Abstract and Readings

Attention, Psychological Bias, and Social Interactions

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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.

** Limited Attention, Information Disclosure, and Financial Reporting. David Hirshleifer and Siew Hong Teoh, *Journal of Accounting and Economics*, 36(1-3), December, (2003), 337-386.

Limited Investor Attention and Stock Market Misreactions to Accounting Information. David Hirshleifer, Sonya Lim and Siew Hong Teoh, *Review of Asset Pricing Studies,* 1(1): December (2011):35-73.

A Theory of Fads, Fashion, Custom, and Cultural Change as Informational Cascades. Sushil Bikhchandani, David Hirshleifer and Ivo Welch, *Journal of Political Economy*, 100(5), October (1992):992-1026.

Or expositional version:

Learning from the Behavior of Others: Conformity, Fads, and Informational Cascades, Sushil Bikhchandani, David Hirshleifer and Ivo Welch, *Journal of Economic Perspectives*, vol. 12, no. 3, Summer 1998 (pp. 151-170)

** Naive Herding in Rich-Information Settings, Erik Eyster and Matthew Rabin, *American Economic Journal: Microeconomics*, 2010, 2, 4, 221-243.

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