

PROPOSAL: GAMBLING AND THE STOCK MARKET

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Anecdotally, we often hear the stock market described as a “casino,” or stock market investors described as “gamblers” rather than investors. Surprisingly, there is almost no formal exploration of this idea in the financial economics literature. In this project, we will try to do two things: (i) to do a review of the research on gambling in fields such as psychology, sociology, neuroscience, and medicine; and (ii) to use the insights from these other fields to try to develop a model of what stock market gambling, as opposed to stock market investing, might mean, and to think about the testable predictions of such a model.

Broadly speaking, this project belongs in the area of “behavioral finance,” a large and active field which examines the extent to which financial phenomena might be the result of less than fully rational decision-making on the part of market participants, and which draws on research in psychology in order to understand the ways in which people are less than fully rational. The project is therefore most appropriate for students who have an interest in both finance *and* psychological / sociological perspectives. A technical background is not critical, but might be helpful, as we might need to look at some mathematical models of decision-making under risk.