IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Role Of Behavioural Finance In Mental Accounting With Regards To Men & Women In India

Yashaswini S & Dr.Nagarathnamma

School Of Social Economics & Commerce, CMR University, No.5, Bhuvanagiri, OMBR Layout, Bangalore -5600043, Karnataka, India.

Abstract

Mental accounting is a concept in the field of behavioral finance. Behavioral finance shows how people think in matters of money and how Indian men and women segregate money in terms of household expenses and investment purpose. It also includes the successive effect on the markets. In context to Indian men and women they have a different mindset in savings, segregating and spending the money. Men are rational thinkers comparing to women. Psychology says in terms of men and women thinking is different in the matter's pf spending the money. It basically tells us where our money is going and keep our spending under control. Behavior finance is the better understanding of investment decisions that affect the market prices which are influenced by human. Prospect theory talks about risk and uncertainty in the stock market and how a person can overcome those losses in future. Heuristic approach is trial and error method where people take simple and easy decisions getting influenced by many people. In behavioral finance there are many errors and biases which leads to wrong decision making.

Keywords*: Time management, Productivity, Value of money, Mental accounting, Investors investment decision*

INTRODUCTION

Behavioral finance draws from real world experience stating that an investor has biases, it is irrational and his or her emotions do play a role in the kind of investment undertakings. In behavioral finance investors receive limited knowledge, data and information that are perfect. Mental accounting gives you a more value in categorizing the money. To overcome the mental accounting people, need to be pleasant in their own mind. When people invest in different avenues they will rely on timings. When too many things are there, it leads to confusion. Mental accounting is all about the way you spend the money.

Men & women think differently in terms of investment decision. Men are impatience, most of the time they won't take expert advice. Because men are egoistic and they like to take things in earlier stage. In other hands women are patience they take expert advice & they like to take things slowly.

- Men or women investing in different avenues based on their emotions
- People get influenced by psychology, sociology and finance factor.
- Decision making errors & biases in behavioral finance.
- People think when markets will be in-efficient.
- Prospect theory states loss and gains in terms of investment.

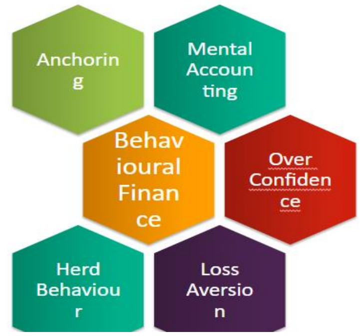

Fig:1 Concepts of Behavioral Finance

Figure 1 Explanation: in behavioural finance subconscious mind is very important to the human. Where spending and savings are phenomenal in mental accounting. Men or women investing in different avenues should not be over confidence and they need to be aware of loss aversion and the behavior of the person should be rational. The investor should not be irrational or herd behavior.

Emergence of Behavioural Finance

SujataKapoor & Jaya M. Prosad has discussed the behavioral finance is a history in Indian context and it provides details about stock market in terms of investment. The paper talks about traditional finance and how it contributes in the Indian history. Now a days tradition histories are becoming insufficient in the stock market whereas, people are moving to more modern way of behavioral finance. Behavioral anomalies are the markets which has significant scope towards the investment patterns and people's emotions towards investment decisions. People become irrational thinkers due to social influence and solicitated environment towards behavioral finance. The study has found that there is a bridge between traditional theories in regard to real life situations. (M.Prosadb, 2017)

Baker, H.K et all has discussed the behavioral finance has a demographic variable it is based on biases of gender, age, income leveled. the Indian investors are irrational thinkers and they don't see for other people opinion. The investors only think on emotional perspective. The behavioral finance has a negative disposition effect and herding biases. A positive relationship of behavioral finance is concerned with emotional biases. The most important biases of behavioral finance are Age, occupation and investment experience which depends on investment samples of individual investor. Mental accounting in case of individual investors the study found that men are overconfidence than women in case of stock market. There should be a financial advisor who can guide the individual investor in a long run. (Baker, 2019)

