Lecture 7: Behavioral Finance: The Role of Psychology

Economics 252, Spring 2008
Prof. Robert Shiller, Yale University
P and Pstar
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.
Figure 4.—A hypothetical weighting function.