BEHAVIORAL FINANCE

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Behavioral finance studies the effect of psychological factors on human behavior, which further affects asset price movements. Standard financial models assume that individuals are rational and risk-averse. In reality, individuals may be however irrational and risk-seeking. Investors could be risk-averse or risk-seeking. Behavioral finance models do not adhere to the traditional assumptions of rationality and risk aversion but investigate how irrationality and behavioral bias affect our decisions. Basic behavioral finance concepts are briefly summarized below (Hon et al., 2021).

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