


Chapter 5

Behavioral Finance in Post-COVID-19 World

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ABSTRACT

COVID-19 pandemic, historically substantial worldwide disaster, has elevated the complexity of human behavior to the fore of financial markets and decision-making. The study investigates a convergence of behavioral finance and post-COVID-19, offering insight into how individuals' psychological biases and emotional responses have influenced how they make investments, market dynamics, and economic outcomes. The study constructs a robust theoretical framework for researchers and academicians through a rigorous demonstration of extant literature on behavior biases. As a result, it can be concluded that this area of behavioral finance remains underdeveloped and requires the attention of researchers globally. Furthermore, a significant number of studies are conducted in American, European, and African regions, but are almost non-existent in Asian markets. This study adds to existing knowledge and provides investors with insights into psychological biases that may affect investment decisions. Additionally, other factors may also influence how investors make decision-making.

1. INTRODUCTION

With over 100 million cases, COVID-19 has claimed the lives of over 2 million individuals globally. This is one of the most devastating pandemics in recent memory, costing not only human deaths with billions of dollars to worldwide economies (Ramphul et al., 2021). In many economies, both financial and labor sectors faced

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substantial contractions and upheavals. Virus was assumed a China-specific disease at start of 2020, and outside people did not consider it a severe warning. After virus was swiftly identified as a pandemic on March 11, 2020 individuals were overcome with fear and anxiety (Sohrabi et al., 2020; WHO, 2020). Ramelli and Wagner, (2020) state investors throughout world first avoided equities with China exposure, and as disease spread, markets considered economic ramifications of these problems on corporations.

In first half of 2020, there was one of most devastating stock market crashes in history. The virus that caused the crash was born in Wuhan, China. In December 2019, Wuhan reported its first COVID-19 case. Initially, it was believed that this virus would spread globally without causing death. Numerous economic activities have to be put on hold as a result of virus' quick global spread and ensuing panic (Ganie et al., 2022). To stop the virus from spreading, many nations imposed strict lockdowns and stopped all major economic activities. These actions were ultimately negatively appraised by financial markets, which led to inevitable market turmoil in March 2020. During pandemic, Sweden, for example, enforced very few social restrictions (Gupta, 2023). Conversely, numerous other countries imposed severe restrictions, including social isolation and complete lockdowns. Similarly, stock markets around world witnessed varied degrees of fall in response to COVID-19, with some markets losing more than 30% (Mazur et al., 2021; Chowdhury et al., 2022). One question arises here is what are those factors affecting the behavior of investors while investing?

In context of behavioral finance behavior of investors in making investments is considered an important sub area to explore how they predict, perceive, study, and review decision-making process (Jan et al., 2022). A majority of finance scholars regard investor rationality and market efficiency as the fundamental beliefs for enlightening financial theories. Markets are believed to be constructed to maximize perceived advantage, and investors are always assumed to make rational judgments. Contrarily, several scholars have shown in recent years that conventional financial theories fall short of capturing investors' irrational behavior while making investment decisions (Huang et al., 2018). According to Thaler and Ganser (2015), investors' behaviors are often irrational due to a variety of behavioral biases that they are subject to in everyday life. Various studies of behavioral finance in the literature analyzed and discovered that psychological factors affect the decisions of investors making investments (Ahmed et al., 2022). As opposed to conventional financial assumptions, which presume investors are always rational, behavioral finance takes into account and theoretically demonstrates, when choosing an investment, investors are sometimes rational rather being irrational. Furthermore, the current global pandemic highlights need to identify aspects that influence investor behavior in evaluating investment decision-making (Jan et al., 2022). According to behavioral finance

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