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"BEHAVIOURAL BIASES IN INVESTMENT DECISION MAKING PROCESS"

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ABSTRACT:

This research investigates the relationship between behavioural finance and regional differences in India through a survey-based approach. It aims to contribute to the existing literature by exploring how psychological factors impact financial decision-making across diverse regions. Using a cross-sectional survey design, data on demographics, financial literacy, risk perception, and behavioural biases are collected from individuals across different regions. The analysis, employing descriptive and inferential statistics, aims to determine the predictive power of these variables on financial behaviour in various Indian regions. The findings are expected to inform policymakers, financial institutions, and investors in developing tailored strategies to address behavioural biases and improve financial outcomes. Additionally, this study may inspire future research exploring similar relationships in different countries or contexts.

KEYWORDS - Behaviour, Investors, Bias, Psychological Factors, Investments, Region, Urban, Rural

1. Introduction

This research aims to explore the correlation between behavioural finance and different regions in India, recognizing the country's diverse cultural and societal landscape. By investigating how behavioural finance principles apply in varying regional contexts, it seeks to shed light on the influence of cultural and societal factors on financial decision-making.

This study challenges the traditional economic theory by examining how emotions, biases, and heuristics impact investors' choices, and it underscores the significance of understanding these factors in designing effective financial products and services tailored to regional needs.

The paper reviews the literature on behavioural finance, discusses India's diverse regions and their impact on financial decision-making, outlines the research methodology, presents study results, and discusses implications for practitioners, policymakers, and academics.

2. Literature Review

Yuze Chang 2020), explained the impact of internet finance on Commercial banks in China. It affected the core of traditional banking services by offering payments and services through this new type of platform. It helps small and medium enterprises to meet their financial requirements and it increases the opportunities for funding.

Jichang Dong, Lijun Yin, Xiaoting Liu and et.al (2020), emphasised that commercial banks in China have been influenced by internet financing transactions. The bank's performance has been affected in the areas of profitability, liquidity and growth of Commercial banks.

Zhongfei Chen, Kexin Li & Ling-Yun He (2019), analysed the influence of internet financing on the profitability of commercial banks in China. The results proved that the development of lending and third-party payments had a negative impact on the bank's profitability.

Li-Hong YANG, and Xiao-Tian LIANG (2018), explained that the emergence of third-party payment institutions influenced the operating efficiency of Commercial banks. This research also emphasised the countermeasures for the banks to overcome the impact of these third-party institutions. The performance of third-party payment institution Alipay was remarkable in terms of its operating efficiency, convenience and large customer base. So, the impact of this

HuiwenXial and NadaChunsom (2018), explored the effects of third-party payments on the Commercial bank's non-interest income. The regression techniques revealed that the income was higher in desktop payments than in mobile payments.

Changing Luo, Meng Zhen Li and et.al (2018), explained that the development of internet financing accelerated money circulation resulting in a lower market interest rate. Similarly, the impact was on economic factors like exchange rate, monetization rate, and market rate interest rate. The influence of internet finance on the P2P loan rate makes an impact on the market interest rate.

Pingfan Song, Yunzhi Chen et al. (2018), described that the largest p2p lending platforms are managing their risk effectively and they analysed the operating performance of lending platforms in China. The performance efficiency of the platforms varies from first-tier cities to non-first-tier cities, this leads to unbalanced financial development.

Haishu Qiao, Meilin Chen, and Yue Xia (2018), demonstrated the influence of internet finance on the relationship between commercial banks' risk preferences and monetary policies. The banks had the ability to change according to the market conditions and the large banks are affected by the development of internet finance and monetary policies.

Rizky Yudaruddin (2018), analysed the impact of fintech startups on the performance of banks in Indonesian banking systems. The measurement of its impact considered the industry level, banks level and economic level.

Caroline Stern, Mikko Makinen, and Zongxin Qian (2017), explained the determinants of P2P lending and their development in their payment services in China. This online lending has positive results in the region with higher mobile phone subscriptions and the balance of P2P lenders in the region was negatively associated with the existing banking sector.

