Chapter 1
Gender and the Brain on Finance:
Are Men and Women Wired for Different Risks?

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ABSTRACT

This chapter discusses the neurofinance perspective on gendered financial behaviors, including the biological, hormonal, cognitive, and sociocultural factors underlying decisions. It tries to understand the brain mechanisms in gender-related risk perception John from the amygdala, the prefrontal cortex, to testosterone and cortisol, and oxytocin, among others. The writer, using behavioral finance theories, neurosciences, and gender theory, goes against the stereotypical conjectures that males and female investors are different, arguing that the stereotype itself rests on false claims while proposing the application of theory to cases, empirical literature, and financial facts. Going beyond the binary perspective, the chapter will try to develop an inclusive evidence-based approach to address financial literacy, policies, and advisory practices. Therefore, this chapter aims toward genuine financial empowerment through a highly sophisticated financial system that resonates with the many perspectives individuals bring to risk and financial decision-making.

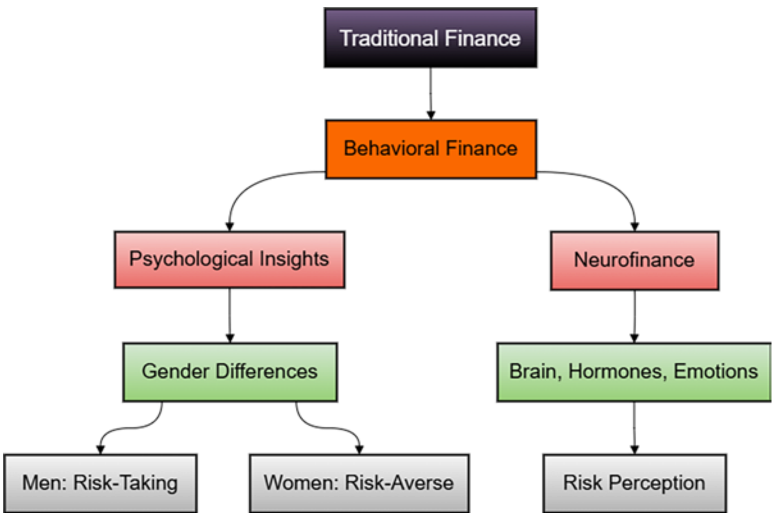
DOI: 10.4018/979-8-3373-1494-5.ch001

1. INTRODUCTION

1.1 Background and Context

As finance continues to change, it is more important than ever to recognize the cognitive and emotional aspects of investment behavior (Kahneman & Tversky, 2013; Lerner et al., 2015). Generally, finance research begins with a rational foundation and neglects to pay attention to the realities of decision-making in the world around us (Barber & Odean, 2001). As a result of the obvious limitations of rational-based finance perspectives, behavioral finance was created to include psychological components to economic models of investor behavior (Camerer, Loewenstein, & Prelec, 2005). Behavioral finance offers an understanding of human irrationality, but it leaves many unresolved questions, including gender differences in financial decisions (Croson & Gneezy, 2009; Byrnes, Miller, & Schafer, 1999).

Figure 1. "From Traditional Finance to Neurofinance: Understanding Gender and Risk"



Source: Author's work

The traditional finance (See Figure 1)literature indicates that male and female investors generally invest in different ways, although there is evidence that some investment attributes vary across groups (Charness & Gneezy, 2012; Eckel & Grossman, 2002). Most traditional theories support the notion that men possess higher risk-tolerance and decision-making characteristics like overconfidence, and are often willing to invest in high-return opportunities (Barber & Odean, 2001;

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