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DEEPAK GUPTA

University School of Management Studies, Guru Gobind Singh Indraprastha University, India

EFFECT OF SELECT COGNITIVE BIASES ON FINANCIAL AND GENERAL DECISION MAKING

Abstract:

People, everyday are inundated with making decisions whether they are big or small. Cognitive psychology plays a major role in how people make their choices. Cognitive bias is known to have an effect on decision making. These biases are based on memory which create a systematic deviation in thinking and processing information. This paper aims to identify the effect of select cognitive biases i.e., Overconfidence bias, Endowment bias, Ambiguity Aversion bias and Recency bias on General Decision Making of a person as well as Financial Decision Making. The study also explores the differences and similarities in cognitive biases working during general decision making and financial decision making. For this, a self-administered questionnaire was used to collect data from 416 people and analysis and conclusions were drawn based on it.

Keywords:

Over confidence bias, Endowment bias, Ambiguity Aversion bias, Recency bias, Decision making, Financial Decision Making

JEL Classification: M00