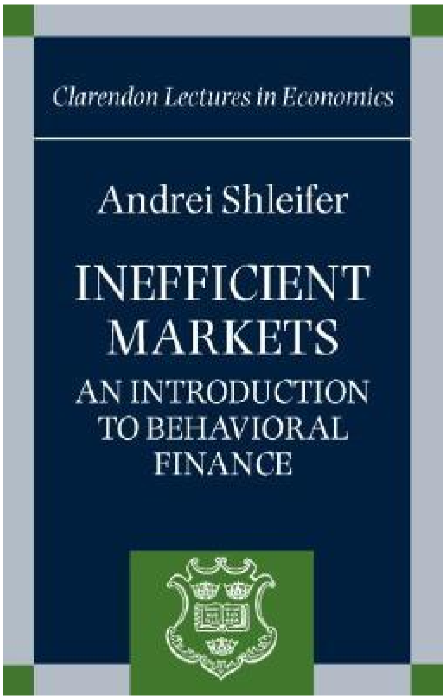

Inefficient Markets: An Introduction to Behavioral Finance

Andrei Shleifer

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Inefficient Markets: An Introduction to Behavioral Finance Andrei Shleifer
The efficient markets hypothesis has been the central proposition in finance for nearly thirty years. It states that securities prices in financial markets must equal fundamental values, either because all investors are rational or because arbitrage eliminates pricing anomalies. This book describes an alternative approach to the study of financial markets: behavioral finance. This approach starts with an observation that the assumptions of investor rationality and perfect arbitrage are overwhelmingly contradicted by both psychological and institutional evidence. In actual financial markets, less than fully rational investors trade against arbitrageurs whose resources are limited by risk aversion, short horizons, and agency problems. The book presents models of such markets. These models explain the available financial data more accurately than the efficient markets hypothesis, and generate new predictions about security prices. By summarizing and expanding the research in behavioral finance, the book builds a new theoretical and empirical foundation for the economic analysis of real-world markets.

Inefficient Markets: An Introduction to Behavioral Finance Details

Date	:	Published April 20th 2000 by Oxford University Press, USA (first published 2000)
ISBN	:	9780198292272
Author	:	Andrei Shleifer
Format	:	Paperback 224 pages
Genre	:	Economics, Finance, Psychology, Nonfiction

From Reader Review Inefficient Markets: An Introduction to Behavioral Finance for online ebook

Bill says

Very good summary of Shleifer's contributions to behaviourial finance - lucid writing. It has a significant amount of mathematics though, which is used in an academic manner. As a 19 year old kid stuck in NS, that characteristic of the book did not help me to understand his theory better, but I sure hope that I will be and can definitely see myself pleasantly surprised by the clear mathematical presentation of theory when I read this again during/after university.

Jilany says

econ1 to-read wishntref

Ashley says

I am a finance undergrad who read this book for a research paper on the efficient market hypothesis and behavioral finance in contemporary investing. This book is wonderful. If you ever want an introduction to EMH and behavioral finance, this book should be your first stop.

Rosyfeelsgood says

The first chapter is an essence.

Jan says

The book's okay as an introduction.

Yuekun Liu says

This is the text book of Wurgler’s behavioural finance class. The book is a collection of papers. Short, simple and systematic.

Andrei Shleifer states that the behavioural finance theory rests on two major foundations. The first is limited arbitrage, and the second the investor sentiment (how real-world investors actually form their beliefs).

The first four chapters focus on the limited arbitrage. The key point it that securities do not have perfect substitutes, or even the substitutes exist, the arbitrage remains risky because of the limited horizon and the prices do not go back to the fundamental instantaneously. The fifth chapter gives a model of sentiment. The last chapter provides some open questions in this area.

Feel frustrated on myself since I find it hard to fully understand the models. haha, usually feel like….a dumb when reading.

Recommend to any graduate student in finance. Maybe taking some theoretical classes would be helpful (serious face).

Alex Song says

Interesting but not useful for the most part.

Read the first and last chapters only for the interesting takeaways.

Michael Quinn says

Certainly not the easiest read, and definitely not for everyone, but this is by far the most intense and insightful book I've read yet on behavioral finance.

Steve says

I read this book when it first came out and have re-read it several times, it's so good. It's the best book on this subject that I know. I have been dipping my toe in this area ever since.
