

Lecture 7: Behavioral Finance: The Role of Psychology

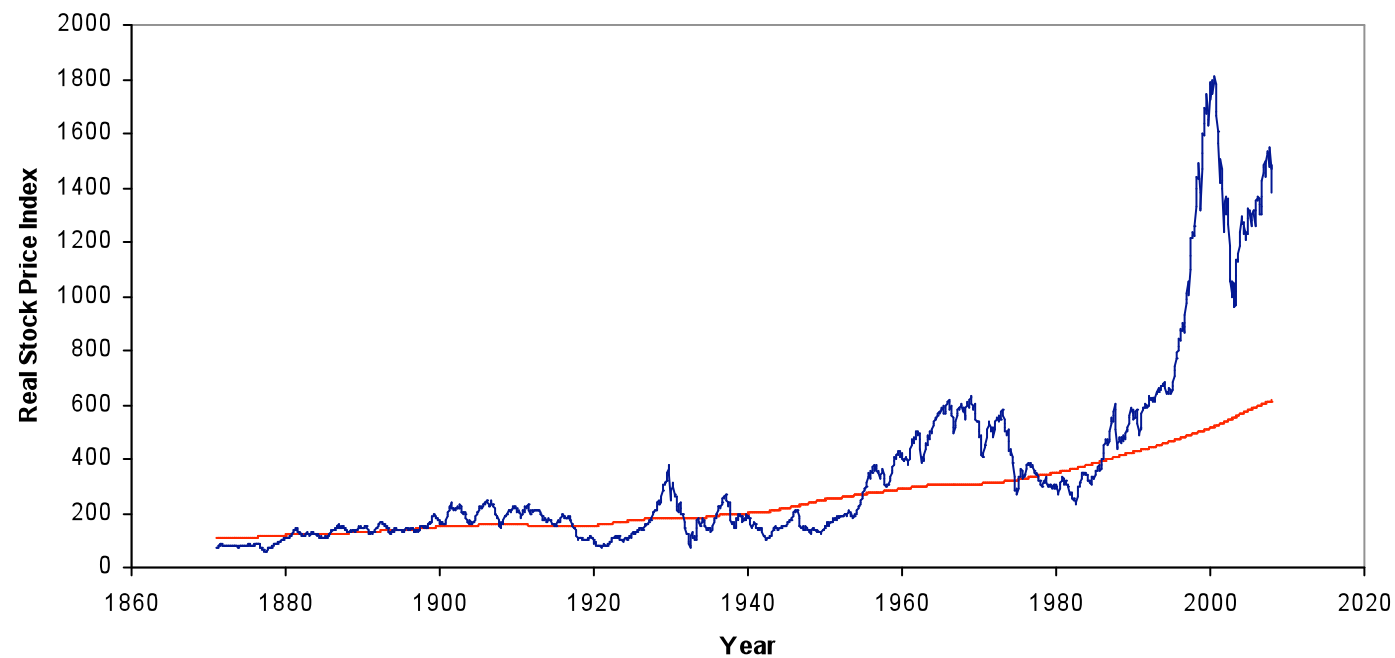
Economics 252, Spring 2008

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Overconfidence

From my October, 1987 Investor Survey:

“Did you think at any point on October 19, 1987 that you had a pretty good idea when the market would rebound?”

Institutional: 29% yes, Individual 28% yes

Among buyers: 47%, 48%

“If yes, what made you think you knew when a rebound would occur?”

Answers: “intuition,” “gut feeling,” “common sense”

