International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Behavioural Biases among Government Employees in Kannur District

Vinni K[1], Dr. M. G. Kalidas[2]

[1]Research Scholar, Kannur University
[2]Associate Professor & Research Supervisor, Department of Commerce Govt. Brennen College, Thalassery

ABSTRACT

Decision theory is the source of behavioral finance, a relatively new and developing topic of study. Behavioral finance is a multidisciplinary field of study that blends psychology with finance. It looks into the problems that affect decision-making and explains why people, groups, and organizations are illogical. The goal of behavioral finance is to help people avoid the psychological pitfalls that arise while making decisions in the face of uncertainty. This study's primary goal is to investigate the behavioral factors that affect government employees' investment decisions in the Kannur district. The study aims to increase our understanding of how prejudices affect people's financial decisions. The study uses a quantitative methodology, gathering data from a sample of 76 government employees via a structured questionnaire. To analyze the data and evaluate the connections between behavioral biases and investment choices, descriptive statistics, correlation analyses, Anova, and reliability measures are employed. The results show that respondents frequently have behavioral biases, which have varied degrees of impact on their investment choices. The study advances knowledge of behavioral finance by offering actual data on how different biases affect the decision-making processes of individual investors. It emphasizes how crucial it is to identify and lessen these biases in order to encourage more knowledgeable and sensible investing choices. The results have significance for policymakers, financial advisors, and individual investors who are creating methods to improve overall financial well-being and investing decision-making.

Keywords: investment decision, risk perception, herding bias, home bias, overconfidence, and behavioral finance.

INTRODUCTION

Toma, F. M. (2015), "Investing in financial markets from a normative point of view has been studied extensively over the past decades, with numerous theories being elaborated regarding financial return, financial risk, and both of the prior taken together in the practice of investing." The majority of the theoretical frameworks that have been put forth in the literature are predicated on the primary criterion of individual rationality, the investor behaves as though he is maximizing a specific expected utility (in the financial sense, he is maximizing his welfare). Von Neumann and Morgenstern first addressed this idea in 1947. Modern portfolio theory was founded on a mathematical framework for investment allocation in financial markets that Markowitz proposed in 1952. Because it gives investors a way to simulate the distribution of assets in a portfolio with a specified desired return and chosen risk, it is a

fundamental component of contemporary financial theory. The CAPM model, created by Sharpe in 1964, can be used to simulate an asset's return given an investor's willingness to assume a specific amount of risk. Naturally, the rationality indicated above is linked to both of these significant theories as well as other significant research in the literature on financial markets. When combined, these rationalities form the foundation for the efficiency of financial markets, as established by Fama in 1970. which asserts that financial markets may make all information available to market players in a public manner, enabling them to make fully informed judgments about their trading positions. Nonetheless, human emotions and irrationality were able to contribute to changes in the financial markets; researchers began examining these aspects from a psychological perspective in the 1970s. Prospect theory, created by Kahneman and Tversky in 1979, introduces the relatively new discipline of behavioral finance. The current study on investment biases is the result of a long history of research on financial markets, both from a traditional and a behavioral perspective. As was already established, the discipline of behavioral finance captures investor irrationality and prejudices. These cognitive errors result from investors' incapacity to predict market movements for the upcoming periods, which leads them to make biased choices. Naturally, these can be both detrimental to their well-being and advantageous.

Bashir, T., Rasheed, S., et al. (2013), people must make a range of choices in their daily lives, no matter how big or small. While some judgments are simple and seem obvious, others are complicated and need for a multi-step process. This study assesses the presence and degree of behavioral biases that investors must deal with when making decisions. A pattern of fluctuation in judgment that happens in specific circumstances is known as behavioral bias, and it can occasionally result in perceptual alteration, incorrect judgment, illogical interpretation, or what is commonly referred to as irrationality. The mental or cognitive process that leads to the choice of a course of action among multiple possible scenarios is known as decision making. A final decision is made at the conclusion of every decision-making process. The ultimate product or outcome can be classified as an action or a preferred view.

