

Klaus Schredelseker

Workshop Financial Markets and Information

Università degli Studi di Firenze DISEI AA 2024/2025

The workshop deals with complexity economics, with information economics, with financial analysis, and with agent-based modeling (simulating artificial markets). Modern academic finance is erected on portfolio theory, a normative theory that describes, as its originator *Markowitz* points out in his seminal paper, the *second* step of selecting a portfolio. The *first step*, and thus the groundwork of all that follows, is to create beliefs, to estimate the future performance of the securities: expected returns, variances, and covariances. Therefore, neglecting financial analysis makes portfolio theory and the following capital market theory worthless. In the workshop, we will try to give reasonable answers to the following questions:

- Does it make sense to assume that investors estimate returns, variances, and covariances?
- Why a highly skilled and well-informed investor may perform worse than a less informed one?
- What are the strategies practiced by rational investors if everybody does the best he can do?
- Should, in the reason of fairness, insider trading be restricted or should it be allowed?
- Why *Do not herd* is the most valuable rule in financial decision-making? Is herding an anomaly?
- Does more passive investment (e.g. using ETFs) make the market more or less efficient?
- Who benefits if the quality of financial reports (as required by IFRS) is improved?
- Is it rational to use Bayes's updating rule in financial market decisions?

Markets are complex adaptive systems: A large number of agents interact, they influence each other, they try to outsmart the others, they adapt and learn in a never-ending evolutionary process. Such a system is characterized by nonlinearities and, if any, unstable and permanently changing equilibria. Understanding such a complex system is an intellectual challenge.

The workshop is done in five teaching units, five hours (225 min) each. The first and the last units will be done in class (no parallel DAD); the intermediate sessions will be done using DAD. The evaluation of the course is half on class participation and half on internet discussions in June 2025.

The course will be held on the following dates (Thursday 11.00-12.30 – 14.30-17.00):

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| (1) Class 20 th March 2025 | (2) DAD 3 rd April 2025 | (3) DAD 24 th April 2025 |
| (4) DAD 15 th May 2025 | (5) Class 29 th May 2024 | |

You can always contact me on klaus.schredelseker@uibk.ac.at

For the internet sessions use **Jitsi**, the meeting name is **FinancialMarkets**.

The following papers will be sent to you on request:

Klaus Schredelseker: Pascal's Wager and Information, Journal of Forecasting 2014, S. 455-470

Florian Hauser and Klaus Schredelseker: Who Benefits from Insider Regulation? The Quarterly Review of Economics and Finance, 2018, S. 203-210

Klaus Schredelseker: There is no Unique Rational Decision Strategy in Financial Markets, Journal of Portfolio Management 2022, S. 153-163

Klaus Schredelseker: Back to the Roots: Three Reflections on Financial Analysis, Journal of Portfolio Management 2023, S. 128-136

Klaus Schredelseker: It is All About Information: Six Common Fallacies in Financial Economics, Journal of Information Economics 2024 (4), S. 19-31