

Applications of Psychology and Economics – Econ 219B
Spring 2004
Wednesday 12-3, 639 Evans
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Homework 7.
Due on March 30 at 12pm

This homework will be a brief (one- to two-pages overall) report on attention.

Here are some questions that I would like you to think about for next week. Feel free to just elaborate on one question.

- One theme of the Pollet and Hong et al. paper is the fact that people may focus too much attention on their area of expertise and pay little attention to indirect effect. In other words, in an effort to limit the cognitive load, people focus on what's more direct and obvious. The effect of oil as an input is not so obvious, so investors partly neglect it. Where else could this idea be important? Applications to other areas?
- The main theme of the DellaVigna and Pollet paper is that people may truncate the future and have a short horizon at which they elaborate information. Are there other applications/implications of this idea?
- What other dimensions of attention may be important for field data? The papers below focus on two: direct/indirect, recent future/long-term future. Try to think of more dimensions.
- Comments/criticisms on the papers below.
- Any events studies inspired by the Binder article?

The readings for next week are:

*Hong, Harrison, Torous, Walter, and Ross Valkanov. "[Do Industries Lead the Stock Market? Gradual Diffusion of Information and Cross-Asset Return Predictability](#)," November 2002

*DellaVigna, Stefano and Pollet, Josh. "Attention, Demographic Changes and the Stock Market" <http://emlab.berkeley.edu/users/sdellavi/wp/attention.pdf>

Pollet, Joshua. "Predicting Asset Returns with Expected Oil Price Changes", November 2003.

*Binder, John J. "The Event Study Methodology since 1969", Review of Quantitative Finance and Accounting, 1998.

The homework is due on Tuesday by noon. See you next week!