

PhD Seminar: Investor Attention in Financial Markets

Tentative Syllabus

Course Overview

Market participants need to pay attention so their actions lead to efficient outcomes, and as a result, asset prices react efficiently to information. In reality, attention is a scarce cognitive resource. Therefore, limited attention can have major impact in the financial markets.

This course gives a brief introduction to the emerging literature on investor attention. Specifically, we will go over theoretical models of limited attention, discuss empirical measures of investor attention, and review empirical evidence of how attention affects both asset pricing and corporate finance outcomes.

Required readings for each topic can be found below. You are expected to have read these papers prior to the classes and to participate in the discussions. There will be written closed-book exam on **September 16, 2022**.

Both required and additional readings can be downloaded as a zip file from my website (https://www3.nd.edu/~zda/PhD_Papers.zip).

Contact Information

Office: TBA
Email: zda@nd.edu
Office Hour: Each day after the class meeting

Class Schedule

Wednesday, August 17	12.00 – 13.30 and 14.30 – 16.00
Thursday, August 18	10.00 – 11.30 and 12.30 – 14.00
Friday, August 19	10.00 – 11.30 and 12.30 – 14.00

Topics and Required Reading:

1. Theoretical

Merton, Robert C. "A simple model of capital market equilibrium with incomplete information." *The journal of finance* 42.3 (1987): 483-510.

Hirshleifer, David, and Siew Hong Teoh. "Limited attention, information disclosure, and financial reporting." *Journal of accounting and economics* 36.1-3 (2003): 337-386.

Peng, Lin, and Wei Xiong. "Investor attention, overconfidence and category learning." *Journal of Financial Economics* 80.3 (2006): 563-602.

Kacperczyk, Marcin, Stijn Van Nieuwerburgh, and Laura Veldkamp. "A rational theory of mutual funds' attention allocation." *Econometrica* 84.2 (2016): 571-626.

2. Measurement

Da, Zhi, Engelberg, Joseph, and Pengjie Gao. "In Search of Attention." *The Journal of Finance*, vol. 66, no. 5, 2011, pp. 1461–1499.

Sicherman, Nachum, et al. "Financial attention." *The Review of Financial Studies* 29.4 (2015): 863-897.

Ben-Rephael, A., Z. Da, and R. Israelsen. 2017. It depends on where you search: Institutional investor attention and underreaction to news. *Review of Financial Studies*, 30: 3009-3047.

Gargano, Antonio, and Alberto G. Rossi. "Does it pay to pay attention?" *The Review of Financial Studies* 31.12 (2018): 4595-4649.

3. Empirical

Rashes, Michael S. "Massively confused investors making conspicuously ignorant choices (mci–mcic)." *The Journal of Finance* 56.5 (2001): 1911-1927.

DellaVigna, Stefano, and Joshua M. Pollet. "Demographics and industry returns." *American Economic Review* 97.5 (2007): 1667-1702.

Barber, Brad M., and Terrance Odean. "All that glitters: The effect of attention and news on the buying behavior of individual and institutional investors." *The Review of Financial Studies* 21.2 (2007): 785-818.

Choi, Darwin, Zhenyu Gao, and Wenxi Jiang. "Attention to global warming." *The Review of Financial Studies* 33.3 (2020), 1112-1145

Cohen, Lauren, and Andrea Frazzini. "Economic links and predictable returns." *The Journal of Finance* 63.4 (2008): 1977-2011.

Corwin, Shane A., and Jay F. Coughenour. "Limited attention and the allocation of effort in securities trading." *The Journal of Finance* 63.6 (2008): 3031-3067.

Huang, Shiyang, Yulin Huang, and Tse-Chun Lin. "Attention allocation and return co-movement: Evidence from repeated natural experiments." *Journal of Financial Economics*, 132 (2019), 369-383.

Brown, Alasdair. "Information processing constraints and asset mispricing." *The Economic Journal* 124.575 (2013): 245-268.

Da, Zhi, Umit G. Gurun, and Mitch Warachka. "Frog in the pan: Continuous information and momentum." *The review of financial studies* 27.7 (2014): 2171-2218.

Kempf, Elisabeth, Alberto Manconi, and Oliver Spalt. "Distracted shareholders and corporate actions." *The Review of Financial Studies* 30.5 (2016): 1660-1695.

Lie, Erik. "Investor Inattention and Stock Prices: Evidence from Acquisitions with a Choice of Payment Type." *Journal of Financial and Quantitative Analysis* (2018): 1-23.

Edmans, Alex, et al. "Strategic news releases in equity vesting months." *The Review of Financial Studies* 31.11 (2018): 4099-4141.