Richard Thaler has discussed on Mental accounting and consumer choice in India. They introduced the new model of cognitive psychology and microeconomics in hybrid model. Using the prospect theory value function the combination of losses and gains where combination of mental coding. The model transaction utility is the new concept evaluation of purchase. The mental accounting is characterized to complete household budgeting process. The developed field in mental accounting are marketing and pricing which is useful in household things of consumer choice. In case of real products, the problems will be arising on artificial objects which results in generalizing research. The study found that in case of real products artificial objects are based on maximum predictive validity. (Thaler R. , 1985)

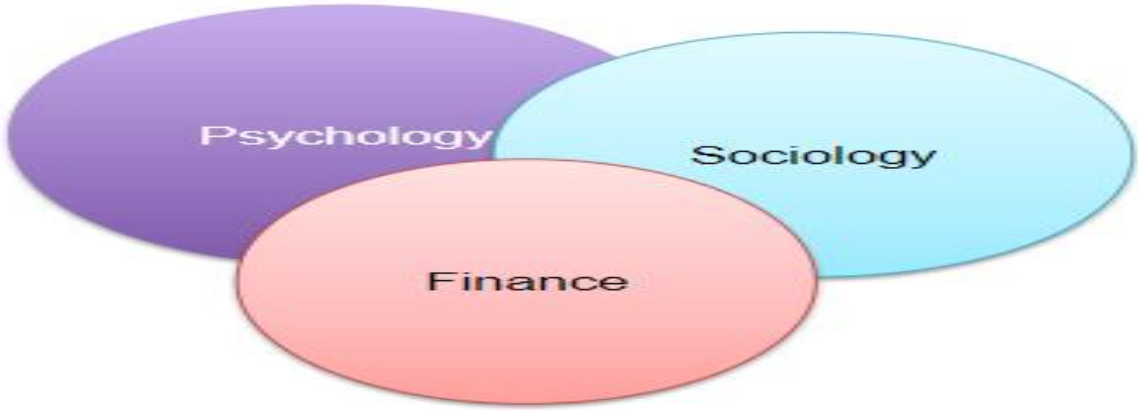

Fig 2: Emergence of Behavioral Finance

Figure 2 Explanation: mental accounting includes psychology, sociology and finance. The person should be rational in taking any decision in modern days. People think in terms of social status and get influenced by so many people socially and invest in wrong market. Which in terms affects in person subconscious mind.

Sabyasachi Rath et all has discussed on property investment decision on behavioral factors. An individual investor is a rational being and he takes his decision considering all the factors in the society. Societal changes will make a big impact on investors by psychological and emotional bonding. In decision making process an individual think as irrational market participant. Most of the unexplainable behavior remains questionable in stock market anomalies. The traditional finance theories are not helpful to give answer for many questions. The study found that the individual investor are not rational thinkers and they won't take guidance from financial institutions. (Rath & Mousumi Singha Mahapatra, 2014)

Shiller & Robert has discussed behavioral finance has an efficient market theory which reached in 1970's as a academic circles in height of its dominance. Belief in this theory has been eroded by a succession of anomalous findings, often in the 1980s, and evidence of excessive volatility in returns. In 1990's blossoming research on behavioral finance suggest a more nuanced value of the market theory. Most of the important developments include feedback theories since 1990's. the study found that there is evidence on smart money models which is obstacles for ordinary investors. There are many theories in behavioral finance which leads to biases on individual investors (Shiller, 2003).

- **Behavioural Finance Principles and Its Implications**

Olubunmi Edward Ogunlusi & Olalekan Obademi has discussed investment decision making on behavioral finance impact on selected investment bank in Nigeria. The study was conducted in a questionnaire method and the same distributed to Nigerian people. The data was analyzed using different methods of research design. The study found that there is a positive relationship between behavioural finance and investment decision. There is a negative and strong relationship between investment decision and prospect theory. The investor should be aware of heuristic and prospect theory. Investment decision making can affect the behavioral factor of institutional and individual investors. (Olubunmi Edward Ogunlusi, 2019)

Zahera S A & Bansal R has discussed Behavioral finance biases in investment decision making. There are many biases in behavioral finance which hinder the investors in decision making process. It took many years to make behavioral finance as the area of study and it includes foundational and analytical work. The study comprises financial advisors and individual investors behavioral patterns. The behavioral finance keywords include in finance on different published books and conference proceedings. In the year 1979 most of the introductory paper was published and contributed in this area of recent paper. The study found that seventeen different types of biases towards the study of individual and institutional investors. (Zahera, 2018)

