IRRATIONALITY IN INVESTMENT DECISION MAKING- A CASE STUDY IN BEHAVIORAL FINANCE

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ABSTRACT
Finance theories and concepts are based on the basic assumption that humans act rationally in all situations; however this is not the case. Dozens of examples of Irrationality of human behavior have been documented in multiple research studies. Such and similar studies have led to the emergence of a new school of thought which integrates two seemingly quite diverse disciplines, namely Finance and Psychology into one aptly termed as Behavioral Finance.

It mainly attempts to explain the manifestations of the Irrationality aspect of human behavior in terms of the cognitive and emotional biases which investors experience while making investment decisions and their consequent implications with respect to Investment decision making.

This case provides an exhaustive review of such biases by surveying the existing literature in this regard and goes on to suggest measures for rectifying such biases so as to assist in effective investment decision making. Financial Managers having realized the importance of this have started making attempts towards understanding investor behavior and incorporating them in investment decision making. The case concludes with a quote that summaries it effectively and puts forward questions for discussion and deliberation.

KEYWORDS: Biases, Counseling, Decision making, Investor Behavior & Irrationality,