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The Role of Behavioural Biases in Indian Financial Markets: Insights from Real-Life Cases and Survey Data

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KEYWORDS

Behavioural finance, investor's buying behaviour, investor psychology, cognitive biases, overconfidence bias, herd behaviour, loss aversion, anchoring bias, Indian investors, financial decision-making.

ABSTRACT

Behavioural finance explores the intersection of psychology and economics to understand why investors often make irrational financial decisions. In the Indian context, cultural and socio-economic factors further shape investor's buying behaviour, influencing their decision-making processes. This study aims to identify key behavioural biases among Indian investors, analyse real-life cases where these biases have led to suboptimal financial outcomes, and provide recommendations to enhance decision-making.

Using a survey of 500 Indian investors across diverse demographics, this research examines prevalent biases such as overconfidence, herd behaviour, loss aversion, and anchoring. Findings reveal that a significant proportion of investors exhibit these biases, leading to decisions influenced by emotions rather than rational analysis. Case studies, including the Paytm IPO, demonetization, and the Harshad Mehta scam, illustrate how these biases manifest in real-life financial scenarios.

The study highlights the need for financial literacy initiatives and behavioural tools to help investors recognize and mitigate cognitive biases. By addressing these psychological tendencies, Indian investors can make more informed and rational financial choices. Future research could explore longitudinal trends in investor behaviour to assess the evolving impact of behavioural biases over time

1. INTRODUCTION

Behavioural finance is a multi-faceted domain that blends psychology with economics to explain the motives behind financial decision making. It is observed that many investors act irrationally. Unlike the normative approaches of economics, which presume that investors make decisions methodically by analysing every piece of information at their disposal to enhance their wealth, real world empirics reflect that investors constantly make emotionally driven, biased, and heuristically simplistic decisions devoid of any substantive financial reasoning.

In India, the socio- cultural paradigms compounded with level of knowledge available shape micro economic decisions. Historical factors like high inflation causes a huge degree of financial risk aversion, heavy dependence on informal investment advisors, high preference of gold and real estates as modes of investments rather than stocks and bonds alter

economic behaviour of individuals. In order to develop optimal policy frameworks focused on financial literacy for Indian investors, such behavioural norms need to be mapped out.

2. RESEARCH PROBLEM

Even though financial markets in India are expanding rapidly, a substantial portion of investors still exhibit behavioural biases that are detrimental to their investment choices. Many investors prefer to act on gut feelings rather than conduct proper reasoning in financial decision making, which tends to be affected by cognitive biases overconfidence, loss aversion, and herding behaviour. For example, investors may blindly buy assets because of the fear of missing out (FOMO) which creates asset bubbles, or sell assets in a panic during a market downturn. Furthermore, behavioural biases result in poor household financial planning, chronic under-allocation to equities, and an excessive focus on marketable non-productive assets.

In light of these issues, there is a great necessity to conduct research on the behavioural biases of Indian investors, and their impacts. Such research endeavours would help design and implement strategies that aim at mitigation of the negative impacts of these biases and improve the overall investment decision-making process, particularly through financial education and policy intervention.

3. LITERATURE REVIEW

Daniel Kahneman and Amos Tversky (1979) challenge traditional expected utility theory by introducing Prospect Theory, which better explains how individuals assess potential losses and gains. Key components include reference dependence, loss aversion, and probability weighting. **Amos Tversky and Daniel Kahneman (1992)** extend Prospect Theory by introducing Cumulative Prospect Theory (CPT), which uses cumulative decision weights and explains risk aversion for high-probability gains and risk-seeking for high-probability losses. **Nicholas C. Barberis (2013)** reviews the impact of Prospect Theory on economic research, highlighting its applications in finance, insurance, and behavioural economics.

Individuals create mental accounts to categorize money, influencing spending and investment decisions as found by **Richard H. Thaler (1999)**. **Amos Tversky and Daniel Kahneman (1974)** identify heuristics like representativeness, availability, and anchoring, which lead to systematic biases in decision-making under uncertainty. **Rakesh Kumar and Anil Kumar Sharma (2024)** found that investor decisions in India are significantly influenced by psychological biases such as gambler's fallacy, overconfidence, and loss aversion.

Kishan Vishwakarma (2024) explores how religious beliefs influence investment decisions in Varanasi, revealing a significant relationship between faith and investment preferences. **Anil Kumar and Sunil Kumar (2023)** examine how behavioural finance factors influence investment decisions through risk perception, highlighting the role of cognitive biases and emotions. **R. K. Sharma and Shashi K. Gupta (2020)** explored behavioural factors influencing gold investment in India, emphasizing cultural traditions and cognitive biases. **Ranganathan Mottur (2024)** examines investor preferences in India, finding that gold, real estate, and equities are favoured for different reasons, influenced by risk tolerance and financial goals. **M. Ganeshwari, V. Logapriya, and M. Dhanushri (2020)** investigate gold investment preferences in Coimbatore, revealing its cultural significance and perceived safety. **Dr. Sandeep Bansal (2015)** compares gold and real estate investments, highlighting their respective benefits and the importance of diversification. **R. K. Sharma and Shashi K. Gupta (2020)** examine investor awareness of real estate and gold investments, emphasizing the need for financial education.

S. K. Jain and V. Gupta (2018) explore how cultural influences shape investment behaviour in India, highlighting biases like herding and loss aversion. **Priyanka Srivastava and Manoj Kumar (2024)** examine psychological factors influencing Indian securities investors, emphasizing cognitive biases and emotional factors. **Anil Kumar (2022)** investigates cognitive biases among trained finance professionals in India, revealing the impact of overconfidence and anchoring on decision-making.

Priyanka Srivastava and Manoj Kumar (2023) explore the interplay between behavioural and traditional finance, suggesting the integration of behavioural insights with traditional models. **Jitesh Sanjay Bhanushali and Dr. M.R. Jhansi Rani (2024)** explore how behavioural finance influences investor decisions, emphasizing the importance of understanding cognitive biases and emotions. **Andrei Shleifer (2000)** argues that financial markets are not always efficient due to investor psychology and limits to arbitrage, leading to mis-pricings and market anomalies.

