

Behavioral Finance: The Role of Psychology

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| I. Prospect theory | VIII. Disjunction effect |
| II. Overconfidence | IX. Magical thinking |
| III. Cognitive dissidence | X. Quasi magical thinking |
| IV. Mental Compartments | XI. Culture |
| V. Attention anomalies | XII. Antisocial personality disorder |
| VI. Anchoring | |
| VII. Representativeness heuristic | |

From *Theory of Moral Sentiments*, Adam Smith, 1759 to Behavioral Economics

- Adam Smith: people have a desire for praise
- But don't enjoy being praised for something they did not do
- As people mature, if they mature successfully, the desire for praise morphs into a desire for praiseworthiness
- Mathematicians