Shalini Kalra Sahi et all discussed psychological biases in financial investment behavior an exploratory inquiry. The individual investors beliefs and attitudes are depending on investment decision making in reference to the investor biases. Decision making behavior of individual investment affect the feelings and underlying thoughts to describe and identify 30 exploratory semi-structured interviews. Verbal data of open coding is a means of decision-making analysis. Investment decision biases reveal the investors mind as a design rather than investors mind as a flow. The study found that financial investment decisions has biased on numerous preferences and believes of individual investors. (Shalini Kalra Sahi, 2013)

Fig 3: Behavioural Finance Principles & it's Implications

Figure 3 Explanation: decision making errors and biases. Self-deception in convincing oneself, which leads to overconfidence in the person. Heuristic simplification involves biases like a person taking or finding out easy ways or easy decisions. Social influence is getting influenced by others. Emotions are state of mind of a person's feelings and reactions. In behavioral finance there are many errors and biases which leads to wrong decision making.

Thaler & Richard H has discussed mental accounts savings and fungibility in stock market. There is a life cycle theory of savings in mental accounting. The quality of theory is valued by economist and some of the qualities are elegant, simple and rational. The study found that the life cycle model is has not tested out very well and assumption of lifecycle model that has not received very much consideration. In the life cycle theory, we can see many of the savings' anomalies that can be looked after. There is an empirical savings literature in a small portion here, the key assumption is fungibility. The saving behavior strongly influences on self-control and violation of fungibility. (Thaler R. H., 1990)

Richard H Thaler has discussed Mental accounting matters in terms of behavioral finance in cognitive operations used by households to evaluate, organize and keep a track of financial activities. Most attention is received by three components of mental accounting. Mental accounts are subsequently evaluated in decision making and experienced. Specific accounting will hold the assignments and funds are labeled in real as well as mental accounting system. Expenditure and spendings are constrained but explicit or implicit budgets. The study found that mental accounting influences the choice of individual savings and fungibility. (Richard H. Thaler, 1999)

- **CLASSIFICATION OF COGNITIVE ILLUSION**

Anu Antony has discussed Behavioral finance review of theory and literature and portfolio management. Irrational behavior outcomes are cognitive biases and crowd psychology. In stock market operation investors are facing irrationality in the behavioral patterns which can reduce market anomalies. Behavioral biases are incorporated by prescriptive model which is developed by researcher of behavioral portfolio model. The model was established as an extension lead of capital asset pricing model. People invest in many household things like savings, retirement and fund for meeting emergency. The study found that the emotions of the investors controlled by strategies that minimizes risk designing optimum portfolio by policy making process application of behavioral finance. (Anu Antony, 2020)

Drazen Prelec & George Loewenstein has discussed behavioral finance has black and red and savings and debt in mental accounting. In mental accounting consumer behavior matters a lot. It's all about savings and expenditure based on how you segregate the things mentally and how you spend on household things. Savings is what you save for your future and debt is losses or need to repay somebody. The consumption is a pleasure which can undermine the pain of paying for the expenditures. Price effect is comparable across customer relationship during the service. The study found that duration of the relationship has positively provide customer satisfaction ratings to stay loyal and it will be elicited prior to any decision to cancel or stay. (Drazen Prelec, 1998)

Ozen E & Ersoy G has discussed Individual investors cognitive biases impact on financial literacy. Individual act rationally while taking investment decisions which affect psychologically in future. While making these decisions some things will get impacted such as educational status, gender and age. The objective of the study is to determine financial investment related to individual cognitive biases impact on financial literacy. The study found that there is a difference in cognitive biases in regard to financial literacy. In the business world cognitive biases of individuals who receive finance education and professionals are different from individuals who receive finance education. (Özen, 2019)

