

## **Cognitive Biases in Financial Decision-Making**

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### **Abstract**

The postcolonial discourses are relevant with regard to determining the subject matter and identity of individuals and groups following colonialism. These narratives offer a critical insight through which the identity formations processes within the post-colonial societies could be assessed. In the present paper, the impact of postcolonial discourse as it has shaped identities in modern literature will be taken by the way the postcolonial writers are addressing the issues of cultural hybridity, displacement and resistance as tropes in their work. The investigation approaches the issue of the burden and heritage of colonialism and the contribution it made to the formation of an identity construction not only of the individuals and but the nations as entirely shaping their course towards the problem in the cultural collage integration joining and merging their various cultural contributions, and through the stage of fading in the local tradition and the ability to understand the modern world. Having reviewed the articles of other authors Salman Rushdie. This paper employs them to get some insights on how identity is multifaceted in postcolonial literature and how it continues to be topical in the current society. In addition, the significance of several narrative elements such as oral narrative recounting, magical realism, historical revisionism in developing postcolonial subjects is also contained in the study. Provision of knowledge on correlation between literature and identity, the study blacks is helpful in providing an insight, on how the narratives have continued to shape in the current realignment of identity and belonging.

**Keywords:** Financial and behavioral decisions, cognitive preference within decision-making, risk perception decision, irrational choices.

### **Introduction**

Financial decision-making process is the process which is complex in terms of heavily relying on various factors, rational thinking, and even psychological tendencies (Ugbala et al., 2023). Behavioral finance has assisted in comprehending the life-changing effect of cognitive bias on investing activities as well as financial outputs (Baker et al., 2017). They are prejudicial and made based on systematical errors that influence the thought process and handling of data and they lead individuals and organizations to forego the rational way of reaching a decision (Montibeller & Winterfeldt, 2015). This awareness about these types of biases is what is needed to make people more financially literate, to have an effective strategy to invest and get into good financial behaviour (Doh & Pan, 2025). Cognitive biases have more impact beyond their impact on individual investors; they impact on the financial professionals, the forces in the market and the overall stability of the financial market (Berthet, 2022). Exploration of the specific cognitive biases influencing the financial decisions can be used in this paper to provide the insights of how cognitive biases become a reality in investment behaviours and also provide pragmatic advice on how to overcome the ill effects of these biases (Byegon, 2020; Statman, 2008).

One of the most popular cognitive biases used in the financial decision-making process is overconfidence and represents a tendency of a person to overrate his/her skills, knowledge, and accurateness of predictions he/she made (Ahmad & Shah, 2020). This bias can lead to overselling, ignoring risk and in the end, poor returns to the investment. These notions of people may be promoted by the confirmation bias because this tendency makes people, having some contradictory evidence, to search the information proving their prior beliefs (Addo et al., 2025).

### **Background of the study**

Cognitive biases are systematic departures in normative rationality and they play a major role in having an effect on the financial judgment and therefore induces people to decide which goes contrary to their long term financial interests and intentions. Within the conventional theory of finance, e.g. Efficient Market Hypothesis, market prices and by extension, all the available information is priced into it and as such, investors make rational decisions; this is again undermined by behavioral finance which makes an attempt to understand the psychological basis that drives the success/failure of the market and rationality of the financial decision-making process (Statman, 2008). Such biases are unfounded on the cultural level or the personality traits and hence insert themselves into the judgment and decision-making process and condition the financial decisions to go off the pathway and end up on the path of irrationality (Ugbala et al., 2023). The point is that the process of how these biases construct the ins and outs of financial behavior are to be comprehended in order to promote a better and more successful financial decision-making (Doh & Pan, 2025). Another aspect in which the recognition of biases as depicted in psychological influences in the finance profession is in realizing that the biases adversely impair the quality of financial counselling besides the information (Baker et al., 2017).

