A Behavioral Approach to Asset Pricing (Academic Press Advanced Finance)

Hersh Shefrin
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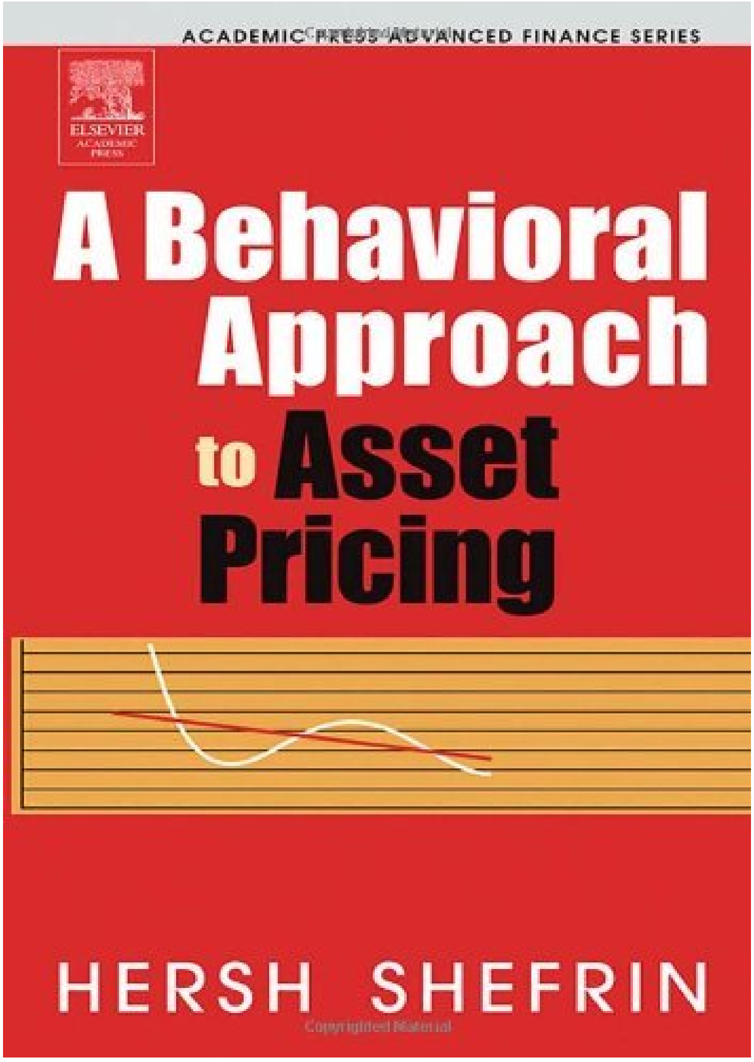

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Hersh Shefrin : A Behavioral Approach to Asset Pricing (Academic Press Advanced Finance) before purchasing it in order to gage whether or not it would be worth my time, and all praised A Behavioral Approach to Asset Pricing (Academic Press Advanced Finance):

2 of 2 people found the following review helpful. Where's the bee... havioral?By Dimitri Shvorob... In earnest, in Part VII, where Chapters 24-25 discuss prospect theory, Chapters 26-27 explore the "SP/A" theory of Lopes (1989), Chapter 29 addresses the disposition effect, and Chapter 30 reflects on the equity-premium puzzle. Perhaps it's semantics, but my impression is that "Behavioral approach to asset pricing" is not so much about irrationality as about heterogeneity. The book does start with irrationality - specifically, the representativeness heuristic - to create a class of

agents with non-Bayesian probability judgments (maximizing expected utility in a special N-period Arrow-Debreu world; later on, risk-aversion and rate-of-time-preference differences are explored), but I am not sure that we are interested in such irrationality beyond its ability to produce optimists and pessimists. However novel this contribution is, I suspect that other researchers have explored the subject as well, and more references would help. Known behavioral-finance concepts come up before Part VII - in Chapter 18, for example - but are not integrated into the formal model in the same way. Due to the book's technical/methodological approach, I would not recommend the book to lay readers - this is a book for academics. I cannot competently critique the book to their standard, but the author's standing and the book's breadth definitely make it a must-see.PS. Three side notes:1. Reading Chapters 6-7, which suggest that professional investors are prone to predicting reversals while non-professional ones favor continuation, I notice that the first assertion is based on limited (2 studies) and mixed evidence - contrast "professional investors tend to predict reversals" on page 59 and "professional investors act as trend followers" on page 57.2. Representativeness incorrectly discounts base rates - how do we fathom those in investing context? Taking fixed unconditional empirical probabilities would probably not be quite satisfactory?3. On page 40, why does "equilibrium" mean equal consumption by rational and irrational agents?