Marchand (2012), behavioral finance is the area of finance that examines how psychological abnormalities in financial decisions affect markets. In behavioral finance, models are frequently created to explain market oddities or investor behavior when rational models fail to provide adequate explanations. Because it applies studies on human and social cognitive and emotional biases, it aids in understanding economic decisions and how they impact market prices, returns, and resource allocation. Behavioral finance looks for the cause of people's emotional investment decisions and forgetting the basics. The rationality of economic agents is its main concern. Numerous psychological biases that influence investors' actions and choices have been well investigated.

EVOLUTION OF BEHAVIOURAL FINANCE

Behavioral finance is helpful in accurately forecasting the market, identifying stock values that are flexible, and comprehending the actions of other market participants. A new paradigm in finance theory called "behavioral finance" aims to comprehend and forecast the systematic financial market effects of psychological decision-making. Standard finance is not completely avoided by the new paradigm of behavioral finance. Instead, it adds to the conventional theory of finance. It also states that the current paradigm may be accurate under specific conditions. The traditional finance model is enhanced to account for the current realities of today's changing markets with the aid of behavioral finance. Behavioral finance uses both economic and psychological concepts to help people make better financial decisions. Shefrin wrote "Beyond Greed and Fear," a book about behavioral finance and EMH. This

book examines the many investor behavioral biases. The main idea of his research is that individuals are "imperfect processors" of information; they are typically biased, make mistakes, and have issues with perception. As of right now, behavioral finance lacks a cohesive theory. Shefrin and Statman pinpoint the ways in which human choices influence the behavior of the financial markets. Standard finance proponents contended that "Behavioral finance" prioritizes individual decision-making over fundamental factors. However, it has now admitted that individual decision-making has a big impact on changes in market prices.

LITERATURE REVIEW

Sathya, N., and Gayathiri, R. (2024), behavioral biases in investing choices originate from the nexus of finance, behavioral economics, and cognitive psychology. Conventional theories of finance, which rely on rational choice models, presuppose that people make deliberate, impartial, and self-serving decisions. However, scientific studies have repeatedly shown that human decision-making frequently deviates from rationality due to psychological and emotional influences.

Bailey, W., Kumar, A. et al. (2011), behaviorally biased investors usually make bad choices regarding fund type and expenses, trading frequency, and timing, which leads to subpar performance. Moreover, it seems that trend-chasing is more closely associated with behavioral biases than with logically deriving managerial skill from historical performance.

Behavioral bias in the decision-making process, Chira, I., Adams, M. et al. (2008). The psychological phenomena of bias and its existence in human decision-making, both financial and non-financial, will expand the standards of rationality presupposed in traditional financial theory and shed further light on the issue of investor irrationality. Four distinct behavioral biases have been used as a framework in this study to examine how they affect individual investment decisions. This paradigm appears to indicate a desire to investigate different behavioral biases via the perspective of behavioral finance.

The following are behavioral biases:

Over confidence: Overconfidence bias is the tendency to overestimate one's expertise, skills, and ability to forecast market movements. Inflated confidence frequently leads to overtrading, undervaluing risk, and excessive exposure to risky assets. According to Baker, H. K., & Ricciardi, V. (2014), investors frequently act overconfidently, which might have dire repercussions. They could exhibit overconfidence in the caliber of their knowledge and their capacity to act upon it.

Home bias: Goyal, S. K. N. (2015), investment barriers, transaction costs, and other asymmetric information cause investors to invest in domestic assets rather than overseas ones. Therefore, home bias affects investment decision-making as well.

Risk perception: Ainia, N. S. N. et al. (2019), risk perception is a method by which an individual interprets hazards that differ from estimations, ideas, and actuality. Cognitive bias includes the risk perception.

Herding bias: According to Kumari, A. K. (2017), some investors base their choices on the knowledge and decision-making processes of others. Instead of gathering personal data regarding investing options, they rely on public information.

