

PROPOSAL: THE ENDOWMENT EFFECT IN PORTFOLIO ALLOCATIONS

**Lauren Cohen. Assistant Professor
Yale School of Management**

Description:

This is a study of how the Endowment Effect, a well established and replicated finding in psychology regarding individual's behavior, can affect individual investment. In the study we will use firm specific actions in identifying situations that mimic (to the closest extent possible) those of the laboratory setting. Initial results imply that the effect could be a large determinant of portfolio choice for certain securities. We will then back out the financial cost to individuals of displaying the Endowment Effect and potential asset pricing implications, along with examining the firm's best response to investor's endowment effect preferences.

Student Skills:

Students will work closely with the data and literature in both Finance and psychology. They will gain experience in collecting, entering, and analyzing data for empirical work, and with formulating testable hypotheses in empirical studies, with the unique aspect of pooling knowledge from across disciplines. The students should have the basic skills of empirical work (have taken the introductory econometrics course), and be comfortable using Stata, SAS, or an equivalent program to work with data. As well, courses in probability, linear algebra, and introductory psychology would be helpful, although not required.