Hersh Shefrin and Meir Statman (1985) introduced the disposition effect in their paper "*The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence"*, where investors sell winning stocks too early and hold losing stocks too long due to loss aversion. **Brad Barber and Terrance Odean (2001)** in their study "*Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment"* found that men trade more frequently than women due to overconfidence, leading to lower net returns because of excessive trading costs.

Daniel Kahneman and Amos Tversky (1981) in "*The Framing of Decisions and the Psychology of Choice"* demonstrated that decision framing significantly impacts choices, even when objective outcomes remain identical, influencing investment behaviour. **Werner De Bondt and Richard Thaler (1985)** provide evidence that investors overreact to past trends, causing stock price reversals, where poorly performing stocks tend to outperform in the future, and vice versa.

Harrison Hong, Jeffrey D. Kubik, and Jeremy C. Stein (2004) in "*Social Interaction and Stock Market Participation"* showed that individuals who engage more in social interactions are more likely to invest in the stock market, highlighting the role of social influence in financial decisions. **Meir Statman (2017)** integrates behavioural insights into traditional finance models, discussing mental accounting, regret aversion, and investor sentiment, providing a comprehensive guide to behavioural finance.

4. RESEARCH OBJECTIVES

1. **Analysing the Psychological Biases of Indian Investors** – A large majority of investors fall prey to psychological traps that negatively impact their financial decision-making. Some may display overconfidence due to believing they know better than the rest of the market, while some others may suffer from anchoring bias and become overly reliant on previous figures. Another common practice bias is known as mental accounting, in which investors compartmentalize or separate their funds into different rigid categories. This study seeks to identify and analyse these behavioural phenomena that are routinely encountered when dealing with investment patterns in India.
2. **Understanding Practical Financial Behaviour** – There are countless instances of people letting their emotions or preconceived biases govern their participation in financial markets. These phenomena include optimistic stock market bubbles and miasmas of frantic panic fuelled by investors rushing to sell their securities during crises. People's beliefs and feelings, in relation to economic activity, do dictate the pattern of its course of action. This study intends to examine the amount of influence those biases have on decision-making through the process of looking at real-life instances of market crashes, changes, or bankruptcies that occurred because of individual shortcomings or financial damage.
3. **Equipping Investors with Knowledge for Better Financial Decision Making** – The identification of these biases is key, however, for making change to occur within financial contexts, greatest challenge is overcoming those biases. This research will look into changing policies, such as improvement of financial literacy, putting in place some form of protective regulation.

SIGNIFICANCE OF STUDY

This research is valuable to individual investors, financial advisors, policymakers, and even the regulatory authorities as they all have something to learn from it. Knowing behavioural biases will help investors avoid falling into the trap of irrational decision making and counteract it. Financial institutions can utilize these findings to offer products and advisory services that clients desperately need and wish to use by psychologically tailoring them.

Moreover, this study's outcomes can help policymakers design better campaigns or regulate the market to improve financial literacy and encourage rational investing. This research attempts to fill the gap between behavioural finance theory and actual finance decision making to create a better investment environment in India.

5. RESEARCH METHODOLOGY

Behavioural finance explores how psychological biases impact financial decision-making. Traditional financial theories assume that investors are rational, but real-world behaviour often contradicts this assumption. This study aims to identify key biases among Indian investors and examine how these biases influence financial choices.

1.1 Survey Design and Data Collection

This research utilized a structured survey approach to analyse behavioural biases among Indian investors. The survey aimed to identify key biases such as overconfidence, loss aversion, herd mentality, anchoring, confirmation bias, and FOMO (Fear of Missing Out), and assess their impact on investment decisions.

Sample: The survey was conducted on a sample of **500 Indian investors**, ensuring diversity in income levels, investment experience, and asset preferences.

Survey Tool: A **Likert-scale questionnaire** was designed to measure behavioural biases objectively. The questionnaire contained **16 questions,** structured to capture data on investor psychology, market decisions, and response tendencies.

Data Collection: The survey was **conducted online over two months** via Google Forms and distributed through finance-related WhatsApp groups, LinkedIn, and investor communities.

Analysis Techniques: The collected data was analysed using **Excel and SPSS** to identify statistical trends and correlations.

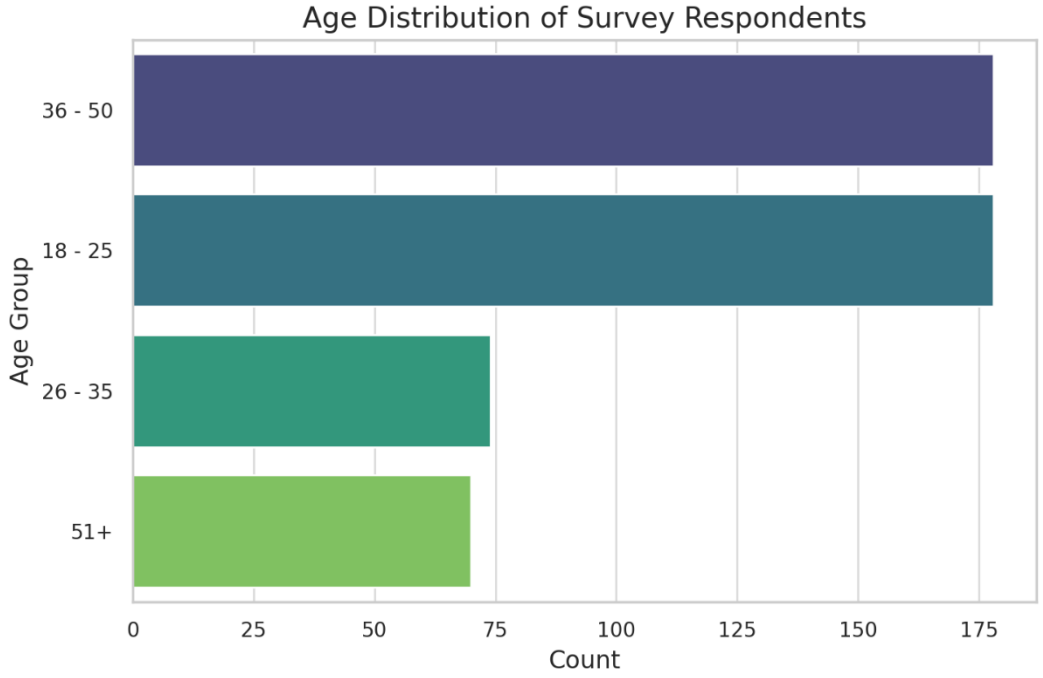
Limitations: The sample was skewed toward urban, tech-savvy investors, potentially limiting the generalizability to less digitally connected populations. This urban bias means that investor behaviour may not fully represent rural and semi-urban populations, where financial literacy levels, access to investment platforms, and risk preferences could differ significantly.