Gurung, R., Dahal, R. K., et al. (2024) looked into how behavioral biases affected the choices made by Nepalese investors, or the general public who actively trade on the country's stock market. Overconfidence, anchoring, and regret aversion biases were found to have a significant influence on Nepalese investors' investing decisions. However, herding behavior and investment choices did not

appear to be correlated, and representational bias had a negligible impact. Using investment choices as the response variable and overconfidence, representative, anchoring, regret aversion, and herding biases as explanatory variables.

Jain, R., Jain, P., et al. (2015), a combination of behavioral biases, primarily the disposition effect, mental accounting, investors' overconfidence, representativeness, narrow framing, aversion to ambiguity, anchoring, availability bias, and regret aversion, influence each individual investor's investment decision. Individual investors frequently make illogical financial decisions as a result of these biases or a combination of them. As a result, the overall long-term returns for individual investors are low.

STATEMENT OF THE PROBLEM

Traditional financial theories, which are predicated on the idea of rationality, are far from reality and are unable to accurately and efficiently forecast an investor's financial behavior. According to the thesis, the investor is devoid of all emotional and cognitive biases and is unaffected by feelings. However, since behavioral biases, financial literacy, and an investor's emotional intelligence affect financial decision-making, the rationality theory is no longer valid in the current environment. People have recently been drawn to the financial markets, yet the complexity of financial decision-making has grown due to the markets' overabundance of goods and services. Making financial decisions is a difficult process that is frequently impacted by a person's prejudices and emotions. Investors who lack financial literacy are more likely to make poor financial judgments. It is therefore crucial to comprehend the investor's psyche. Investors' poor financial judgments are the result of emotional or mental shortcuts, and they should be corrected to prevent disastrous outcomes. To prevent making snap judgments, investors should be conscious of their prejudices and possess greater financial literacy and emotional intelligence.

SIGNIFICANCE OF THE STUDY

This study aims to analyze behavioral biases by examining behavioral financial aspects and how they affect individual investors' investing decisions. The results of this study will aid in raising individual investors' knowledge of the behavioral biases they need to consider while making investing decisions. It will enable investment managers create suitable plans that will lessen the detrimental effects of such impacts. In order to effectively instruct investors on how to take advantage of the biases, stockbrokers and mutual fund companies would be able to recognize the behavioral biases that primarily affect investor preferences and investing decisions. By enhancing the current literature in the field of finance, the study will add to the body of general knowledge.

SCOPE OF THE STUDY

The study's focus is restricted to the behavioral biases of investors in Kannur district when making investment decisions. Both primary and secondary data sources served as the study's foundation.

OBJECTIVE OF THE STUDY

The study's main goal is to ascertain how behavioral biases affect government employees' investment choices, with a focus on Kannur district. Its specific objectives are,

1. To analyse the overconfidence bias and investment decision making among government employees in Kannur

2. To analyse the herding bias and investment decision making among government employees in Kannur.
3. To analyse the home bias and investment decision making among government employees in Kannur.
4. To analyse the risk perception and investment decision making among government employees in Kannur.

