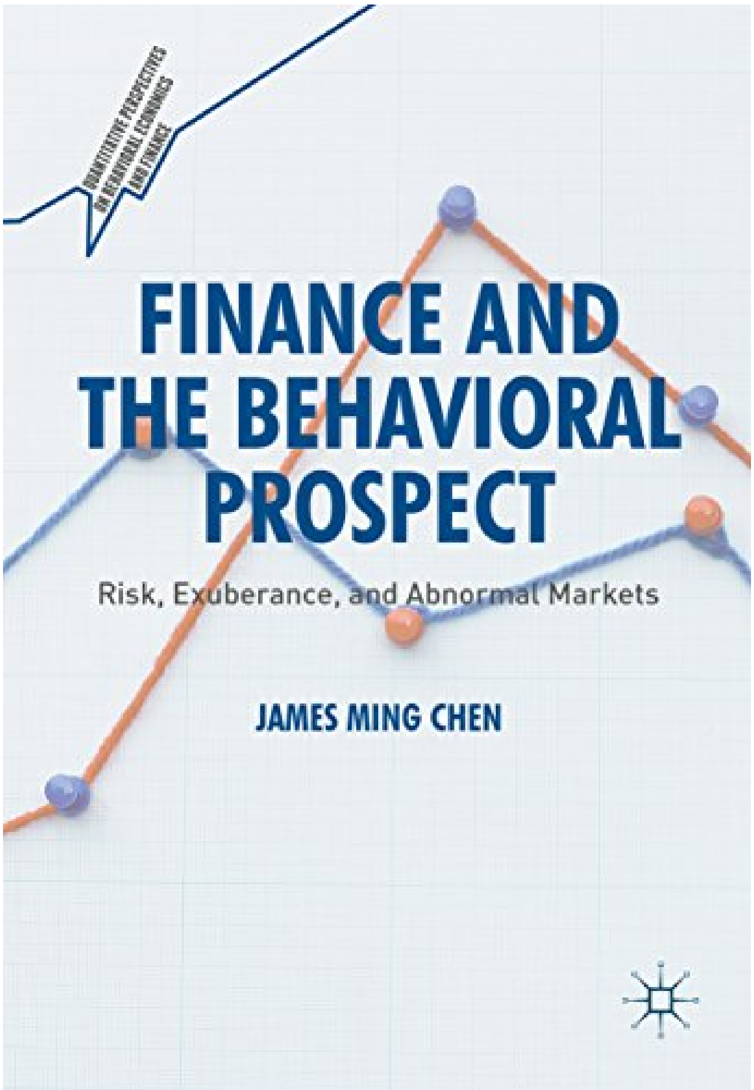
Finance and the Behavioral Prospect: Risk, Exuberance, and Abnormal Markets (Quantitative Perspectives on Behavioral Economics and Finance)

James Ming Chen



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James Ming Chen : Finance and the Behavioral Prospect: Risk, Exuberance, and Abnormal Markets (Quantitative Perspectives on Behavioral Economics and Finance) before purchasing it in order to gage whether or not it would be worth my time, and all praised Finance and the Behavioral Prospect: Risk, Exuberance, and

Abnormal Markets (Quantitative Perspectives on Behavioral Economics and Finance):

This book explains how investor behavior, from mental accounting to the combustible interplay of hope and fear, affects financial economics.nbsp;The transformation of portfolio theory begins with the identification of anomalies. Gaps in perception and behavioral departures from rationality spur momentum, irrational exuberance, and speculative bubbles. Behavioral accounting undermines the rational premises of mathematical finance. Assets and portfolios are imbued with ldquo;affect.rdquo; Positive and negative emotions warp investment decisions. Whether hedging against intertemporal changes in their ability to bear risk or climbing a psychological hierarchy of needs, investors arrange their portfolios and financial affairs according to emotions and perceptions. Risk aversion and life-cycle theories of consumption provide possible solutions to the equity premium puzzle, an iconic financial mystery. Prospect theory has questioned the cogency of the efficient capital markets hypothesis. Behavioral portfolio theory arises from a psychological account of security, potential, and aspiration.

ldquo;Ever since the early 80s, when Kahneman, Tversky, Thaler, Shiller, and few others started their inquiries into the behavioral side of markets, traditional financial approaches have struggled to keep pace in order to provide useful tools for explanation and prediction.nbsp; This book not only synthesizes and critically discusses various behavioral observations and competing theories in a well-structured and reflective manner, but also pushes the field further by suggesting new avenues for its conceptualisation and demonstrating corresponding mathematical methods in various practical applications. An excellent read that provides great value to both practitioners and academics.rdquo; (Othmar M Lehner, Full Professor of Finance and Risk at the University of Applied Sciences Upper Austria; Director of the ACRN Oxford Research Centre, United Kingdom)From the Back CoverThis book explains how investor behavior, from mental accounting to the combustible interplay of hope and fear, affects financial economics.nbsp;The transformation of portfolio theory begins with the identification of anomalies. Gaps in perception and behavioral departures from rationality spur momentum, irrational exuberance, and speculative bubbles. Behavioral accounting undermines the rational premises of mathematical finance. Assets and portfolios are imbued with ldquo;affect.rdquo; Positive and negative emotions warp investment decisions. Whether hedging against intertemporal changes in their ability to bear risk or climbing a psychological hierarchy of needs, investors arrange their portfolios and financial affairs according to emotions and perceptions. Risk aversion and life-cycle theories of consumption provide possible solutions to the equity premium puzzle, an iconic financial mystery. Prospect theory has questioned the cogency of the efficient capital markets hypothesis. Behavioral portfolio theory arises from a psychological account of security, potential, and aspiration.About the AuthorJames Ming Chen holds the Justin Smith Morrill Chair in Law at Michigan State University, USA. He teaches, lectures, and writes widely on law, economics, and regulation. His books,nbsp;Disaster Law and Policynbsp;andnbsp;Postmodern Portfolio Theory, cover a broad range of issues concerning extreme events and risk management, from natural to financial disasters. He is of counsel to the Technology Law Group of Washington, D.C.; a public member of the Administrative Conference of the United States; and an elected member of the American Law Institute. A magna cum laude graduate of Harvard Law School and a former editor of thenbsp;Harvard Law , Chen also served as a clerk to Justice Clarence Thomas of the Supreme Court of the United States.