6. DATA FINDINGS AND INTERPRETATION

2.1 Sample Demographics

A) Age Distribution

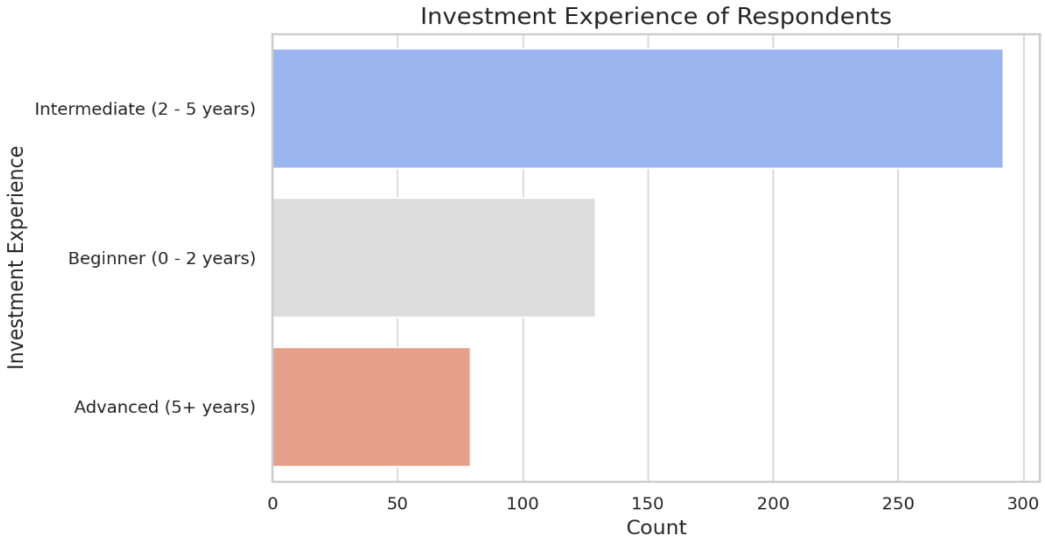
The age distribution shows a majority of respondents in the 18-25 and 36-50 age groups, indicating that working professionals are the primary participants in this survey.



(Graph 1: Age Distribution of Survey Respondents)

B) Investment Experience

Investment experience plays a crucial role in bias susceptibility. Intermediate (2-5 years of experience) form the largest group, followed by beginner and advanced investors.



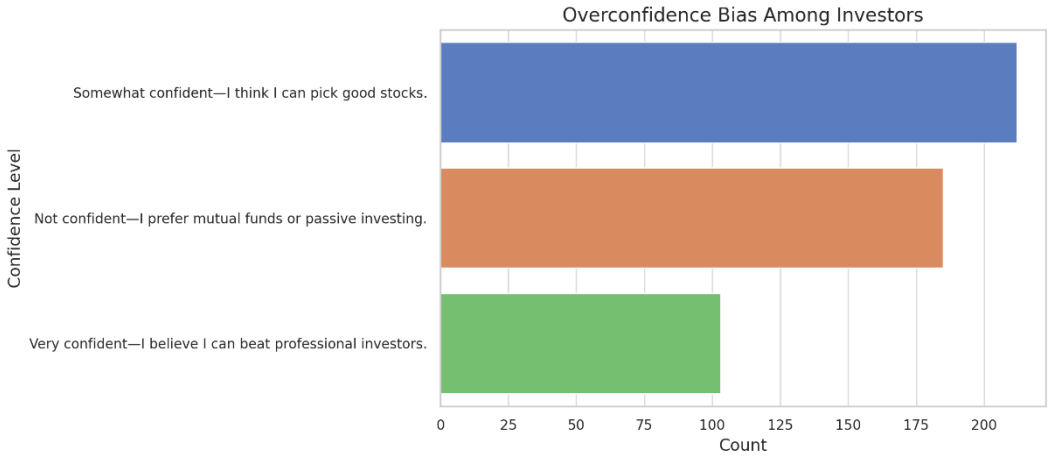
(Graph 2: Investment Experience of Survey Respondents)

2.2 Bias Analysis

A) Overconfidence Bias

Overconfidence is a major behavioural bias where investors overestimate their ability to predict market movements. In our

survey, 65% of respondents believe they can outperform the market, with beginners showing the highest overconfidence levels. This leads to excessive risk-taking and lack of diversification.

