

Behaving and Misbehaving: Psychology of Capital Markets

FIKRET CAUSEVIC (ČAUŠEVIĆ)¹

Abstract

This paper deals with behaviour and misbehaviour of financial markets in the advanced countries and countries in transition. The author puts a special emphasis to the early stages of capital market development in transition economies. He describes the process of transition based on psychology of financial investors on the capital market and their cognitive capacities when it comes to making (i)rational decisions on buying and selling financial assets. The author also presents the interplay between the process of building institutional infrastructure in Bosnia and Herzegovina and the imperfections of capital market structure. Although focused on the psychology of participants in the early phases of capital market development the paper also deals with the theoretical foundations of capital market development as they have been set up in the modern theory of finance and the critique of those models developed by the founders of behavioural finance. The paper ends with a conclusion that herd behaviour has been the main feature of the psychology of financial investors in both groups of countries – the advanced and countries in transition regardless of how well the institutions have been developed prior to the crisis of 2008 and since then.

Keywords

Behaviour, capital markets, privatization, misbehaving, transition