IS A COMPROMISE IN SIGHT? A STUDY OF RELATIONSHIP BETWEEN BEHAVIOURAL FINANCE & EFFICIENT MARKET HYPOTHESIS

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ABSTRACT
The purpose of this study is to examine if professional investors are indicating tendencies of irrational behavior when exposed to certain psychological dilemmas related to the financial world. The Market is determined by people who cannot always be considered rational in their investment decisions, especially not during times of financial distress (Rao, 2000). Behavioral finance is, in essence, trying to explain and increase understanding of the reasoning patterns of Market participants, including the emotional processes involved and the degree to which they influence the decision-making process (Reddy & Saroj, 2002). This study takes the perspective to investigate the relationship between Behavioural finance and Efficient Market hypothesis of the financial world. For this study a quantitative method has been used and a survey has been conducted. Methodology about measuring the behavioral impact is discussed, which form the basis of the empirical data collection. It was found that there are indeed tendencies that indicate that professional investors are prone to fall for seemingly straightforward psychological dilemmas. These are interesting findings as they confirm that, within the target group, the level of irrationality linked to psychological dilemmas is common.

KEY WORDS: Financial distress, Reasoning patterns, Psychological impact, Dilemmas, Irrationality.