

Chapter 6

Herding Through the Ages: Historical Perspectives and Modern Implications

Ooi Kok Loang

 <https://orcid.org/0000-0003-0412-8899>

Universiti Malaya, Malaysia

ABSTRACT

This study investigates the multifaceted influences on herding behaviour in financial markets, focusing on the impact of historical market events, regulatory changes, economic indicators, social and political events, and technological advancements. Utilizing market structure as a moderating variable and investor learning as a mediating variable, the research provides a comprehensive analysis of the dynamics that drive herding behaviour. The study employs panel data regression and structural equation modeling to analyze the interactions between these variables and their collective impact on herding behaviour. The findings indicate that historical market events, regulatory changes, economic indicators, social and political events, and technological advancements significantly influence herding behaviour. Market structure moderates these relationships, with certain structures either amplifying or dampening the effects. Additionally, investor learning mediates the impact of these factors, with higher levels of financial literacy and education mitigating herding behaviour.

DOI: 10.4018/979-8-3693-7827-4.ch006

INTRODUCTION

The phenomenon of herding behaviour in financial markets has attracted significant attention from both academics and professionals due to its significant impact on the stability and effectiveness of the market. The phenomena of investors imitating the activities of others instead than depending on their own independent analysis has been noticed in many historical contexts and is impacted by numerous factors (Gu et al., 2022). This study examines the historical and contemporary significance of herding behaviour, investigating the various factors that influence its occurrence and the ways in which specific intervening and moderating variables impact its dynamics.

The basis of this study is founded on the understanding that herding is not a new phenomenon but has always been a fundamental aspect of market dynamics throughout history. Historical market occurrences, such as the Dutch Tulip Mania of the 17th century, the South Sea Bubble in the 18th century, and the stock market crash of 1929, exemplify herding behaviour. These occurrences were marked by a swift increase in asset prices, followed by steep drops, mostly due to investors' tendency to follow popular trends. Historical market occurrences like these illustrate the vulnerability of financial markets to collective behaviour and emphasise the importance of comprehending the fundamental causes and mechanisms.

Regulatory changes have had a substantial impact on influencing herding behaviour. Throughout the centuries, financial laws have developed in reaction to market crises, with the goal of reducing systemic risks and promoting market integrity. Nevertheless, the impact of these laws on controlling herding behaviour has been inconsistent (Ng et al., 2022). An example of this is the implementation of the Glass-Steagall Act during the 1930s, which sought to segregate commercial and investment banking operations in order to avoid conflicts of interest and the undertaking of excessive risks. Although it achieved some degree of success in stabilising the financial system, the later deregulation in the 20th century led to a resurgence of herding behaviour, ultimately resulting in the global financial crisis of 2008. This highlights the intricate relationship between regulatory regimes and investment behaviour.

Economic indicators, such as interest rates, inflation, and GDP growth, play a crucial role in influencing market sentiment and the tendency for individuals to follow the crowd. During times of economic uncertainty or downturns, investors tend to exhibit herding behaviour, when they follow the actions of others in order to reduce the risk of future losses. On the other hand, during periods of economic growth, herding behaviour can result in speculative bubbles where investors collectively push up the prices of assets above their true worth. The impact of economic indicators on herding behaviour demonstrates the significant significance of the economic environment in affecting investor psychology and market results.

20 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/herding-through-the-ages/363246

Related Content

Tiptoeing Through Interweaving Hero and Collective Journey Elements in Course Design Practices: Motivation in Designing the Hero's Journey Departure

Caroline M. Crawford and James L. Dillard (2025). *Utilizing Emotional Experience for Best Learning Design Practices* (pp. 317-354).

www.irma-international.org/chapter/tiptoeing-through-interweaving-hero-and-collective-journey-elements-in-course-design-practices/360046

Realabilities: Opening New Vistas to Enhance Knowledge, Attitudes, and Intentions towards Peers with Disabilities

Nava R. Silton (2017). *Exploring the Benefits of Creativity in Education, Media, and the Arts* (pp. 264-303).

www.irma-international.org/chapter/realabilities/157861

Successfully Playing Games of Tax Compliance: Government Agencies as Architects of Public Choice

Shefali Virkar (2016). *Neuroeconomics and the Decision-Making Process* (pp. 216-245).

www.irma-international.org/chapter/successfully-playing-games-of-tax-compliance/148117

Local Hearts, Global Minds: Using SEL to Prevent Bullying in Resource-Constrained Establishments

Muskan Shah and Moitrayee Das (2026). *Promoting Positive Behaviors and Emotional/Social Wellbeing in School* (pp. 259-290).

www.irma-international.org/chapter/local-hearts-global-minds/393567

Empowering Diversity: The Role of Leadership in Inclusion in the Organizational Context

Helena Cristina Roque and Madalena Ramos (2023). *Internet of Behaviors Implementation in Organizational Contexts* (pp. 175-191).

www.irma-international.org/chapter/empowering-diversity/333558