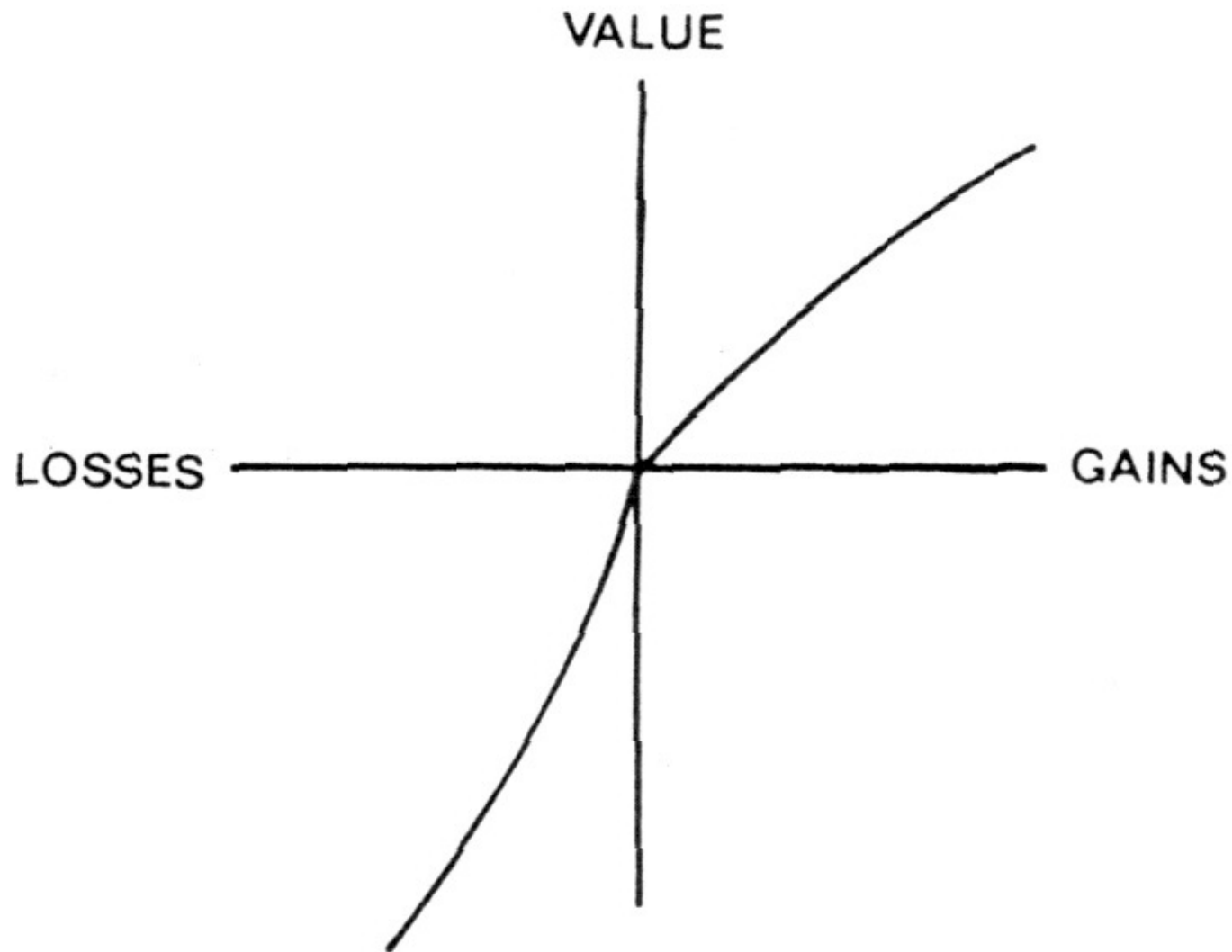


FIGURE 3.—A hypothetical value function.

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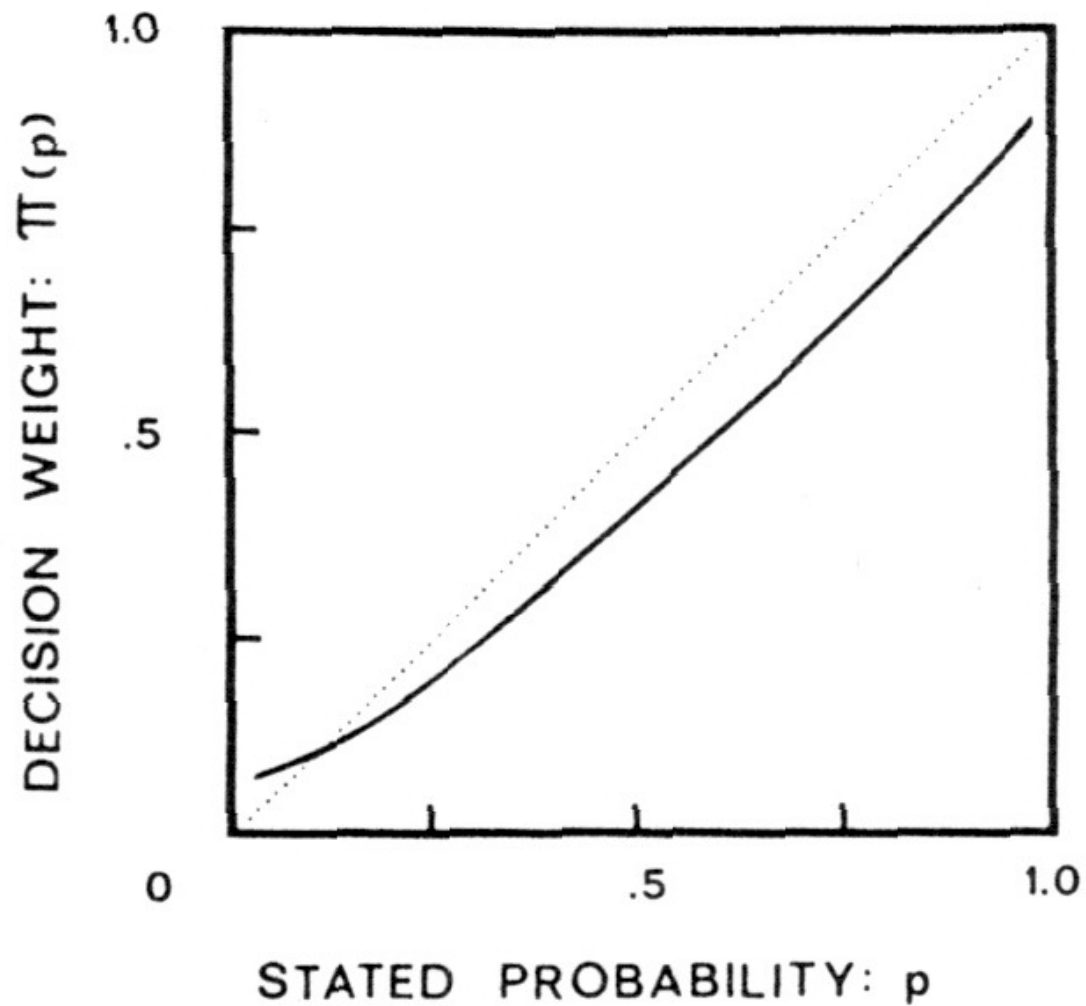


FIGURE 4.—A hypothetical weighting function.