De-Yu CHEN (2017) demonstrated the influence of third-party payments on the operating performance of banks in China and the issues faced by the banks after the adoption of internet finance.

Xiaohui Hou, Zhixian Gao, and Qing Wang (2016) demonstrated how banks' market discipline was affected by internet finance development. Due to this emergence, the growth rate of deposits and risk of banks have been increased but this may vary according to the banks' size.

"Behavioural finance: A review and synthesis" by H. Kent Baker and Victor Ricciardi(2014) provides a comprehensive overview of behavioural finance and its applicability in different regions, including India. The authors highlight the importance of understanding behavioural biases in making investment decisions.

"Behavioural Finance and its Application to the Indian Stock Market" by Jitendra Mahakud and P. K. Jena (2018) investigates the impact of behavioural biases on the Indian stock market. The study finds that investors in India exhibit several behavioural biases, including herding behaviour, overconfidence, and anchoring.

"An Empirical Study on Behavioural Finance and Stock Market in India" by Dinesh Kumar and Navneet Kaur (2018) analyses the relationship between behavioural finance and the stock market in India. The study finds evidence of behavioural biases among investors, which affects their investment decisions and the stock market's performance.

"Behavioural Finance and Investment Decision Making: An Empirical Study of Indian Investors" by Amit Kumar and Vaibhav Rana (2020) investigates the impact of behavioural finance on investment decision-making among Indian investors. The study finds that behavioural biases such as overconfidence, anchoring, and herding behaviour are significant factors affecting investment decision-making in India.

3. Research Methodology

3.1. Objective of the Study

- To find a correlation between behavioral finance and the variety of people within various regions in India (in making investment decisions)
- To find out why there is a difference between the regional approaches to financing.
- To link the differences that are prevailing to psychological reasoning.

3.2. Problem Statement

The problem addressed in this research is the need to understand the relationship between behavioural finance and regional differences in India and its implications for financial decision-making. Despite the growing interest in behavioural finance and its potential to explain non-rational financial

behavior, there is limited research on how these principles manifest across diverse regions within India. This study aims to fill this gap by conducting a survey-based investigation to gather data on demographics, financial literacy, risk perception, and behavioural biases across various Indian regions. Through descriptive and inferential statistical analysis, the study seeks to elucidate the predictive power of these factors on financial behavior in different regions. The findings are expected to offer insights for policymakers, financial institutions, and investors to develop targeted strategies addressing behavioural biases and enhancing financial outcomes. Furthermore, the research may pave the way for future studies exploring similar relationships in different global contexts.

3.3. Data Collection Method

- **Survey:** Information regarding attitudes, habits, culture or knowledge gathered from selected populations.
- **Stratification:** It is a method for sorting data from several sources so that patterns can be identified.
- **Chi-Square Test**

Hypothesis Testing
Hypothesis statements
• **Null Hypothesis (H01)**
There is no significant difference in the correlation of behavioural finance to different regions.
• **Alternative Hypothesis (H11)**
There is a significant difference in the correlation of behavioural finance in different regions.
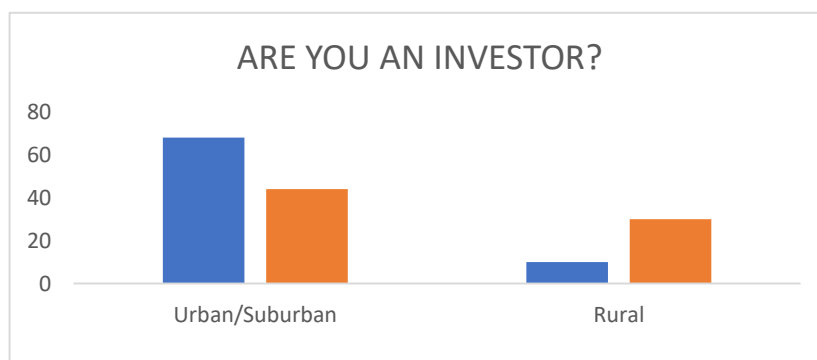
3.4. Data Analysis and Interpretation

Contingency Table			
	Are you an investor?		
Location type	**Yes**	**No**	**Total**
Urban/suburban	73	46	119
Rural	6	28	34
Total	79	74	153

Contingency table

Chi Square Tests			
	Value	**DF**	**P**
X²	20.2	1	< .001
N	153		

Chi-square test

ARE YOU AN INVESTOR?