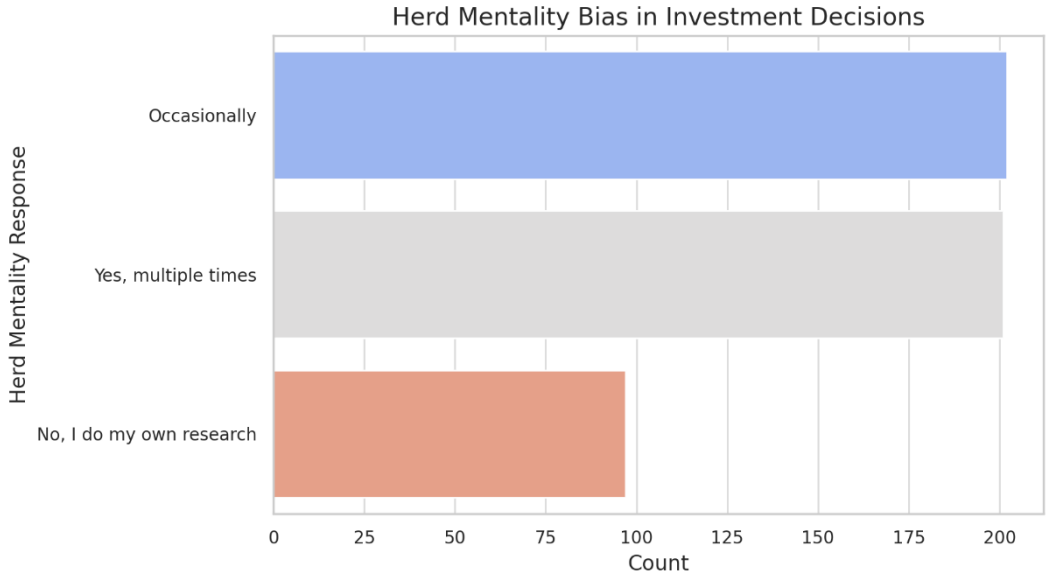


(Graph 3: Overconfidence Bias Among Investors)

Statistical Insight: An ANOVA test revealed a significant effect of investment experience on overconfidence bias (**$F = 12.75$, $p < 0.001$**). Beginners exhibited significantly higher overconfidence compared to advanced investors.

B) Herd Mentality Bias

Herd mentality occurs when investors follow the crowd instead of conducting independent research. Our survey shows that 70% of respondents invested based on peer influence.

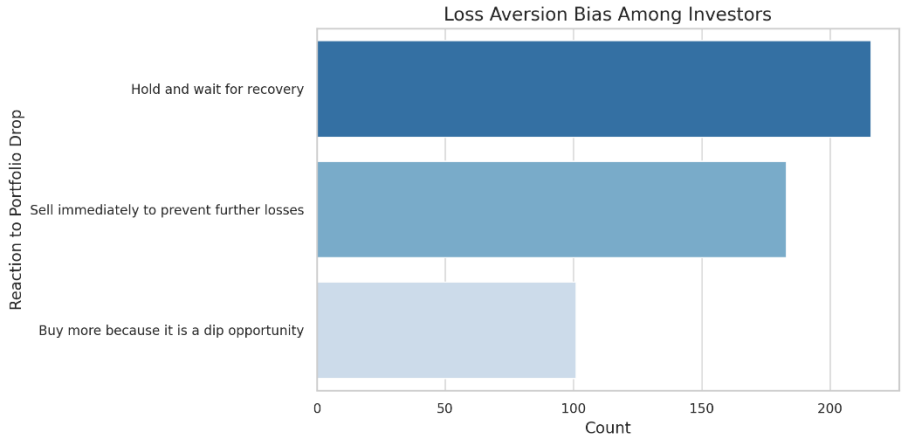


(Graph 4: Herd Mentality Bias in Investment Decisions)

Statistical Insight: A Chi-Square test (**$\chi^2 = 41.47$, $p < 0.001$**) confirmed a strong correlation between herd mentality and investment experience. Beginners were more susceptible to herd behaviour compared to advanced investors.

C) **Loss Aversion Bias**

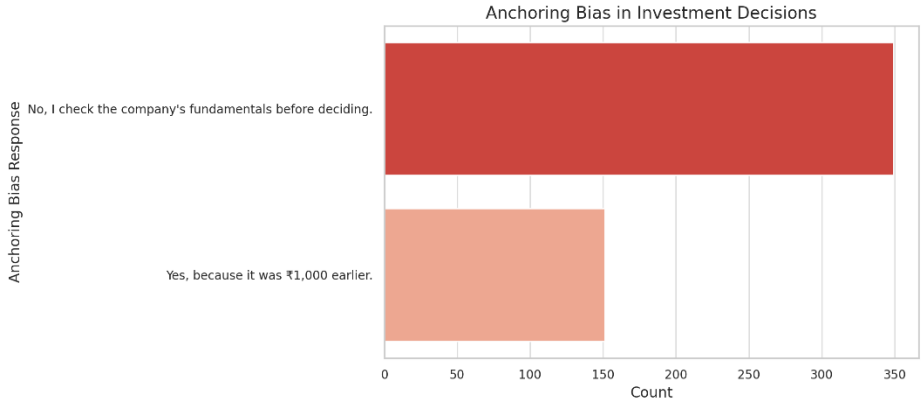
Loss aversion causes investors to focus more on avoiding losses than achieving gains. 80% of respondents preferred safer assets such as fixed deposits and gold.



(Graph 5: Loss Aversion Bias Among Investors)

D) <u>Anchoring Bias</u>

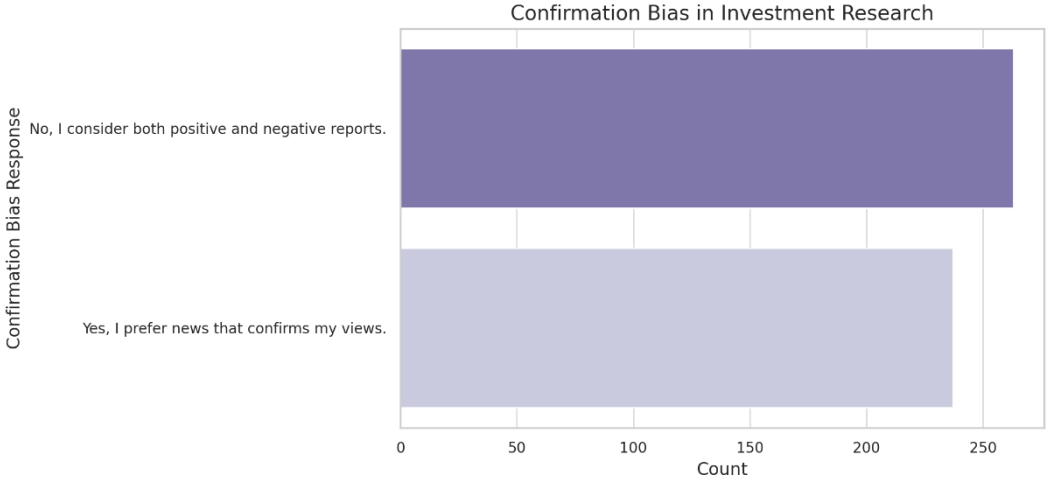
Anchoring bias causes investors to rely on past stock prices rather than current fundamentals. 30% of respondents admitted to using past prices to determine investment decisions.



