Financial Analysts Journal ›

Volume 54, 1998 - Issue 2

BEHAVIORAL FINANCE

Behavioral Finance and Its Implications for Stock-Price Volatility

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Pages 10-18 | Published online: 02 Jan 2019

Cite this article https://doi.org/10.2469/faj.v54.n2.2161

Abstract

An increasing number of academic and professional articles are being published about research on and potential applications of behavioral finance. This article offers a more complete picture of the origin, content, and rationale behind this emerging area of study than previously presented. In the process, the traditional dominance in finance of the economic concepts of subjective expected utility and rationality are discussed. In addition, the article argues that the newer theories of chaos and adaptive decision making, which have a place in behavioral finance, can help explain the puzzle of stock-price volatility.


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