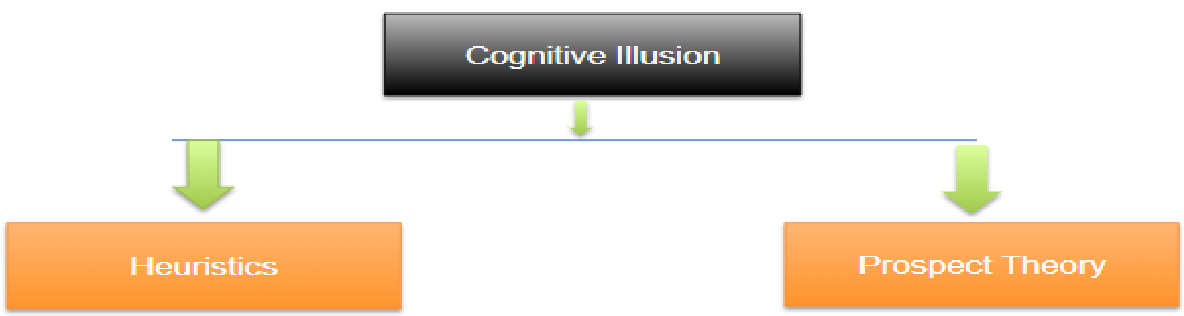

Fig 4: Classification of Cognitive Illusion

Figure 4 Explanation: how people think when markets will be in efficient. An individual should make the decision based on gains. Heuristic approach is trail and error method where people take simple and easy decisions getting influenced by many people. Prospect theory is risk and uncertainty theory it is also called as loss-aversion theory. In this theory losses and gains are valued differently.

Geethika Maadan has discussed financial decision making in behavioural biases which came from behavioural theory and emerged recently. Decision making process issues investigates finance and psychology combining the area of research in multidisciplinary course of behavioural finance and explains the groups and organisations and irrational nature of individuals. Under uncertainty making decisions of behavioural finance attempts to those psychological traps in decision making. At financial front individual investors decisions determine the study of individual behaviour. The study found that financial behaviour of the individuals influences on knowledge of biases, emotions and knowledge. And the paper will deliver future pattern of behavioral finance. (Madaan, 2016)

Beatrice et all has discussed behavioral biases in effect of demographic factors. Demographic factor includes mental accounting, disposition effect, investor behavior bias, occupation, gender, education, age, income, over confidence bias, herding bias. This type of research is a quantitative approach with casual research and the method used by structural equation modeling is analytics to analyze the demographic factor. This study was conducted to the age group of minimum 17-year investors listed on the Indonesia stock exchange through questionnaires. The study found that overconfidence bias was prejudiced by investment experience while disposition effect was biased by age, income level, and investment experience. (Beatrice, 2021)

- **Prospect theory**

Jinesh Jain et all has discussed behavioral finance as a decision-making process based on evaluation of behavioral biases affecting individual equity investors by fuzzy analytic hierarchy process. Investment decisions exhibit irrational behavior in the area of behavioral finance demonstrated by investors. Investment decision will be impacted by behavioral biases which deviates from logic and reason. The objective of this paper is to give the ranking to behavioral biases which influence the individual decision making of equity investor in India. The study found that there are three most influential criteria they are over confidence bias, loss aversion bias and herding bias. (Jain J. W., 2020)

Preeti Goyal et all discussed Indian millennial investors took prospect theory and herding in antecedents to heuristics. Heuristic means taking simple or essay decisions. The study of this paper is to act as a past history to heuristics act as a prospect theory and herding to explore hoe heuristics are framed. antecedents to heuristics are modelled as prospect theory and herding's. The study uses questionnaire method from 923 millennials from India to exam the classic for two financial products – mutual funds and equity. To evaluate the model regression analysis is used. The study found that the impact of heuristics on herding's is likely to be mutual fund investment as compared to equity investment. (Goyal, 2021)

L Kengatharan has discussed study on investors of Colombo stock exchange, Sri Lanka the behavioral finance will influence the investment decision and performance. The main purpose of this study is influencing the individual investors decisions at the Colombo stock exchange by exploring the behavioral factors. There is very much limited study in Sri Lanka on behavioral finance. The study conducted on behavioural finance is to educate the Sri Lankan people on various behavioral and cognitive biases. The study found that there is a negative influence on stock market and choices of the consumers. There are only three variables are found in behavioral finance which will make influence on buying and spending choices of the consumer. (L Kengatharan, 2014)