(Graph 6: Accounting Bias in Investment Decisions)

E) <u>Confirmation Bias</u>

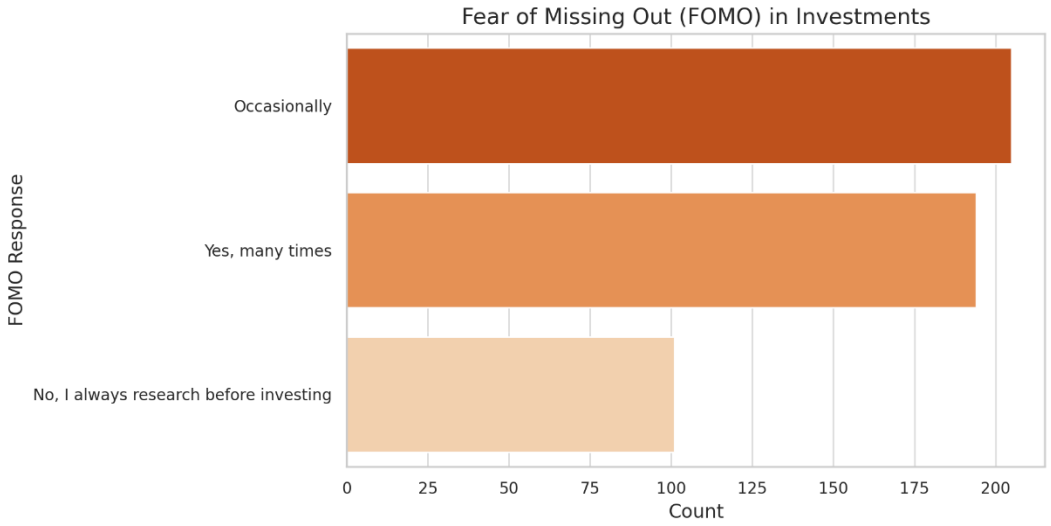
48% of investors admitted to seeking news that confirms their existing beliefs. This leads to poor decision-making and selective information processing.



(Graph 7: Confirmation Bias in Investment Research)

F) <u>Fear of Missing Out (FOMO)</u>

50% of respondents admitted to investing impulsively due to hype, particularly in younger demographics.



(Graph 8: FOMO in Investments)

2.3 Bias Interaction Analysis

While biases are often studied individually, they frequently interact in complex ways:

- Overconfidence & Herd Mentality: Overconfident investors may ignore market warnings, but when faced with uncertainty, they might still follow the crowd.
- Loss Aversion & Anchoring**:** Investors reluctant to take losses often anchor to past stock prices, leading to prolonged holding of poor investments.
- FOMO & Overconfidence**:** Impulsive FOMO-driven investors may also exhibit overconfidence, believing they can time the market correctly.

STATISTICAL ANALYSIS

Correlation Analysis: Herd Mentality vs. Overconfidence

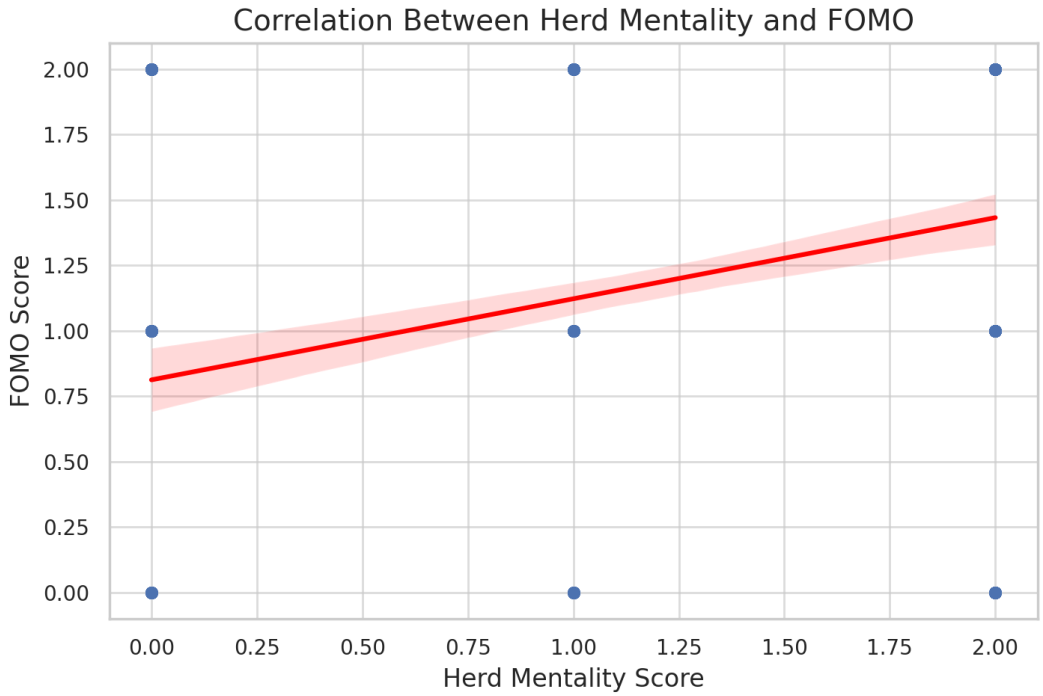
- **Correlation Value**: **-0.268** (moderate negative correlation)
- **Implication**: As overconfidence increases, herd mentality decreases. Investors who believe in their own analysis are less likely to follow the crowd.

Chi-Square Test: Herd Mentality vs. Investment Experience

- **χ^2 Value**: 41.47, **P-Value**: <0.001
- **Interpretation**: Statistically significant relationship between herd mentality and investment experience.

ANOVA Test: Overconfidence Bias by Experience Level

- **F-Statistic**: 12.75, **P-Value**: <0.001
- **Interpretation**: Experience level significantly affects overconfidence bias.



7. CONCLUSION

This study demonstrates that behavioural biases strongly influence Indian investors. Through real-world case studies and survey data, we observe that these biases lead to suboptimal decision-making. Overconfidence results in excessive risk-taking, herd mentality leads to speculative bubbles, and loss aversion prevents long-term wealth accumulation.

Recommendations

- **Financial Literacy Programs:** Educate investors on behavioural finance principles to mitigate biases.
- **Independent Research Culture:** Encourage investors to base decisions on financial reports, not social trends.
- **Portfolio Diversification Strategies:** Promote diversification to minimize the impact of loss aversion and anchoring bias.
- **Behavioural Coaching:** Provide professional coaching to help investors recognize and manage biases in real-time.

Future Research Directions

- Conducting longitudinal studies to track how investor biases evolve over time.
- Exploring AI-based tools that can detect and correct cognitive biases in real-time.
- Expanding research beyond urban investors to include rural and semi-urban investors for broader insights.

DETAILED REAL LIFE CASE STUDIES

Rationale for Selecting the Cases

The three cases chosen for this research—Zomato IPO (2021), Demonetization (2016), and Cryptocurrency Market Trends (2024–2025)—are pivotal events in the Indian financial landscape that provide rich insights into behavioural finance. Each case represents a unique scenario where psychological biases significantly influenced market behaviour, making them ideal for analysing trends in investor decision-making.

1. Zomato IPO (2021):

- Why Selected?

The Zomato IPO was one of the first major tech unicorn IPOs in India, marking a shift in investor sentiment toward high-growth, loss-making companies. The IPO was heavily influenced by behavioural biases such as herd behaviour and overconfidence, making it a compelling case to study retail investor participation and market trends in the context of behavioural finance.

- Key Insights:

- Retail investors' FOMO (Fear of Missing Out) drove oversubscription.
- Overconfidence led to inflated expectations about short-term gains.
- Post-listing volatility highlighted the risks of speculative investing.

2. Demonetization (2016):

- Why Selected?

Demonetization was a sudden and unprecedented policy change that disrupted the Indian economy. It triggered widespread behavioural biases such as loss aversion, herd behaviour, and anchoring bias, making it a unique case to study how psychological factors influence financial decision-making during periods of uncertainty.

- Key Insights:

- Herd behaviour led to a rush to deposit invalidated currency.
- Loss aversion drove individuals to convert cash into gold and real estate.
- Anchoring bias caused disruptions in cash-dependent sectors.

3. Cryptocurrency Market Trends (2024–2025):

- Why Selected?

The cryptocurrency market is highly volatile and driven by speculative trading. The period between 2024 and 2025 saw significant price fluctuations influenced by FOMO, overconfidence, and recency bias, making it an ideal case to analyse behavioural finance in a high-risk, high-reward market.

- Key Insights:

- FOMO drove retail investors to enter the market during the boom phase.
- Overconfidence led to excessive risk-taking and leverage.
- Recency bias caused investors to hold onto losing positions during the bust phase.

These cases collectively offer a comprehensive view of how behavioural biases influence market trends across different financial scenarios—equity markets, policy changes, and speculative assets.

Case Study 1: Zomato IPO (2021)

Background

Zomato's Initial Public Offering (IPO) in July 2021 was a watershed moment for the Indian stock market and the start-up ecosystem. As one of India's first major tech unicorns to go public, Zomato's IPO was seen as a litmus test for the viability of Indian start-ups in the public markets. Founded in 2008, Zomato had grown to become a leading food delivery platform in India, with operations in over 24 countries. By 2021, the company had established itself as a market leader in the food delivery space, competing with Swiggy and other regional players.

The IPO was part of Zomato's strategy to raise capital for growth, acquisitions, and strengthening its balance sheet. The company aimed to raise ₹9,375 crore (approximately $1.26 billion) through the IPO, making it one of the largest IPOs in India at the time. The issue price was set at ₹76 per share, valuing the company at approximately ₹64,365 crore ($8.6 billion). The IPO was a mix of a fresh issue of equity shares worth ₹9,000 crore and an offer for sale (OFS) of ₹375 crore by existing investors.

The IPO garnered massive attention from retail, institutional, and high-net-worth individual (HNI) investors, reflecting the growing appetite for tech-driven businesses in India. It also marked a shift in investor sentiment, as Zomato was a loss-making company at the time of its IPO, challenging traditional valuation metrics.

Behavioural Biases

The Zomato IPO was heavily influenced by behavioural biases, particularly herd behaviour and overconfidence among retail investors. These biases played a significant role in driving the IPO's subscription rates and post-listing performance.

1. **Herd Behaviour:** The IPO was surrounded by immense hype, fuelled by media coverage, social media discussions, and the fear of missing out (FOMO). Retail investors, many of whom were first-time participants in the stock market, rushed to subscribe to the IPO without fully understanding the company's fundamentals or valuation. The success of other tech IPOs globally (e.g., DoorDash, Uber) further fuelled the frenzy.
2. **Overconfidence:** Many retail investors were overly optimistic about Zomato's growth prospects, driven by its dominant position in the food delivery market and the broader trend of digital adoption during the COVID-19 pandemic. This overconfidence led to inflated expectations about the stock's post-listing performance, with many investors expecting quick gains.

