

9th INTERNATIONAL CONFERENCE ON MANAGEMENT, ECONOMICS & FINANCE

25 - 27 April 2025 Madrid, Spain

The Psychological and Behavioral Dimensions of Financial Decision-Making: A Comprehensive Review

Sammed Agarkhed¹, Prajeet R Khante², Jessica Antony³, Harshvardhan⁴, Lata Verma⁵

Department of Computer Engineering, International Institute of Information Technology (I²IT), India

ABSTRACT

The field of behavioral finance integrates insights from psychology, sociology, and traditional economic theories to understand the complexities of investor behavior. This review synthesizes findings from three key studies examining the interplay of psychological biases, emotional responses, and social influences on investment decisions. The first study highlights the foundational principles of behavioral finance, focusing on cognitive biases like anchoring, herding, and loss aversion that disrupt rational decision-making. The second study explores the relationship between emotional well-being and investment behavior, emphasizing the role of ethics, demographics, and goal alignment in enhancing investor satisfaction. The third study investigates how digital platforms, particularly social media, amplify psychological factors such as Fear of Missing Out (FOMO), overconfidence, and herding behavior, particularly among Generation Z investors. Collectively, these studies underscore the profound impact of non-financial factors on decision-making processes, market dynamics, and investor outcomes. The review also outlines strategies for mitigating biases, promoting ethical investment practices, and fostering emotional well-being, providing a roadmap for more informed and balanced financial decision-making. These insights are critical for both individual investors and policymakers aiming to navigate the increasingly complex and digitized investment landscape.

Keywords: Behavioral Finance, Investment Decision-Making, Cognitive Biases, Emotional Well-Being, Social Media Influence, Fear of Missing Out (FOMO)