HYPOTHESIS OF THE STUDY

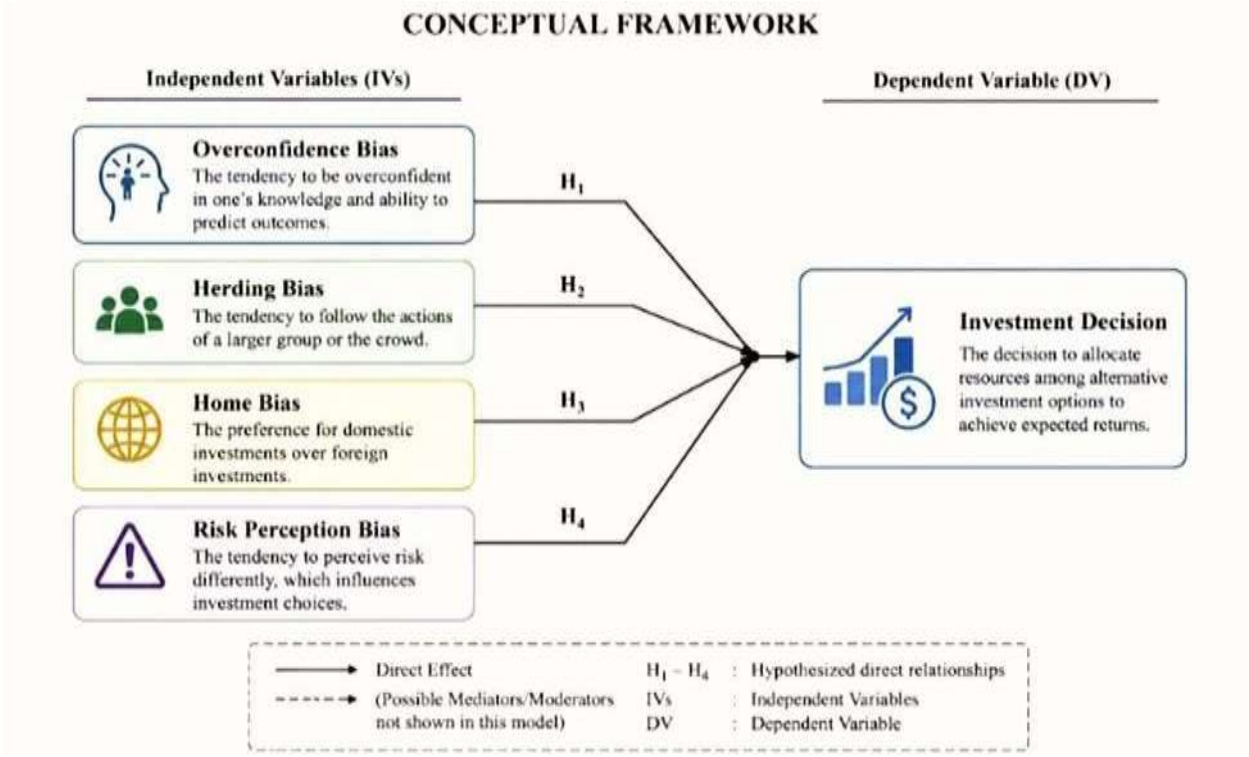
H1: there is a significant relationship between overconfidence and investment decision making among government employees in the Kannur.

H2: there is a significant relationship between herding bias and investment decision making among government employees in Kannur.

H3: there is a significant relationship between home bias and investment decision making among government employees in Kannur.

H4: there is a significant relationship between risk perception and investment decision making among government employees in Kannur.

RESEARCH METHODOLOGY



RESEARCH METHODOLOGY

Research design

This study uses a descriptive and analytical research approach to investigate how behavioral biases affect government personnel in the Kannur area when making investment decisions. A pre-tested questionnaire was used to gather structured data from individual investors using a quantitative survey approach.

Population and Sampling

The Kannur district's government workers make up the target population. Participants with active investment portfolios were identified using a probability simple random sampling technique. A total of 76 respondents made up the sample size for the investigation.

Data collection Techniques

A systematic online survey was used to gather primary data, and it was disseminated through investment-related forums and Google Forms. To assess the existence of behavioral biases and their impact on investment behavior, the questionnaire included closed-ended Likert-scale items (5-point scale). Additionally, recorded were demographic details such age, gender, income, education, and prior investment experience.

DATA ANALYSIS AND INTERPRETATIONS

Anova, correlation, and descriptive statistics were used to examine the data gathered for this investigation.

CRONBACH ALPHA TEST FOR RELIABILITY

Reliability is a sound measuring test. It is employed to determine whether a measuring device yields a reliable and accurate result. The statements in this study's behavioral bias variables are measured using a five-point Likert scale, ranging from strongly disagree to strongly agree. One such reliability tool used in SPSS to assess measurement reliability is Cronbach alpha. If and only if the Cronbach alpha value is higher than 0.70, the tool is considered dependable.

