

Journal of Behavioral Finance >

Volume 8, 2007 - [Issue 2](#)

996 | 59 | 3
Views | CrossRef citations to date | 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 Behavioral Sciences 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 demand operates 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](#)

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

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

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books