Lecture 8: Human Foibles, Fraud, and Regulation

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Some Principles of Behavioral Finance

- Wishful thinking bias
- Attention anomalies
- Anchoring
- Representativeness heuristic
- Gambling behavior
- Magical thinking
- Quasi magical thinking
- Attention anomalies
U.S. Agencies that Help to Control these Temptations

• Securities and Exchange Commission
• National Association of Securities Dealers, now FINRA
• Municipal Securities Rulemaking Board
• Financial Accounting Standards Board
• Securities Industry Association
• Investment Company Institute
• Mortgage Bankers Association
Key Terms

- Public vs private securities
- Hedge funds
- Market surveillance
- Insiders vs outsiders
- Tunneling
- FASB and earnings definitions
- Off-balance sheet accounting
- FDIC and SIPC