Table 1: Descriptive statistics

	Mean	Std. Deviation	N
Ocb total	33.1579	9.19863	76
Hdb total	26.1053	9.74280	76
Hmb total	24.4737	9.42829	76
Rp total	21.5263	8.37373	76
Idm total	27.0000	8.61626	76

(Source: spss output)

For a total of 76 respondents, Table 1 shows the mean and standard deviation for an investment choice of 27.00 and 8.61, respectively; the mean and standard deviation for the component overconfidence are 33.15 and 9.19, respectively. The mean values of the components risk perception, home bias, and herd behavior are 21.52, 24.47, and 26.10, respectively. The standard deviations for the elements of risk perception, home bias, and herd behavior were 8.37, 9.42, and 9.74, respectively.

CORRELATIONS

Table 2

Hypothesis: There is a significant relationship between behavioural biases and investment decision making.

		ocbtotal	hdbtotal	hbtotal	rptotal	Idmtotal
Ocbtotal	Pearson Correlation	1	.713**	.590**	.506**	.567**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	76	76	76	76	76
Hdbtotal	Pearson Correlation	.713**	1	.646**	.544**	.835**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	76	76	76	76	76
Hbtotal	Pearson Correlation	.590**	.646**	1	.695**	.698**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	76	76	76	76	76
Rptotal	Pearson Correlation	.506**	.544**	.695**	1	.496**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	76	76	76	76	76
Idmtotal	Pearson Correlation	.567**	.835**	.698**	.496**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	76	76	76	76	76

**. Correlation is significant at the 0.01 level (2-tailed).

(sourcr: spss output)

correlation table 2 reveals that Behavioral biases like overconfidence bias (ocb), herd behavior bias (hb), home bias (hmb), and risk perception bias (rpb) exhibit a strong positive correlation with investment decision making among government employees in Kannur district. All correlations are statistically significant at the 0.01 level, demonstrating their reliability. Investment decisions made by investors in the Kannur district are significantly correlated with behavioral biases.

Table 3 ANOVA

Anova for behavioural biases and investment decision making.

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4197.660	4	1049.415	54.372	.000[a]
	Residual	1370.340	71	19.301		

	Total	5568.000	75			
a. Predictors: (Constant), rptotal, ocbtotal, hdbtotal, hbtotal						
b. Dependent Variable: idmtotal						

The one-way Anova results, shown in Table 3, show that behavioral biases such as overconfidence bias, herd behavior bias, home bias, and risk perception bias have a substantial impact on investment decision making at p values < 0.05. hence there is a significant influence on the biases like overconfidence bias, home bias, herding bias and risk perception towards investment decision making among Government employees.

FINDINGS OF THE STUDY

Here is a potential conclusion for the topic "behavioural biases on investment decision-making of government employees" based on the examination of the given data and tables. The study looked into the frequency and effects of several behavioral biases on individual investors' decision-making processes. The results show that the respondents do exhibit behavioral biases to varied degrees, including herding bias, home bias, overconfidence, and risk perception and investment choice, have statistically significant relationships, according to the Anova and correlation studies.

SUGGESTION OF THE STUDY

Investment decisions may be influenced by behavioral biases, which could result in less-than-ideal outcomes. However, investors can overcome behavioral biases and make better financial judgments by comprehending their meaning and putting psychological methods into practice. Investors can steer clear of behavioral biases by adopting a long-term outlook, establishing specific investment goals, diversifying their holdings, making data-driven decisions, and engaging in mindfulness exercises.

LIMITATIONS OF THE STUDY

These are some of the limitations of this study.

The respondents were personally questioned in order to get as many answers as feasible. As a result, responses might be biased.

- It might not be able to draw conclusions about all investors because the respondents were chosen from intimate networks, which include friends, family, and their own social circles.
- The success of investments is determined on the impressions of investors. The subjective awareness of investors is utilized to assess it. However, it's possible that some investors are unaware of both their own projected return and the stock market average.
- Overconfidence, home bias, herding bias, and risk perception are the only four independent variables that have been taken into account during the entire study.
- Only descriptive analysis, correlation analysis, and Anova were employed in this investigation.\

CONCLUSION

The decision-making process of individual investors is significantly impacted by behavioral biases. This study has shed light on a number of biases, including herding behavior, overconfidence, home bias, and risk perception, that could lead to worse than ideal investing outcomes. By understanding these biases and their consequences, investors, regulators, and legislators can enhance the rationality of investment

decisions. The study found that people's investment decisions are significantly influenced by these four factors. The analysis and discussion in the current study raised a number of questions that need more investigation. Future research can be done to examine additional biases that were not covered in this study. Additionally, the effects of individual and institutional decisions can be examined. The ideas include implementing awareness-raising campaigns, consulting a financial advisor, using technology like robo-advisors to diversify a portfolio and lower risk, and routinely evaluating investment options.

