

EconWorld2016@London

An Assessment of Financial Decision Making in Markets: A Behavioural Finance Perspective / Piyasalarda Finansal Karar Süreçlerinin Davranışsal Finans Perspektifinden Değerlendirilmesi

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A B S T R A C T

Efficiency market hypothesis has been widely accepted both theoretically and empirically for 1960s. Standard finance theory which is based on efficient market hypothesis accept the assumptions of rational choice theory. However, efficient market hypothesis has been criticized in recent years. In the 1980s several papers challenged the standard finance theory, leading to the emergence of the new perspective in the 1990s that is called behavioral finance. Behavioral finance is one of the leading attempts to explain and increase understanding of the real reasoning patterns of financial investors. This perspective includes the emotional processes involved and the degree to which they influence the actual decision-making process. Behavioral finance can be defined as the application of psychology to explain market anomalies. The paper argues that while standard finance theory fails to provide realistic explanation as to why anomalous behavior persists, behavioral finance theory provides psychological explanations for observed market phenomena, such as overreaction, underreaction, disposition effect, conservatism in expectations.

KEYWORDS Behavioral Finance; Efficient Market Hypothesis; Rationality; Anomaly

JEL G00, G14, B41