DOCTORAL THESIS

Stock market overreaction and underreaction: theoretical explanations and empirical evidences

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Stock Market Overreaction and Underreaction:

Theoretical Explanations and Empirical Evidences

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Abstract

This dissertation concentrates on two aspects of the studies in stock market underreaction and overreaction. In the first part of the thesis, we construct a theoretical model for investor's representativeness and conservatism heuristics. Our model contributes to the studies in behavioral finance in three aspects: (1) we provide quantitative expressions for investor's conservatism and representativeness heuristics in a single model; (2) Our model provides theoretical supports for the empirical findings about underreaction and overreaction; (3) This model is consistent with a property for the underreaction and overreaction, i.e. the 'magnitude effect' or the second part of the under- overreaction hypothesis. In the second part of the thesis, we provide empirical evidences on the second part of the under- overreaction hypothesis. We use several methods to confirm the second part of under- overreaction hypothesis.

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