Quantitative Data

The Zomato IPO was oversubscribed by 38.25 times, reflecting the high level of investor interest. The subscription rates across different investor categories are summarized below:

Investor Category	Shares Offered	Shares Bid For	Subscription Rate
Retail Investors	13.75 crore	102.5 crore	7.45 times
High-Net-Worth Individuals (HNIs)	6.87 crore	351.2 crore	51.12 times
Qualified Institutional Buyers (QIBs)	20.63 crore	1,068.3 crore	51.79 times
Total	**41.25 crore**	**1,577.0 crore**	**38.2 times**

(Table 1: Zomato IPO Subscription details)

1. Retail Investors: Retail participation was strong, with the category oversubscribed by 7.45 times. Over 1.5 million retail applications were received, highlighting the massive participation from individual investors.

2. HNIs: The HNI category was oversubscribed by 51.12 times, driven by the use of leverage (borrowed funds) to bid for shares.

3. QIBs: Institutional investors, including foreign portfolio investors (FPIs), mutual funds, and insurance companies, oversubscribed their portion by 51.79 times, reflecting strong institutional confidence in Zomato's growth story.

Listing Day Performance

1. Issue Price: ₹76 per share
2. Opening Price: ₹116 per share (52.6% premium)
3. Closing Price: ₹125 per share (64.5% premium)
4. Intraday High: ₹138 per share (81.6% premium)
5. Intraday Low: ₹112 per share (47.4% premium)

The stock listed at a significant premium, reflecting the strong demand from investors. The listing day performance was one of the best in recent years for an Indian IPO.

Post-Listing Performance

1. 1-Month Return: The stock traded at ₹138 per share, delivering an 81.6% return from the issue price.
2. 3-Month Return: The stock corrected to ₹120 per share, reflecting a 57.9% return.
3. 6-Month Return: The stock faced significant volatility, dropping to ₹85 per share (11.8% return).

The stock's performance was influenced by broader market trends, concerns about Zomato's path to profitability, and competition in the food delivery space.

Extra Information

- Retail investors accounted for approximately 35% of the total IPO allocation.

- Over 1.5 million retail applications were received, highlighting the massive participation from individual investors.

Qualitative Assessment

1. Investor Sentiments:

- FOMO (Fear of Missing Out): Many retail investors rushed to subscribe to the IPO due to the fear of missing out on potential gains. The IPO was widely discussed on social media platforms, with influencers and analysts fuelling the hype.

- Hype and Media Coverage: Media outlets extensively covered the IPO, often portraying it as an once-in-a-lifetime opportunity. This created a sense of urgency among investors.

2. Expert Opinions:

-Valuation Concerns: Some financial experts raised concerns about Zomato's valuation, arguing that the company's high price-to-sales ratio (P/S ratio) was not justified given its lack of profitability. At the time of the IPO, Zomato's P/S ratio was around 25x, significantly higher than global peers.

- Retail Investor Behaviour: Analysts noted that many retail investors were driven by emotions rather than rational analysis. The IPO's success was seen as a reflection of the growing retail participation in the Indian stock market, but also highlighted the risks of speculative investing.

Outcome

The Zomato IPO initially performed well, with the stock listing at a significant premium to the issue price. However, the stock faced volatility in the months following the listing. While it delivered strong returns in the short term, the stock corrected as market sentiment shifted and investors began to reassess the company's valuation.

- Short-Term Performance: The stock surged in the first month, driven by strong investor interest and positive market sentiment.

- Long-Term Volatility: The stock faced downward pressure due to concerns about Zomato's path to profitability, competition in the food delivery space, and broader market corrections.

Case Study 2: Demonetization (2016)

Background

On November 8, 2016, the Government of India announced the demonetization of ₹500 and ₹1,000 currency notes, invalidating 86% of the currency in circulation by value. This unprecedented move was aimed at curbing black money, counterfeit currency, and corruption, while promoting a cashless economy. However, the sudden announcement and its implementation had profound implications for public behaviour, decision-making, and financial markets, making it a rich case study for behavioural finance.

Behavioural Finance Insights

1. Herd Behaviour:

- Rush to Deposit Cash: The announcement of demonetization led to a massive rush to deposit or exchange invalidated currency. This herd behaviour was driven by the fear of losing wealth and the uncertainty surrounding the policy.

- Gold Purchases: The surge in gold imports immediately after demonetization is another example of herd behaviour. Individuals sought to convert unaccounted cash into gold, fearing that their wealth would be lost or scrutinized.

2. Loss Aversion:

- Hoarding of Cash: Many individuals, especially those with unaccounted wealth, exhibited loss aversion by trying to hoard cash or convert it into other assets like gold or real estate.

- Reluctance to Deposit Cash: Some individuals, particularly in rural areas, were reluctant to deposit their cash in banks due to mistrust of the banking system and fear of government scrutiny.

3. Anchoring Bias:

- Overvaluation of Cash: Before demonetization, cash was the primary medium of exchange for many transactions, especially in the informal sector. The sudden invalidation of high-denomination notes caused individuals to anchor their financial decisions on the availability of cash, leading to disruptions in daily transactions and economic activities.

4. Mental Accounting:

- Shift to Digital Payments: Demonetization forced individuals to rethink their mental accounting of cash and digital payments. Many people, who previously relied on cash for daily transactions, began to adopt digital payment platforms like Paytm, PhonePe, and UPI.

5. Overconfidence:

- Speculative Investments: Some individuals, particularly in urban areas, exhibited overconfidence by investing in assets like real estate and gold, believing that these investments would yield high returns in the post-demonetization period.

Quantitative Data

Metric	Value
Invalidated Currency Deposited	₹13.42 lakh crore (86.90%)
Gold Imports (Nov 2016)	100 tonnes (19.05% increase)

Real Estate Transactions	40% decline
Bank Deposits Increase	26% increase

(Table 2: Demonetization effect on various metrices)

Qualitative Assessment

1. Public Sentiment:

- Initial Chaos and Panic: The sudden announcement of demonetization caused widespread panic, with long queues outside banks and ATMs. Many citizens faced difficulties in accessing cash for daily needs.

