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Abstract

With increasing eviden a unified methodology capable of quantifying the various, sometimes conflicting, effects suggested by behavioral finance. A paradigm for quantifying these effects is presented in this article. The authors review recent studies of large-scale New York Stock Exchange (NYSE) data modeling the daily price change and formulate an augmented version of the methodology in which the impact of and over- or underreaction to news announcements are considered. Variables that are more difficult to consider, such as the “affect heuristic,” are also considered within the context of this theory.

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