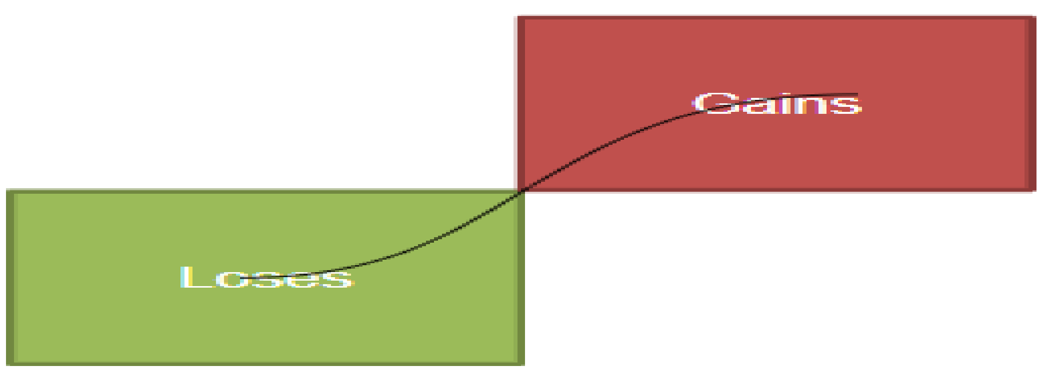

Fig 5: Prospect Theory

Figure 5 Explanation: a person is risk averse for profits. And person is risk seeking for losses. Prospect theory talks about risk and uncertainties in the stock market and how a person can overcome those losses in future. Losses and gains are valued differently it is a behavioral model that shows how people decide between different alternatives. There are two phases in prospect theory. One is editing phase- where we can filter most of the things. The second one is evaluation phase- where people can learn the lesson.

Jusky Novianto & Robin has discussed stock investment decision and investors behavior in batam city. The heuristic theory used in this learning involves of anchoring, overconfidence and representativeness. The investor's behavior comprises of prospect theory, herding behavior, and heuristic theory. Whereas prospect theory comprises of mental accounting, regret aversion and loss aversion. The investor who has a stock investment in Batam used purposive sampling method and regression analysis using SPSS software. the study found that overconfidence doesn't have a substantial effect. Meanwhile, anchoring, availability and representativeness have a significant effect on investment decision. (Jusky Novianto, 2021)

Nicholas C & Barberis has discussed a review and assessment in prospect theory of economics. In the year 1979 the prospect theory was first published by Daniel Kahneman and Amos Tversky. Prospect theory was presented by a new model called risk attitudes, which pleasingly taken the investigational suggestion on risk taking, including the documented violations of expected utility. Further than thirty years later in experimental setting the way of populating the risk based on best available description of prosperity theory. The study found that the traditional model of economic behavior has a significant impact of theoretical work which incorporated the ideas in prospect theory. (Barberis, 2013)

- **Traditional finance vs behavioral finance**

Alexander Quaicoe, & Paul Quaisie Eleke-Aboagye has discussed Ghana stock on the bank stocks affecting investment decision making in behavioral factors. By making the stock market effecient it is assumed that the investors always think and take a decision rationally. The fact of given asssumption is inadequate however, the investors are full of emotions, complex and psychological being. The purpose of this paper is to explore the psychological aspects that tend to impact the decisions of investors. The study found that behavioral biases of existence of among various investors surveyed. Over again, biases such as gambler's fallacy and regret aversion a were also found to powerfully impact the decisions of investors, beside with mental accounting, anchoring and overconfidence. (Quaicoe, 2021)

Tahira iram et all has discussed prospect behavior in prudent decision making to support women's financial literacy and to know whether awareness is success. In developing countries financial literacy is of supreme significance in the ground of entrepreneurship. Though, what constructs financial literacy and how it forms investment decision-making of women entrepreneurs is an exiguously researched capacity. Financial literacy impact on investment decision process. Structure on this gap, this study hypothesizes that women entrepreneurs' prospect behavioral factors are self-control, regret aversion, mental accounting and loss aversion. The study found that regret aversion and mental accounting expressively prejudiced investment decision process and women's financial literacy. (Tahira iram, 2021)