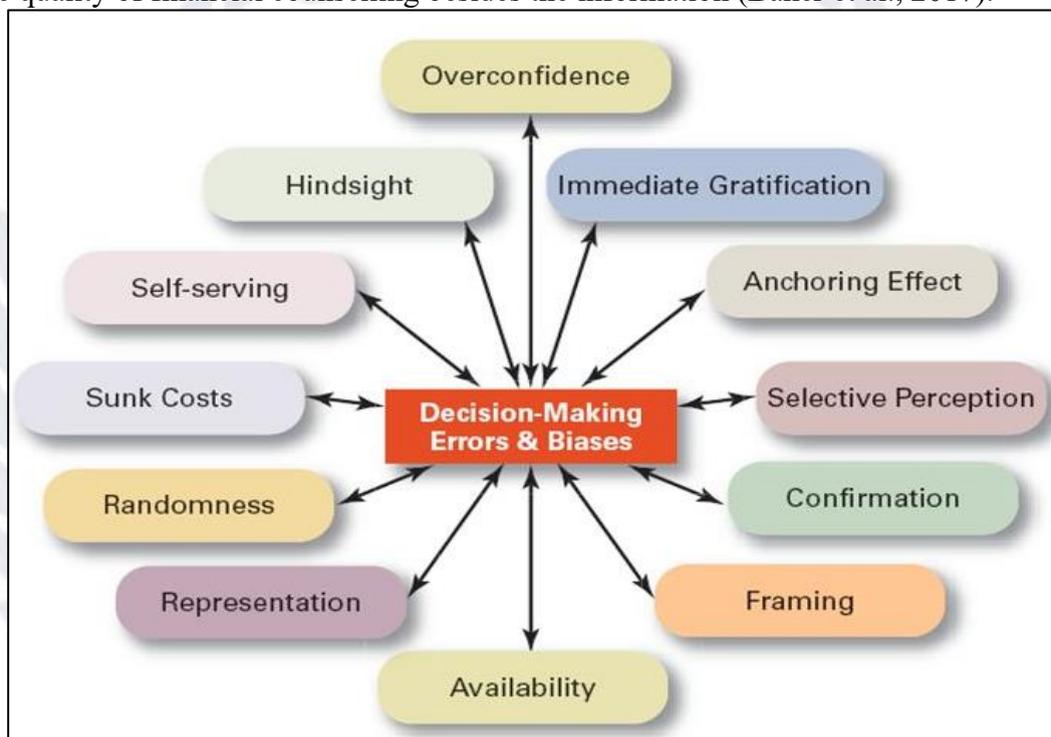


Figure 1: Impact of Cognitive Biases on Financial Decision-Making

The element of cognitive biases can also be discussed often rather negatively, its definition is the imperfection of the financial behavior and this negative impact on the successfully of a human being, but evolutionary psychology asks to accept the idea of the fact that this cognitive bias was in-built in the human mind (Sahi, 2017). According to such a perspective, beliefs that characterize prejudices, even though such beliefs make no sense in the current financial setting, could have provided the benefits of adaptation in earlier periods, and all history of psychology remains complex when related to the current financial setting. The issue of cognitive bias and its impact is slowly becoming an issue in the financial industry, and research is finding its way on which biases determine the behaviours of the financial industry, as it tries to set policies in place to reduce the adverse behaviours of the biases (Byegon, 2020).

**Justification**

The significance of analyzing cognitive biases in their application to the financial aspect of decision-making becomes obvious due to the practical consequences of the choices that are made on an irrational ground (Ugbala et al., 2023). The economic behaviour typically varies based on the classical economic theories which are founded on the basis that human beings have some unprejudiced beliefs, and at all times act rationally (Doh & Pan, 2025). Behavioral finance admits the position of psychological aspects, i.e., cognitive bias in forming

investment decisions, market trends, and economical performance (Montibeller & Winterfeldt, 2015). The effect of such prejudices might be the fact that an individual will not be financially optimal, and the biases might affect the market and trigger inefficiencies and upheavals as well (Byegon, 2020). The understanding about the presence of these biases is important so that it could be used to create more knowledgeable and logical individual and system-level financial mechanisms (Berthet, 2022).

