Description

In the last two decades, economics and finance have witnessed a shift from the rational paradigm towards one that incorporates the possibility that the actions of economic actors are influenced by various behavioral biases documented in psychology. In particular, studies of the calibration of subjective probabilities find that individuals are overconfident: they tend to overestimate the precision of their knowledge and information, and their ability to improve outcomes. The goal of this session is to provide you with a theoretical framework to model overconfidence and to study its impact on financial markets and firms. The session will start with a brief introduction to models of financial markets, and will successively look at the following topics.

- Overconfidence in financial markets.
- The emergence of overconfidence.
- Overconfidence in firms.
- Overconfidence and contracting.

Readings

Here is a list of readings for each of the session’s topics (the paper titles embed links to the papers). We will focus on the papers marked with (★).

Models of Financial Markets


Overconfidence in Financial Markets


The Emergence of Overconfidence


Overconfidence in Firms


Overconfidence and Contracting