Renu Isidore R., and Christie P. Has discussed the Relationship between behavioural biases and income. The objective of this paper is to test the connection between the yearly income earned by the investors and eight behavioural biases revealed by the investors such as representativeness, gambler's fallacy, loss aversion, over confidence, mental accounting and anchoring. The association is resulting created on a feedback form survey showed on 436 minor equity investors be located in Chennai, India. The study found that annual income earned by the investors are non-normalized and normalized based on their performance. The investors having lesser annual income were highly likely to the bias when related to investors with yearly income. The investigation says overconfidence bias is the major bias while taking investment decisions. (Isidore R., 2019)

Fig 6: Traditional Finance vs Behavioral finance

Figure 6 Explanation: Traditional finance assumes that an investor is a rational person who can process all information unbiased. While behavioral finance draws from real-world experience stating that an investor has biases, it is irrational and his or her emotions do play a role in the kind of investments undertaken.

Jain J et all discussed a scale of development approach affecting investors decision making process in behavioral finance. In the competence market the rational investors will make a decision on investments which will be criticized based on behavioral finance. Extended research is conducted by many people regarding finance and mental accounting and awareness needs to be spread overall the world about behavioral finance and how people think in different situation in terms of money. The study found that some of the behavioural biases are reliable, comprehensive and valid scale of measuring helps investors in decision making process and keep their confidence in boost. (Jain J. W., 2021)

Vijaya A Tupe has discussed Investors investment decision biases impact on psychological biases. Investors will always make a rational decision based on psychological biases. She or he gather evidence about investment and while examining investment decision several psychological factors result on investor's investment decision. Though, investors personality and psychological biases will effect on investors investment decisions because Behavioural finance examine that the investors take a lot of time on investment decision while he or she subjective by psychological biases. The purpose of this paper is to assess the effectiveness of behavioural factors on investment decision through by investors in Aurangabad city India. (A, 2021)

CONCLUSION

Behavioral finance is the study of finance in terms of money. Future might be uncertain but how you look in terms of budgets, saving and expenditure is a very challenging task in these days. Savings and expenditures will affect our daily life situations. There are many factors which affects our savings and at the end of the month barely will not be having anything that remains with us. Men and women think differently in terms of investment decision. Men are impatience most of the times. They won't take expert advices because men are egoistic and they like to take things in earlier stage. Men invest in various investment avenues, which is available in stock market. Women are patience and they take expert advice and they like to take things slowly. They Go for more gain and invest in stable funds looking at the market pattern. Behavioral finance draws from real world experience stating that an investor has biased, it is irrational and his or her emotions do play a role in the kind of investment undertakings.

ACKNOWLEDGEMENTS

Authors thank Directorate of Research & Innovation (DORI), CMR University for training & support. The research is funded by CMRU Student Research & Innovation Fund.

REFERENCES

References

A, V. A. (2021). STUDY OF IMPACT OF PSYCHOLOGICAL BIASES ON INVESTOR'S INVESTMENT DECISION. *EPRA International Journal of Economic and Business Review-Peer Reviewed Journal, 9* (8), 2347 - 9671. doi:https://doi.org/10.36713/epra8324

Anu Antony. (2020). Behavioral finance and portfolio management: Review of theory and literature. *Journal of public affairs., 20*(2). doi:https://doi.org/10.1002/pa.1996

Baker, H. K. (2019). "How financial literacy and demographic variables relate to behavioral biases". *Managerial Finance, 45*, 124-146. doi:https://doi.org/10.1108/MF-01-2018-0003

Barberis, N. C. (2013). Thirty Years of Prospect Theory in Economics: A Review and Assessment. *Journal of economic perspective, 7*, 173-96. doi:DOI: 10.1257/jep.27.1.173

Beatrice, V. a. (2021). The effect of demographic factors on behavioral biases. Jurnal Siasat Bisnis,. *Jurnal siasat bisnis januari, 25*(1), 17-29. doi:http://doi.org/10.20885/jsb.vol25.iss1.art2

Drazen Prelec, G. L. (1998). The Red and the Black: Mental Accounting of Savings and Debt. *Marketing Science, 17*(1). doi:https://doi.org/10.1287/mksc.17.1.4

Goyal, P. G. (2021). Antecedents to heuristics: decoding the role of herding and prospect theory for Indian millennial investors. *Review of Behavioral Finance*. doi:https://doi.org/10.1108/RBF-04-2021-0073

