“Behavioral finance and its implications for stock prices volatility”

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Abstract

Although finance has been studied for thousands years, behavioral finance which considers the human behaviors in finance is a quite new area. Behavioral finance theories, which are based on the psychology, attempt to understand how emotions and cognitive errors influence individual investors’ behaviors.

The main objective of this study is to exploring the factors that were affecting the stock prices volatility, in which efficient market hypothesis were more important factor that affects the stock prices volatility with respect to behavioral finance, due to lack of information in the stock market, investors unwilling make decisions on the basis of psychological factors such as human emotions, feelings and attachments. Past firm performance is another were major factor, whenever investors willing to purchase or sell any particular stocks they first need to analyze the overall performance of the firm. Such as firm dividend history, firm earnings, this whole study indicate that investors are more interested towards firm past performance. Last but the not least factor were macroeconomic factors such as inflation and interest rate, form investors point of view the interest rate and inflation were more important, as investors reacted positively when interest rate are less because they had more opportunity to invest in the stock market.

This study also tries to find out correlation that there is positively relationship between behavioral finance and efficient market hypothesis, firm performance and macroeconomic factors.

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