A Behavioral Approach to Asset Pricing Theory examines the reigning assumptions of asset pricing theory and reconstructs them to incorporate findings from behavioral finance. It constructs a solid, intact structure that challenges classic assumptions and at the same time provides a strong theory and efficient empirical tools. Building on the models developed by both traditional asset pricing theorists and behavioral asset pricing theorists, this book takes the discussion to the next step. The author provides a general behaviorally based intertemporal treatment of asset pricing theory that extends to the discussion of derivatives, fixed income securities, mean-variance efficient portfolios, and the market portfolio.The book develops a series of examples to illustrate the theoretical results. The CD-ROM contains most of the examples, worked out as Excel spreadsheets, so that a diligent reader can follow them through.Instructors might also want to use the examples to assign class exercises, asking students to modify the numbers and see what happens.* The first book to focus completely on how behavioral finance principles affect asset pricing* Hersh Shefrin is a recognized expert in behavioral finance* Behavioral finance is a growth area in finance scholarship and moving more and more into practice

"This book provides a much-needed bridge between behavioral finance and traditional asset pricing theory, so that the insights from the two fields offer can complement each other. This book will make the theory of behavioral finance far more useful and broadly applicable."--Bob Shiller, Cowles Foundation for Research in Economics, International Center for Finance,Yale University"I highly recommend Shefrin's book to anyone who wants to probe into the implications of behavioral finance for asset pricing. Shefrin builds rigorous theoretical models that integrate investor heterogeneity and psychological biases into the traditional stochastic discount factor framework. The text contains a wealth of original ideas, and provides new modeling tools. The results are convincing and thought provoking. I believe Shefrin's book will help revolutionize our thinking about asset pricing and stimulate more work along its line." --Bing Han, Assistant Professor of Finance, the Ohio State University"Shefrin presents a rigorous, analytical treatment of asset pricing with behaviorally-motivated investor heterogeneity. Written ahead of its time, this is a good book for doctoral students or any scholar with a serious scientific interest in this emerging subfield of finance."-- Wayne Ferson, Collins Chair in Finance, Carroll School of Management, Boston College"Students and researchers interested in this important and burgeoning field of finance should read A Behavioral Approach to Asset Pricing." - Financial Analysts JournalFrom the Back Cover[back jacket]Business/Finance A Behavioral Approach to Asset PricingHersh Shefrin"This book provides a much-needed bridge between behavioral finance and traditional asset pricing theory, so that the insights that the two fields offer can complement each other. This book will make the theory of behavioral finance far more useful and broadly applicable." Robert Shiller, Cowles Foundation for Research in Economics, International Center for Finance, Yale University"I highly recommend Shefrin's book to anyone who wants to probe into the implications of behavioral finance for asset pricing. Shefrin builds rigorous theoretical models that integrate investor heterogeneity and psychological biases into the traditional stochastic discount factor framework. The text contains a wealth of original ideas, and provides new modeling tools. The results are convincing and thought provoking. I believe Shefrin's book will help revolutionize our thinking about asset pricing and stimulate more work along its line." Bing Han, Assistant Professor of Finance, Ohio State University "Shefrin presents a rigorous, analytical treatment of asset pricing with behaviorally-motivated investor heterogeneity. Written ahead of its time, this is a good book for doctoral students or any scholar with a serious scientific interest in this emerging subfield of finance." Wayne Ferson, Collins Chair in Finance, Carroll School of Management, Boston CollegeA Behavioral Approach to Asset Pricing examines the reigning assumptions of asset pricing theory and reconstructs them to incorporate findings from behavioral finance. It constructs a solid, intact structure that challenges classic assumptions and at the same time provides a strong theory and efficient empirical tools. Building on the models developed by both traditional asset pricing theorists and behavioral asset pricing theorists, this book takes the discussion to the next step. Shefrin provides a general behaviorally based intertemporal treatment of asset pricing theory that extends to the discussion of derivatives, fixed income securities, mean-variance efficient portfolios, and the market portfolio.Hersh Shefrin is the Mario Belotti Professor of Finance, Santa Clara University, California.About the AuthorHersh Shefrin holds the Mario L. Belotti Chair in the Department of Finance at Santa Clara University's Leavey School of Business. He is a pioneer of behavioral finance, and has worked on behavioral issues for over thirty years. A Behavioral Approach to Asset Pricing is the first behavioral treatment of the pricing kernel. His book Behavioral Corporate Finance is the first textbook dedicated to the application of behavioral concepts to corporate finance. His book Beyond Greed and Fear was the first comprehensive treatment of the field of behavioral finance. A 2003 article appearing in The American Economic included him among the top fifteen theorists to have influenced empirical work in microeonomics. One of his articles is among the all time top ten papers to be downloaded from SSRN. He holds a Ph.D. from the London School of Economics, and an honorary doctorate from the University of Oulu in Finland.