REFERENCE

1. Ainia, N. S. N., & Lutfi, L. (2019). The influence of risk perception, risk tolerance, overconfidence, and loss aversion towards investment decision making. Journal of Economics, Business, & Accountancy Ventura, 21(3), 401–413.
2. Bailey, W., Kumar, A., & Ng, D. (2011). Behavioral biases of mutual fund investors. Journal of Financial Economics, 102(1), 1–27. https://doi.org/10.1016/j.jfineco.2011.05.002
3. Baker, H. K., & Ricciardi, V. (2014). How biases affect investor behaviour. The European Financial Review, 7–10.
4. Bashir, T., Rasheed, S., Raftar, S., Fatima, S., & Maqsood, S. (2013). Impact of behavioral biases on investor decision making: Male vs. female. Journal of Business and Management, 10(3), 60–68.
5. Charles, A., & Kasilingam, R. (2016). Impact of selected behavioural bias factors on investment decisions of equity investors. ICTACT Journal on Management Studies, 2(2), 297–311.
6. Chira, I., Adams, M., & Thornton, B. (2008). Behavioral bias within the decision-making process. (Complete publication details required.)
7. Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. The Journal of Finance, 25(2), 383–417. https://doi.org/10.2307/2325486
8. Goyal, S. K. N. (2015). Behavioural biases in investment decision making: A systematic literature review. Qualitative Research in Financial Markets. (Complete volume, issue, and pages required.)
9. Gurung, R., Dahal, R. K., Ghimire, B., & Koirala, N. (2024). Unraveling behavioral biases in decision making: A study of Nepalese investors. Investment Management & Financial Innovations, 21(1), 25–38.
10. Jain, R., Jain, P., & Jain, C. (2015). Behavioral biases in the decision making of individual investors. IUP Journal of Knowledge Management, 13(3).
11. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. Econometrica, 47(2), 263–291. https://doi.org/10.2307/1914185
12. Kumari, A. K. (2017). A study on impact of behavioral finance in investment decisions of small investors. International Journal of Management Research and Business Strategy, 6(1), 130–139.
13. Madaan, G. (2016). Behavioural biases in financial decision-making. SSRN. https://doi.org/10.2139/ssrn.2759187
14. Marchand, M. (2012). Behavioral biases in financial decision making (Bachelor's thesis).
15. Neumann, J. von, & Morgenstern, O. (1947). Theory of games and economic behavior (2nd ed.). Princeton University Press.
16. Sathya, N., & Gayathiri, R. (2024). Behavioral biases in investment decisions: An extensive literature review and pathways for future research. Journal of Information and Organizational Sciences, 48(1), 117–131.

17. Seth, V., & Kumar, S. (2020). A study of effect of behavioural biases on investment decisions. The Management Quest, 3(1), 21–50.
18. Sharpe, W. F. (1964). Capital asset prices: A theory of market equilibrium under conditions of risk. The Journal of Finance, 19(3), 425–442. https://doi.org/10.1111/j.1540-6261.1964.tb02865.x
19. Shefrin, H. (2002). Beyond greed and fear: Understanding behavioral finance and the psychology of investing. Oxford University Press.
20. Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long: Theory and evidence. The Journal of Finance, 40(3), 777–790. https://doi.org/10.1111/j.1540-6261.1985.tb05002.x
21. Toma, F. M. (2015). Behavioral biases of the investment decisions of Romanian investors on the Bucharest Stock Exchange. Procedia Economics and Finance, 32, 200–207. https://doi.org/10.1016/S2212-5671(15)01385-0