Many behavioral abnormalities, including overconfidence and loss aversion, have been demonstrated to result in people taking excessive risks or rather avoid various opportunities that can make them very profitable and as such cannot maximize generate returns (Addo et al., 2025). Through this, an example is that, overconfidence might induce the investors to exaggerate the ability to forecast the market movements and consequently overtrade and insufficiently diversify (Statman, 2008).

## Objectives of the Study

1. To find out and discuss the primary cognitive biases that influence the decision-making in finance.
2. To explore how the nature of the cognitive biases affects the work of the market and the personal financial planning.
3. To propose what can be done to minimize the impacts of cognitive biases on making financial decisions.
4. To develop an insight to the behavioral finance and the way it is applied on the contemporary practices of finance.

## Literature Review

A certain shift of efforts to abandon the classical representation of the economy with the assumption of applying models of thought and action is also very relevant to the study of cognitive biases that systematically deceive individuals in their decisions and offer them not the best solutions (Battaglio et al., 2018). These are psychology-based tendencies that weaken the hypothesis that the economic behavior of individuals is necessarily in their best interest and causes non-optimal financial outcomes and market anomalies (Ugbala et al., 2023). It is significant to consider these biases as they should allow developing more realistic models of the financial behavior and, also, planning the interventions that will assist them with their adverse results (Doh & Pan, 2025). The main idea of behavioral decision research is that, whether ordinary individuals or professional decision-makers, a person is inclined to various forms of bias, and to correct the problems in decision-making and risk assessment, it is necessary to work with biases (Montibeller & Winterfeldt, 2015). Financial models should also include these mental biases so that they can have a superior model of the complexity of the actual work of decision-making (Doh & Pan, 2025). As one of the most common contributors to the functioning of financial markets, the overconfidence bias has taken root when someone unwarrantedly believes in his/her self-capacity to judge and act adequately and fails to make the sound assumptions regarding the validity of his/her predictions and the essential correctness of his/her knowledge (Byegon, 2020; Statman, 2008). This type of overestimation can cause overtrading and a high risk-taking likelihood, ultimately, resulting in a reduced profit (Lamptey et al., 2020).

**Table 1: Common Cognitive Biases in Financial Decision-Making**

Cognitive Bias	Description	Impact on Financial Decision-Making
<b>Overconfidence Bias</b>	Overestimating one's ability to predict market movements	Leads to excessive trading and risk-taking
<b>Loss Aversion</b>	Fear of losses greater than the desire for gains	Causes investors to avoid risk, missing profitable opportunities
<b>Anchoring</b>	Relying heavily on the first piece of information	Prevents adaptation to new information
<b>Herding Behavior</b>	Following the actions of others without rational consideration	Contributes to market bubbles and crashes