Are you an Investor

The provided table, a contingency table, displays the distribution of answers from investors and non-investors according to the kind of place in which they call home. Two categorical variables make up the table: "Type of location" has two levels (Urban/Suburban and Rural), and "Are you an investor?" has two levels (Yes and No). The aggregate number of respondents to the survey across all categories and the total number of respondents overall are also displayed in the table.

The chi-square test of independence can be used to analyze the relationship between the variables. The chi-square test contrasts, under the assumption of independence, the observed frequencies in each table cell with the expected frequencies. In the event that there is a significant difference between the observed and expected frequencies, the null hypothesis can be rejected and a connection between the variables can be determined.

As we can see from this table, there were 79 investors who answered the poll in total, compared to 74 non-investors. Of the total number of responders, 119 are from urban or suburban areas, and 34 are from rural areas. The anticipated frequencies must first be determined in order to run the chi-square test. We're able to accomplish this by multiplying the row and column totals for each cell and then dividing by the grand total.

Using a statistical software or a chi-square table, we find that the chi-square statistic is 20.2 with 1 degree of freedom. The p-value associated with this chi-square value is less than 0.001, which is much smaller than the significance level of 0.05. Therefore, we reject the null hypothesis and conclude that there is strong evidence to suggest an association between being an investor and the type of location of residence.

In particular, the table shows that a higher proportion of respondents who live in urban/suburban areas are investors compared to those who live in rural areas. Out of 119 respondents from urban/suburban areas, 73 are investors, while only 6 out of 34 respondents from rural areas are investors. This suggests that living in an urban/suburban area may be associated with a higher likelihood of being an investor.

4. Major Findings and Discussion

Emotional States and Behavioural Biases: The research identifies specific emotional states that amplify or mitigate the influence of particular behavioural biases, shedding light on the interplay between emotions and investment decisions. For instance, fear may exacerbate loss aversion bias, while confidence may mitigate overconfidence bias.

Investment Decision Susceptibility: The study reveals the types of investment decisions most susceptible to the interplay of emotions and biases. It finds that riskier investments, such as stocks and mutual funds, are more influenced by emotional states like overconfidence and confirmation bias, while safer investments like gold are driven by familiarity and herding biases.

Psychological Factors and Investment Patterns: Psychological factors like availability heuristic, framing effect, and social norms significantly influence investment patterns across urban and rural areas. Urban residents exhibit biases like overconfidence and confirmation bias, leading to a preference for complex financial instruments, whereas rural residents tend to favour tangible assets like gold due to familiarity and herding biases. Mitigation Strategies: The research uncovers strategies investors can employ to mitigate the negative effects of emotional biases on their investment decisions. These may include enhancing financial literacy, diversifying investment portfolios, and seeking professional advice to counteract biases like overconfidence and confirmation bias.

Overall, the findings emphasize the importance of understanding the psychological underpinnings of financial decision-making and highlight the need for tailored interventions to address behavioural biases and improve investment outcomes across diverse regions in India.

5. Conclusion

This research delved into the fascinating intersection of behavioural biases and state-level factors influencing investment decisions in India. By exploring how these biases manifest and correlate across different states, the study sheds light on the unique investment landscape within the country.

The choice of securities in rural and urban areas can be attributed to behavioural biases such as familiarity bias, herding bias, availability bias, overconfidence bias, confirmation bias, and status quo bias. It is important to be aware of these biases when making investment decisions and to seek professional advice before investing in any financial instrument.

Insights gained can guide policymakers in designing targeted financial literacy programs and regulatory nudges to address specific biases prevalent in different regions.

Overall, this research has opened doors for a deeper understanding of how behavioural biases and state-level factors influence investment decisions in India. By addressing the limitations and pursuing further research, we can continuously refine our understanding of investor behaviour, ultimately promoting more informed and successful investment decisions across the country.

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