Isidore R., R. a. (2019). "The relationship between the income and behavioural biases". *Journal of Economics, Finance and Administrative Science,, 24*(47), 127-144. doi:https://doi.org/10.1108/JEFAS-10-2018-0111

Jain, J. W. (2020). "Evaluation of behavioral biases affecting investment decision making of individual equity investors by fuzzy analytic hierarchy process". *Review of Behavioral Finance,, 12*(3), 297-314. doi:https://doi.org/10.1108/RBF-03-2019-0044

Jain, J. W. (2021). Behavioural biases affecting investors' decision-making process: a scale development approach". *Management Research Review,*. doi: https://doi.org/10.1108/MRR-02-2021-0139

Jusky Novianto, R. R. (2021). Investor's behavior and stock investment decision in batam city. *jurnal Akuntansi dan keuangan,, 18*(3). doi: http://dx.doi.org/10.29264/jakt.v18i3.10029

L Kengatharan, N. K. (2014). The Influence of Behavioral Factors in Making Investment Decisions and Performance: Study on Investors of Colombo Stock Exchange, Sri Lanka , Chong Ying Xiang. *Asian Journal of Finance & Accounting, 6*(1). doi:http://dx.doi.org/10.5296/ajfa.v6i1.4893

M.Prosadb, S. (2017). *Procedia Computer Science, 122*, 50-54. doi:https://doi.org/10.1016/j.procs.2017.11.340

Madaan, G. (2016). Behavioural Biases in Financial Decision-Making. *Behavioral & Experimental Finance eJournal*. doi:http://dx.doi.org/10.2139/ssrn.2759187

Olubunmi Edward Ogunlusi, O. O. (2019). The Impact of Behavioural Finance on Investment Decision-making: A Study of Selected Investment Banks in Nigeria. *22*(6). doi:https://doi.org/10.1177/0972150919851388

Özen, E. E. (2019). "The Impact of Financial Literacy on Cognitive Biases of Individual Investors". *Contemporary Issues in Behavioral Finance (Contemporary Studies in Economic and Financial Analysis, 101*, 77-95. doi:https://doi.org/10.1108/S1569-375920190000101007

Quaicoe, A. a.-A. (2021). "Behavioral factors affecting investment decision-making in bank stocks on the Ghana stock exchange". *Qualitative Research in Financial Markets,, 13*(4), 425-439. doi:https://doi.org/10.1108/QRFM-05-2020-0084

Rath, S., & Mousumi Singha Mahapatra, A. D. (2014). Behavioral factors and their influence on property investment decisions: a study of investors' perspective. *2nd International Conference on Business and Information Management (ICBIM),*. doi:10.1109/ICBIM.2014.6970952

Richard H. Thaler. (1999). Mental accounting matters. *Journal of behavioral decision making, 12*(3), 183-206. doi: https://doi.org/10.1002/(SICI)1099-0771(199909)12:3<183::AID-BDM318>3.0.CO;2-F

Shalini Kalra Sahi, A. P. (2013). An Exploratory Inquiry into the Psychological Biases in Financial Investment Behavior. *Journal of Behavioral Finance, 14*(2), 94-103. doi:https://doi.org/10.1080/15427560.2013.790387

Shiller, R. J. (2003). "From Efficient Markets Theory to Behavioral Finance ." Journal of Economic Perspectives,. *17 (1)*, 83-104. doi:10.1257/089533003321164967

Tahira iram, A. R. (2021). Is Awareness That Powerful? Women's Financial Literacy Support to Prospects Behaviour in Prudent Decision-making. *Journal indexing and metrics*. doi:https://doi.org/10.1177/0972150921996185

Thaler, R. (1985). Mental Accounting and Consumer Choice. *HomeMarketing Science, 4*. doi:https://doi.org/10.1287/mksc.4.3.199

Thaler, R. H. (1990). "Anomalies: Saving, Fungibility, and Mental Accounts." Journal of Economic Perspectives,. *4*(1), 193-205. doi:10.1257/jep.4.1.193

Zahera, S. a. (2018). *Qualitative Research in Financial Markets,, 10*(2), 210-251. doi:https://doi.org/10.1108/QRFM-04-2017-0028