

Applications of Psychology and Economics – Econ 219B
Spring 2005
Wednesday 12-3, 639 Evans
Instructor: Stefano DellaVigna, 515 Evans. sdellavi@econ.berkeley.edu.

Homework 6.
Due on April 12 at 12pm

This homework will be a brief (one- to two-pages overall) report on one of the following two topics: corporate finance (last week's lecture) or event studies (next week's lecture). One of the two is enough!

Homework 6.1. The topic here is corporate finance from a behavioral angle. Feel free to just elaborate on one question.

- Which biases do you think could be most relevant for corporate decisions like the ones that we discussed in class? Who is likely to be biased? The board? The CEO? The investors? The employees?
- Can you think of a law change that may have affected company decision making as the anti-takeover law did? (yes, this is a I-found-my-dissertation question!)
- In class we discussed about identifying the role and importance of CEOs and of leaders of a country. Can you think of other ways to find evidence on this question? What about identifying the impact of individual workers, managers, etc.? Where could one find data sets to start addressing this question?

Homework 6.2. Here I ask you to think about event studies, that is cases in which an event occurred that impacts firm profitability, and we can use the stock market reaction to identify it. One example of an event study to be clear, is looking at the stock response around an earnings announcement, or around a merger announcement. Again, feel free to just elaborate on one question.

- Can you think of event studies that allow you to test an economic hypothesis you care about? Any that would allow one to test behavioral theories?
- Think about Justin Wolfers paper on the Iraq war. Can you think of other ways to use the growing number of betting markets to run an event study?

The readings for next week are:

*DeLong, B. Shleifer, A., Summers, L., and Waldman, R., "Noise trader risk in financial markets", JPE, v98 n4, Aug 1990, p.703-38. Reprinted in Richard H. Thaler, ed., *Advances in Behavioral Finance*, Russell Sage Foundation, 1993.

Shleifer, Andrei, Summers, Lawrence. "The Noise Trader Approach to Finance". *Journal of Economic Perspectives*, Spring, 1990.

*DellaVigna, Stefano and Joshua Pollet "Strategic Release of Information on Fridays: Evidence from Earnings Announcements", mimeo, UC Berkeley, 2004.

*Wolfers, Justin and Zitzwitz, Eric. "Using Markets to Evaluate Policy: The Case of the Iraq War", mimeo, 2004.

The homework is due on Tuesday by noon. See you next week!