

"Shortlisted investments – How heuristics affect investment decisions?"

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Project description:

Traditional finance theory assumes individuals make optimal decisions based on all available information.

Psychologists and behavioral economists have recently established a strong case for more constrained decision-making. An individual cannot simultaneously handle all options, but rather uses a procedure to eliminate alternatives and construct a shortlist, and then makes a decision from the shortlist.

This research project studies investment shortlisting. By using individual-level data on investment decisions and stock returns, researchers are able to study how family, peers, media, and clarity of information influence the composition of investment shortlists. These channels are not yet well understood. In contrast, our preliminary results suggest that social interaction, media, and presenting information in an understandable format are key contributors to portfolio choice through shortlisting.

The project also aims to help individuals making better investment decisions once they have a shortlist of potential investments.

The research results help to understand and mitigate the sources of wealth inequality in the society.

Operating costs of research databases will be funded from the project. The research databases cater for the needs for hundreds of students and dozens of faculty members within and outside of the Department of Finance.