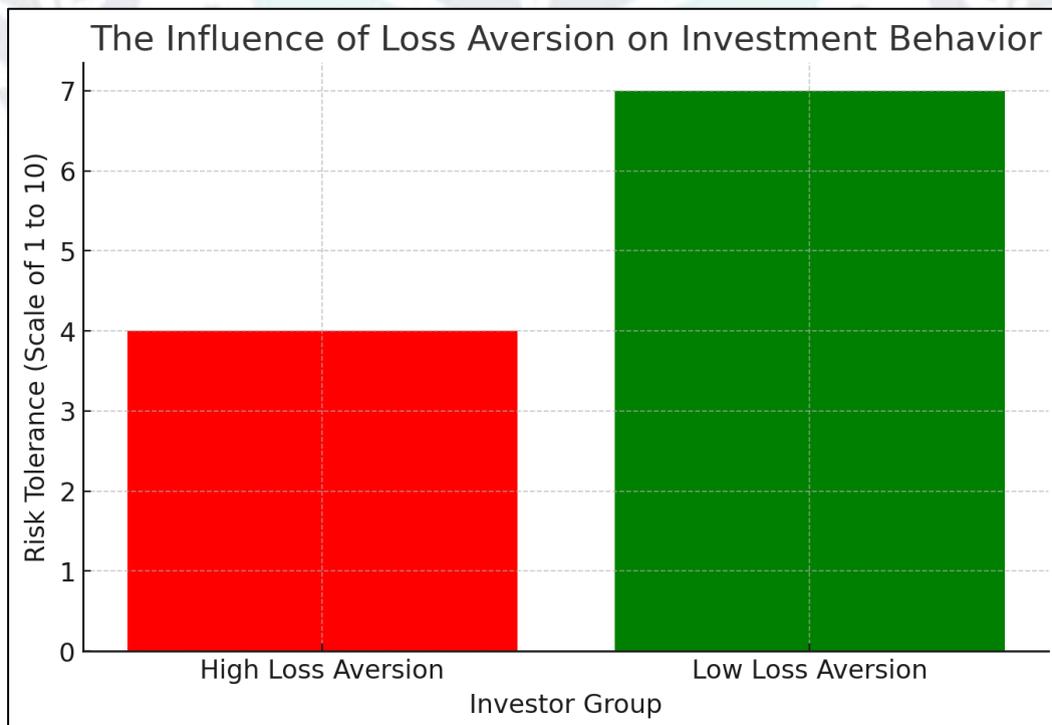
Cognitive Bias	Description	Impact on Financial Decision-Making
Availability Heuristic	Making decisions based on readily available information	Leads to biased investment choices due to recent events

**Material and Methodology**

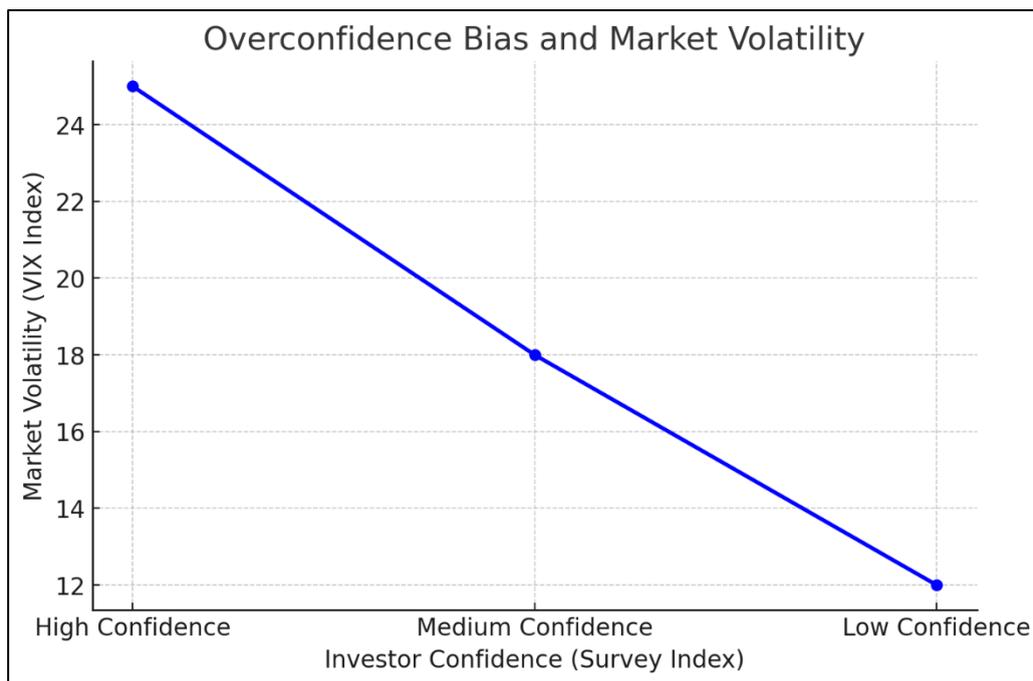
The present paper is the work of qualitative research; it includes research of literature devoted to the issue of cognitive biases and its consequences in financial decision making. The research strategy will involve the deep research on primary sources, academic journals, books and case studies, secondary data as financial reporting and market studies. The body of literature participating in a literature review constitutes fundamental literature in the study of behavioral finance, in particular, those researches which examine the influence of the cognitive biases upon investment, risk management and market behavior.

