



Social learning and herding

Rational herding in financial economics

[Andrea Devenow](#) , [Ivo Welch](#) * 

[Show more](#) 

 Share  Cite

[https://doi.org/10.1016/0014-2921\(95\)00073-9](https://doi.org/10.1016/0014-2921(95)00073-9) 

[Get rights and content](#) 

Abstract

This paper briefly describes recent papers on the economics of rational herding in financial markets. Some models can predict perfect herding, in which rational agents all act alike without any countervailing force. Such herding typically arises either from direct payoff externalities (negative externalities in bank runs; positive externalities in the generation of trading liquidity or in information acquisition), principal-agent problems (based on managerial desire to protect or signal reputation), or informational learning (cascades). The paper also provides a few pointers to related literature and suggests issues to be addressed in future research.

References (66)

R.Glen Donaldson

[Sources of panics: Evidence from the weekly data](#)

Journal of Monetary Economics (1992)

Gary Gorton

[Bank suspension of convertibility](#)

Journal of Monetary Economics (1985)

S. Park

[Bank failure contagion in historical perspective](#)

Journal of Monetary Economics (1991)

Robert J. Shiller *et al.*

[Survey evidence on diffusion of interest and information among investors](#)

Journal of Economic Behavior (1989)

Douglas G. Waldo

Bank runs, the deposit currency ratio and the interest rate

Journal of Monetary Economics (1985)

Anat R. Admati *et al.*

A theory of intraday patterns: Volume and price variability

Review of Financial Studies (1988)

Christopher Avery *et al.*

Multi-dimensional uncertainty and herd behavior in financial markets

Sushil Bikhchandani *et al.*

A theory of fads, fashion, custom, and cultural change as informational cascades

Journal of Political Economy (1992)

Michael J. Brennan

Latent assets

The Journal of Finance (1990)

Michael J. Brennan

Agency and Asset Pricing



View more references

Cited by (682)

Priority individual identification for vaccination promotion through evolutionary game of mixed populations[Formula presented]

2023, Expert Systems with Applications

Show abstract

Stochastic resonance in the recovery of signal from agent price expectations

2023, Chaos, Solitons and Fractals

Show abstract

Rule improvements and irrational characteristics of herd behaviour–The effects of SMT policy

2023, Finance Research Letters

Show abstract

Herding behavior and systemic risk in global stock markets

2023, Journal of Empirical Finance

Show abstract

[A model for herd behaviour based on a spatial public goods game](#)

2023, Physica A: Statistical Mechanics and its Applications

[Show abstract](#) 

[Animal Behavior in Capital markets: Herding formation dynamics, trading volume, and the role of COVID-19 pandemic](#)

2023, North American Journal of Economics and Finance

[Show abstract](#) 



[View all citing articles on Scopus](#) 

Recommended articles (6)

Research article

[What drives herding in oil-rich, developing stock markets? Relative roles of own volatility and global factors](#)

The North American Journal of Economics and Finance, Volume 29, 2014, pp. 418-440

[Show abstract](#) 

Research article

[Herding behavior and contagion in the cryptocurrency market](#)

Journal of Behavioral and Experimental Finance, Volume 22, 2019, pp. 41-50

[Show abstract](#) 

Research article

[Testing for herding in the Athens Stock Exchange during the crisis period](#)

Finance Research Letters, Volume 18, 2016, pp. 334-341

[Show abstract](#) 

Research article

[Herding in frontier markets: Evidence from African stock exchanges](#)

Journal of International Financial Markets, Institutions and Money, Volume 47, 2017, pp. 152-175

[Show abstract](#) 

Research article

[COVID-19 effect on herding behaviour in European capital markets](#)

Finance Research Letters, Volume 38, 2021, Article 101787

[Show abstract](#) 

Herding in the cryptocurrency market: CSSD and CSAD approaches

Finance Research Letters, Volume 30, 2019, pp. 181-186

[Show abstract](#) 

* Tel: 44-171-262-5050; fax: 44-171-724-3317.

[View full text](#)

Copyright © 1996 Published by Elsevier B.V.



All content on this site: Copyright © 2023 Elsevier B.V., its licensors, and contributors. All rights are reserved, including those for text and data mining, AI training, and similar technologies. For all open access content, the Creative Commons licensing terms apply.

