ECON S-1912. Crashes, Panics, Recovery, and Financial Strategy (CRN: 31661)

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Financial markets occasionally exhibit wide swings. Examples of this "excess volatility," often termed crashes, panics, and recovery, provide significant challenges to traditional economic paradigms which assume that individuals are "rational," meaning they make optimal decisions based on the information available to them, and an objective analysis of that information. The recent behavioral finance literature offers an alternative in which individuals make systematic mistakes in the way they process information and may not behave rationally. The course will cover the basic assumptions of behavioral finance and how this new field is used to explain several of the classical anomalies in financial empirical studies. A second module examines the implications of behavioral finance for corporate financial strategies. It will use Harvard Business School cases designed to provide an opportunity to (1) integrate the firm's financial decisions; (2) demonstrate the relationship between corporate finance and other fields of finance; (3) introduce the notion of financial strategy; and (4) show the relationship between finance and other management functions. The two modules are integrated to emphasize the relationship between behavioral finance and complex financial strategies.