Taylor & Francis
Online

Journal of Behavioral Finance ›
Volume 8, 2007 - Issue 2

1,018 Views | 62 CrossRef citations to date | 3 Altmetric

Original Articles

The Financial/Economic Dichotomy in Social Behavioral Dynamics: The Socionomic Perspective

Robert R. Prechter Jr. & Wayne D. Parker

Pages 84-108 | Published online: 05 Dec 2007

Cite this article https://doi.org/10.1080/15427560701381028

Sample our
Economics, Finance,
Business & Industry Journals
>> Sign in here to start your access
to the latest two volumes for 14 days

Full Article | Figures & data | References | Citations | Metrics

Reprints & Permissions | Read this article | Share

Abstract

Neoclassical economics does not offer a useful model of finance, because economic and financial behavior have different motivational dynamics. The law of supply and demandoperates among rational valuers to produce equilibrium in the marketplace for utilitarian goods and services. The efficient market hypothesis (EMH) is a related model applied to financial markets. The socionomic theory of finance (STF) posits that contextual differences between economics and finance produce different behavior, so that in finance the law of supply and demand is irrelevant, and EMH is inappropriate. In finance, uncertainty about valuations by other homogeneous agents induces unconscious, non-rational herding, which follows endogenously regulated fluctuations in social mood, which in turn determine financial fluctuations. This dynamic produces non-mean-reverting dynamism in financial markets, not equilibrium.

Acknowledgments

The authors gratefully acknowledge the comments of Robin Hogarth, Marco Novarese, Terry Burnham, John Nofsinger, Laurence Chud, Philipp Otto, and Gordon Graham on an earlier draft. They also thank Valeri Safonov for his help in obtaining the Russian materials cited in the appendix, Vadim Pokhlebkin for translating them, and Deepak Goel for his help with our statistical analysis. This paper derives in part from Prechter [1999, pp. 393-395] and from Prechter's presentation to professors and graduate students at MIT's Lab for Financial Engineering on September 12, 2003. Some of this material was presented in substantially different form in Prechter [2004] and Prechter and Parker [2004]. This research was supported in part by a grant from the Socionomics Foundation.

Related Research Data

Cognitive-Emotional Interactions in the Brain
Source: Cognition & Emotion
The Influence of Affect on Investor Decision-Making
Source: Journal of Behavioral Finance
Stock Prices and Social Dynamics
Source: Brookings Papers on Economic Activity
Deciding Advantageously Before Knowing the Advantageous Strategy
Source: Science
Self-Selection and Analyst Coverage
Source: Journal of Accounting Research
Herding among security analysts
Source: Journal of Financial Economics
Understanding Real Business Cycles
Source: The Journal of Economic Perspectives
Nonergodic Economic Growth

Related research

People also read | Recommended articles | Cited by 62

Social Mood and Financial Economics

John R. Nofsinger
Journal of Behavioral Finance
Published online: 7 Jun 2010

Information for

Authors
R&D professionals
Editors
Librarians
Societies

Open access

Overview
Open journals
Open Select
Dove Medical Press
F1000Research

Opportunities

Reprints and e-prints
Advertising solutions
Accelerated publication
Corporate access solutions

Help and information

Help and contact
Newsroom
All journals
Books

Keep up to date

Register to receive personalised research and resources by email

Sign me up

Copyright © 2026 Informa UK Limited Privacy policy

Cookies Terms & conditions Accessibility

Taylor & Francis by informa

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG