

Does Overconfidence Affect Corporate Investment? CEO Overconfidence Measures Revisited

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Abstract

This article presents the growing research area of Behavioural Corporate Finance in the context of one specific example: distortions in corporate investment due to CEO overconfidence. We first review the relevant psychology and experimental evidence on overconfidence. We then summarise the results of Malmendier and Tate (2005a) on the impact of overconfidence on corporate investment. We present supplementary evidence on the relationship between CEOs' press portrayals and overconfident investment decisions. This alternative approach to measuring overconfidence, developed in Malmendier and Tate (2005b), relies on the perception of outsiders rather than the CEO's own actions. The robustness of the results across such diverse proxies jointly corroborates previous findings and suggests new avenues to measuring executive overconfidence.

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