson</i>	

35 Social Interactions and Investing	647
<i>Mark S. Seasholes</i>	
36 Mood	671
<i>Tyler Shumway</i>	
PART VII Answers to Chapter Discussion Questions	681
Index	727