**Discussion and Results**

The results show that the cognitive biases may play a significant role in formulating financial decisions, and so, the results are, in most of the instances, poor. Say, there exists the tendency towards over-confidence according to which the traders will perceive fewer risks and there is excessive trading which may make them earn less because of the transaction costs and ineffective market timing. Loss aversion will result in missed potential gain, rather than conservation of capital which has a potential harm on the long-range financial development. Because of anchoring, people are likely to forget new information and seek old price levels so that they could not enjoy good investment opportunities. The herding effect is what creates the bubbles in the markets by making individuals to invest basing on the blind move of the rest without consideration on the fundamental analysis. Such prejudices affect the financial markets in general as well. As an example, herding behavior might lead to building of an asset bubble and loss aversion might lead to reluctance in investing in riskier assets and thus to inefficiency in the market. Becoming aware of these biases can provide individuals with an idea on how to make better life choices and they can also avoid being victims of these brain traps.



**Graph 1: The Influence of Loss Aversion on Investment Behavior**



**Graph 2: Overconfidence Bias and Market Volatility**

### Study Limitations

Naturally, the use of only already available literature has its demerits, and this limits the conclusions provided to the current paper to tentative and allows proposing the directions in which future researches should be conducted. Such a strategy is a good thing as far as it allows accumulating existing knowledge or identifying knowledge gaps, but it is of an essentially different character than a field of empirical research (Kim et al., 2012). The significant weakness is connected with the presence of a publication bias, and, therefore, the studies with statistical significance or the ones, which demonstrate some peculiarities, they are more likely to be published, and it creates its skew and distorts a picture of the actual prevalence and influence on because of some biases (Kumar & Goyal, 2015). In addition, it is also possible that the secondary nature of the data or the studies conducted by other people rather than the researcher himself will restrict the latter to find out the confound variables or explore delicate correlation between different biases and individual characteristics. It also deprives an opportunity to gain experience in the field of real-time decision making and the opportunity to observe how biases can be implemented to real investment situation, which would result in a denial of the further development of any practical interventions or educational programs to minimize them (Adil et al., 2021).

### Future Scope

Going out into the field of behavioral finance, the next research has to be dealing with the exploration of the empirical studies which are targeted at assessing the practical impact of cognitive biases on the financial decisions made in the real-life scenarios. It could include such deviations of the normative rationality or biases, which can have definite effects on the judgment and decision-making process, thereby, have systematic effects on the financial outcomes (Ugbala et al., 2023). To draw razor-sharp conclusions in relation to these forces, research studies in future should pay attention to the applicability of various survey methods and experimental design where specifics of the actions of investors and the decision-making mechanism would be emphasized (Doh & Pan, 2025). Such surveys ought to be designed well so as to give the detailed information of the cause of investment decisions, the type of perceived risk and perceived effect of the various cognitive shortcuts (Byegon, 2020; Statman, 2008). However, experiments may be created in a way that would approximate to the real life scenario of investing, and the impact of certain forms of bias would be observed and reported in a controlled environment.

### Conclusion

The impacts of biases in cognitions in the financial decision making process are quite profound whereby individuals and financial organizations tend to make unconventional and irrational decisions that go against what

the paradigmatic economical models indicate. Studying five most significant cognitive biases such as overconfidence, loss aversion, anchoring, and herding behavior, the person will achieve the success in the improvement of their financial choices and the reduction of the risk of their adverse outcomes. Table 1 The financial experts can be very helpful in eradicating such cognitive biases in the client with regard to their monetary literacy and enlightenment on how their clients need to offset these impacts such as diversification and risk reduction. Overall, with the view to increasing the level of financial literacy and making decisions, both personal and institutional, it is important to consider cognitive biases.

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