- Impact on Informal Sector: The informal sector, which relies heavily on cash transactions, was severely impacted. Small businesses, daily wage labourers, and farmers faced significant challenges due to the cash crunch.

2. Shift to Digital Payments:

- Growth in Digital Transactions: Digital transactions increased by 55% in the months following demonetization.

Outcome

1. Short-Term Disruption: Demonetization caused significant short-term disruption to the economy, with GDP growth slowing to 6.1% in the fourth quarter of FY2016–17, down from 7.9% in the previous quarter.

2. Long-Term Impact: While demonetization achieved some of its objectives, such as increasing tax compliance and promoting digital payments, its effectiveness in curbing black money remains debated. The RBI reported that 99.3% of the demonetized currency was deposited back into banks, raising questions about the extent of black money eliminated.

Case Study 3: Cryptocurrency Market Trends (2024–2025)

Background

The cryptocurrency market, particularly Bitcoin, experienced significant volatility between 2024 and 2025, driven by a combination of macroeconomic factors, regulatory developments, and speculative trading. This analysis focuses on the behavioural finance aspects of these market trends, highlighting how psychological biases influenced investor decision-making during this period.

Behavioural Finance Insights

1. Herd Behaviour:

- FOMO (Fear of Missing Out): The surge in Bitcoin prices in early 2024, reaching a new all-time high (ATH) of $71,482 on March 13, 2024, triggered a wave of FOMO among retail investors.

- Panic Selling: The subsequent price correction in mid-2024 led to panic selling, as investors rushed to exit their positions to avoid further losses.

2. Overconfidence:

- Speculative Trading: Many retail investors exhibited overconfidence, believing they could time the market and achieve quick profits.

- Leverage and Risk-Taking: The use of leverage increased during the boom phase, with investors underestimating the risks involved.

3. Anchoring Bias:

- Price Anchoring: Investors often anchored their expectations to the new ATH prices of Bitcoin, leading to unrealistic expectations about future returns.

4. Loss Aversion:

- Holding onto Losing Positions: Many investors held onto their losing positions during the correction phase, driven by loss aversion.

5. Recency Bias:

- Focus on Recent Performance: Investors placed undue weight on the recent performance of Bitcoin, assuming that the upward trend would continue indefinitely.

Quantitative Data

Metric	**Value**

Bitcoin ATH (March 2024)	$71,482
Bitcoin ATH (Nov 2024)	$103,804
Bitcoin ATH (Jan 2025)	$109,079
Trading Volumes (Boom Phase)	$20 billion/month
Trading Volumes (Bust Phase)	$8–10 billion/month
Retail Investor Participation	80–90% of trading

(Table 3: Cryptocurrency ATH Data)

Qualitative Assessment

1. Investor Sentiments:

- Boom Phase: The boom phase was characterized by euphoria and optimism, with many investors viewing cryptocurrencies as a "get-rich-quick" opportunity.

- Bust Phase: The bust phase led to fear and panic, with investors facing significant losses and questioning the viability of cryptocurrencies.

2. Regulatory Developments:

- Government and RBI Stance: The Indian government and the Reserve Bank of India (RBI) continued to express concerns about the risks associated with cryptocurrencies, including volatility, fraud, and money laundering.

Outcome

1. Boom Phase: The boom phase saw significant wealth creation for early investors, with cryptocurrencies becoming a mainstream investment option.
2. Bust Phase: The bust phase led to substantial losses for many retail investors, highlighting the risks of speculative trading and the importance of understanding market dynamics.

8. CONCLUSION

The study on the role of behavioural biases in Indian financial markets provides critical insights into how psychological factors influence investor decision-making. Through a combination of survey data and real-life case studies, this research highlights the pervasive impact of biases such as overconfidence, herd behaviour, loss aversion, anchoring, and FOMO (Fear of Missing Out) on financial outcomes. These biases often lead to irrational investment decisions, resulting in suboptimal financial performance and market inefficiencies.

The survey of 500 Indian investors revealed that a significant proportion of participants exhibited these biases, with beginners being particularly susceptible to overconfidence and herd mentality. Advanced investors, while less prone to these biases, were not entirely immune, indicating that behavioural biases are deeply ingrained and require conscious effort to mitigate. The statistical analysis further reinforced these findings, showing strong correlations between biases like overconfidence and herd behaviour, and their impact on investment decisions.

The real-life case studies of the Zomato IPO (2021), Demonetization (2016), and Cryptocurrency Market Trends (2024–2025) provided concrete examples of how behavioural biases manifest in different financial contexts. The Zomato IPO demonstrated how FOMO and overconfidence drove retail investors to participate heavily in a high-risk, high-reward market, often without a clear understanding of the underlying fundamentals. Demonetization highlighted how loss aversion and herd behaviour influenced public reactions, leading to a rush to deposit cash and a surge in gold purchases. The cryptocurrency market trends illustrated the speculative nature of retail investors, driven by FOMO and overconfidence during the boom phase, followed by panic selling during the bust phase.

These findings underscore the importance of financial literacy and behavioural awareness in improving investment decision-making. By educating investors about the psychological traps they may fall into, financial institutions and policymakers can help mitigate the negative impact of these biases. Recommendations such as promoting financial literacy programs, encouraging independent research, and fostering a culture of diversification can empower investors to make more rational and informed decisions.

Furthermore, this study highlights the need for regulatory frameworks and policy interventions that address behavioural biases. For instance, implementing safeguards against speculative trading, enhancing transparency in financial markets, and providing behavioural coaching to investors can contribute to a more stable and efficient financial ecosystem.

In conclusion, this research bridges the gap between behavioural finance theory and practical financial decision-making in the Indian context. By understanding and addressing the psychological factors that drive investor behaviour, stakeholders can create a more resilient and informed investment environment. Future research should focus on longitudinal studies to track the evolution of these biases over time and explore the role of technology, such as AI-based tools, in detecting and correcting cognitive biases in real-time. Ultimately, fostering a deeper understanding of behavioural finance will not only benefit individual investors but also contribute to the overall stability and growth of India's financial markets

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