

Investment Decisions Exploration: Contribution of Emotional and Cognitive

Biases with moderating role of Degree of Irrationality



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Abstract

The objective of the study was to analyse the influence of behavioral biases (optimism bias, endowment bias and herding behavior) on investment decision making with moderating role of degree of irrationality. Structured questionnaire tool has been used in the study. Total 305 valid responses have been collected from investors and advisors trading in stock market, national savings, mutual funds and real estate. Statistical techniques like descriptive analysis, reliability, and correlation analysis, items to variable correlation, regression analysis, and PCA test have been used in this study. Andrew F. Hayees test has been used in the study to analyses moderating impact of degree of irrationality. The results showed that optimism bias, endowment bias and herding behavior have significant positive impact on investment decisions. The study also demonstrated that degree of irrationality have significant positive moderating impact on the relationship between herding behavior and investment decisions, whereas significant but slightly negative moderating impact was found between relationship of endowment bias and investment decisions. Similarly, negative significant moderating impact of degree of irrationality was found between optimism bias and investment decisions.

Keywords: Investment Decision, Optimism Bias, Endowment bias, Herding behavior, Degree of Irrationality, Principal Component Analysis and Andrew F. Hayees test.

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