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

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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.

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