A common portrayal of financial decision-making is one that interprets all action as rational choice. However, pure rationality strains credulity as a description of how decisions are actually made. This course studies the various behavioral strategies that people rely upon to make financial decisions.

The course starts with a review of psychological research on intuitive judgment, belief formation, learning, memory, utility theory, risk attitudes, and intertemporal choice. We introduce concepts such as framing, heuristics, self-control, and conformity. These ideas are illustrated with practical applications to household financial management, economic forecasting, trust between financial advisors and their clients, and decision-making in groups.

Topics and assignments

WEEK 1: FOUNDATIONS


WEEK 2: JUDGMENT


WEEK 3: CHOICE


WEEK 4: MENTAL FRAMES, MEMORY AND LEARNING


Baruch Fischhoff and Ruth Beyth, "I knew it would happen: Remembered probabilities of once-future things," *Organizational Behavior and Human Performance*, 1975


WEEK 5: CONFIDENCE AND EMOTIONS


WEEK 6: CHOICE OVER TIME


**WEEK 7: PERSONAL FINANCE**


Jan Pahl, “His money, her money: Recent research on financial organization in marriage,” *Journal of Economic Psychology*, 1995


**WEEK 8: FORECASTING**

Mary Bange, “Do the portfolios of small investors reflect positive feedback training?” *Journal of Financial and Quantitative Analysis*, 2000


**WEEK 9: TRUST**


Lynn Stout, "The investor confidence game," Working paper, UCLA School of Law, April 2002


**WEEK 10: DECISION-MAKING IN GROUPS, BARGAINING AND SOCIAL INFLUENCES**


Additional reading and sources


