Many psychological biases studied in behavioral finance derive from limited cognitive processing power. I will discuss a general framework for modeling limited attention and economic decisions, and applications to financial issues. I will then turn to how limited attention and other psychological factors bias the transmission of information and behaviors between financial decision makers. I will describe applications of these ideas to the evolution of agents’ beliefs, trading or project decisions, asset pricing and return anomalies, and consumption/saving decisions.

Readings:

I’ll get more into modeling specifics of the papers with asterisks.


Or expositional version:


*Social Transmission Bias and Investor Behavior*, Bing Han, David Hirshleifer, and Johan Walden, working paper, (2019)

** Visibility Bias in the Transmission of Consumption Beliefs and Undersaving*, Bing Han, David Hirshleifer and Johan Walden, working paper, 2019