

Norwegian School of Economics and Business Administration

Professor B. Espen Eckbo

FIN501-TOPICS IN CORPORATE FINANCE

2010

Two-Page Memo on “Behavioral Corporate Finance”

Readings:

Chapter 4, Baker, Malcolm, Richard S. Ruback and Jeffrey Wurgler, “Behavioral Corporate Finance”, in Eckbo, B. Espen (ed.), 2007, *Handbook of Corporate Finance: Empirical Corporate Finance*, Volume 1, (Elsevier/North-Holland).

Questions:

- (1) Try to formulate a concise definition of the term “behavioral” versus the term “rational”
- (2) Suggest corporate actions that you believe are best explained by behavioral activities.
- (3) What empirical evidence supports your suggestions under (2)?
- (4) Discuss whether a “behavioral” perspective is useful for our understanding of corporate finance decisions