



Individual's Behaviour and Institutions in Relation to Finance and Accounting

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Abstract: *This paper aims at the oldest concept in the field of finance and accounting. This is purely based on physiological aspects. The history of finance and accounting has many models and theories. This topic includes consumers, market price, attitudes and behaviour of the people on and a large scale.*

Keywords: *Finance, Accounting, Physiological, behaviour.*

I. INTRODUCTION

The physiological factors influence financial marked in a broader way which in accounting filed has less individual effects because accounting if fitted in figures and members. However, accounting system has been changing constantly as per the need of the financial system. The experts believe that markets are inefficient and not going always perfectly or as it is predicated, because individual behaviour, social changes, political policies, war and peace can affect the markets. The theory of moral sentiment reveals that individual behaviour and utility, consumption of goods, demand and supply – All these are factors to moving the market up and down continuously.

The relation between Finance and Behavioural Finance

The relation between Finance and Behavioural finance are always contradictory. In financial groups there are two theorists, 1. Homo economics; 2. Home sapiens. In other words early traditional thought of Economics and model school of thought (more intelligent) than those economists. Homo economics made decision rationally by processing unlimited information. Their theory was known as standard utility theory. Miller and Modigliani was the pioneer in this traditional field. The Black schools – The scholar such as Sharpe, Lintner, and Markowitz gave the model of the capital assets pricing theory. They were portfolio managers therefore they behave quite differently. They had practical experience of the market and finance, while former were only though almost the principles in this concept. Bloomfield introduced a three dimensional model to show some psychological aspects. Traditional finance model favoured to re-evaluate holdings negatively and considering losses of prices go down. Others believed in long term result and encouraged investors to make profit when the market is up. Higher long term can be predicted.

Basic concepts of Behavioural finance

These two key concepts are guideline to understand individual behaviour in finance and how they work in the markets.

a) Anchoring:

This is one of the major concepts in this line of thought. Here this theory indicates quantitative assessment of financial portfolio. According to this theory individuals (investors) have to hold in information, suggestion and statically data to understand the ambiguous markets. In this concept historic prices, the more recent prices or prices change of other stocks can be considered as 'Anchoring', to make financial decision.

b) Mental Accounting:

The second concept is that of mental accounting. The best example is when individual put aside some money for their children's higher education and housing. Most of the people lid this and do that this day. The effect is that controlling or storing, saving money. Thus this accounting behaviour creates less flow of money in markets; generally money is never pumped in the markets. In recession, people behave opposite to save use money in some limits. There effects and personal accounting is on the line of inefficient markets.

c) Confirmation and Bias:



Many people believe that seeing believes but this is not always true. Individual (Investors) many people take financial decisions on others opinion. The investors want to be comfortable. They think that others have better insight and information. The others conformation is always biased. One has to study market pricing and other factors for his investments.

d) Gamblers fallacy:

Gamblers tendency in financial market is quite different from the intelligent investors. They follow speculative trading and go by the series of events as the market is going up. The intelligent investors decide to enter the market by studying fundamental and technical analysis. Gamblers depend upon pre-existing events.

e) Moral Behaviour:

Sometimes the people follow the “Rules of Thumbs” in the financial market. They believe that large group cannot be wrong but this is a blind belief. One person’s success cannot predict another person’s success in financial behaviour. Don’t follow herd (crowd) in this market is the advice of experts.

f) Over Confidence:

Some people are optimistic. They are over confident. Due to over confidence they lose their time assets. The greater the over confidence one has in oneself, there is higher race. Self confidence has no any relations with the behaviour in deciding financial decisions.

g) Observation and Arability bias:

In financial market there is comen belief that good news is sign to raise the prices of shares. A study was conducted in the New-York stock exchange, it was noted that the best stocks underperformed wiled the worst stock performed the batter in the index due to over reaction to good and bad news.

h) Prospect Theory:

In the expected utility maximization, investor is behaving relatively rational in his financial decisions. The theory of certainty effect does not help the gaining and the losing in the financial market cannot be controlled. Some believe that gaining X is better than 2X. Some think that losing X to remain a single X equal to initial X. This line of thought is risky and dangerous in financial and accounting theory individually.

Factors Effecting Individual Behaviour in Finance:

Psychology and emotional factor cause same hurdles in the financial decisions. Wrong decisions cause regret. The key factor that effect is over confidence when one is emotional. Intelligence does not help the emotional behaviour.

II. INTRODUCTION TO BEHAVIOURAL ACCOUNTING

Behavioural accounting is the study of account decision in an organization. The behaviour of non accountants can also effect, accounting function or reporting in financial managements. Both type of individual can be found in every organization. Their personal behaviour certainly affects the financial matter in any organization.

The relation between financial Accounting, Management accounting and Behavioural accounting:

These three relation are interlinked financial accounting is related to outside the organization or company. Managers behave in their own way or they have to manage as per company rules. Accounting is based on facts and figures. The fiscal strength of the company or profitable financial step certainly can help the investor to understand the growth of the company or any organization.

Basic concept of Behavioural accounting:

These concepts are related to financial accounting concepts. Gynther reported in his research that common investor is unable to desire, reduce or build a solid judgement of investments. The administrative force of the company, management decisions, there experience motivations make certain effects in financial accounting. These factors can shape the behavioural accounting system.

III. DIFFERENCES AND COMPARISON OF FINANCE AND BEHAVIOURAL ACCOUNTING

Some common points are there in both models. The rational acting participants, Homo economists, behave on reason and facts while others on more accounting side. Emotional factors are there on individual’s behaviour and it depends upon the



understanding portfolio management theory. One is simple, another is difficult. In classical theory Adam Smith stressed on moral sentiment, while Jeremy Bentham stressed on bed rock of utility.

Differences:

There are two discipliner have some common points.

The first and most surprising difference is the manner in which concepts and models very respectively. Sometimes the concept is clear but on other hand the model is crucial.

Comparison:

The two disciplines discussed here are more similar than different. One has concern which financial sector. That is based on market and pricing policy. Other accounting is connected with management side. However personal bias and behaviour certainly affect. Both the approach people often mark decision without using logic and follow the rules of thumb in the financial sector.

IV. CONCLUSION

In conclusion the chief goal of modern financial reporting is to provide usage data that can be used by intelligent investors to behave wisely in the financial markets. The main aim of the study is psychological aspect in decision making. But many people are often led by emotional. In both the theory personal behaviour affects in decision making. In financial field people often make mistakes in investing capital market. It is the task of behavioural researchers to guide the people to have a predictive power. Their research improves the understanding the knowledge of finance and accounting at the same time. Moreover it has concerned with the past, present and direction.

Still much has to be done in both the approach to evolve the perfect models to guide the common investors for their financial decision.

V. GENERAL OVERVIEWS

The financial market is constantly fluctuating, others too human behaviour, good news and bad news. Demand and supply – all those create rise and fall in share prices as well as in commodities. Economists and researchers have tried to find out the cause and effect of moving markets, but there is no perfect model to predict the price going up and down.

In all same way accounting is also somewhat related to human behaviour. It is always steady and rigid. The personal bias of accountants and manager makes errors in accounting data sometimes they misguide the people by creating false data. This may be common practice everywhere. Government policies, accounting rules and bias mislead the people. Neither the markets are efficient nor is the perfect accounting system in everywhere. They vary and different to every country. Even international markets, wars, change in government can fluctuate the world market. It is impossible for human to predict the market as they are moving and shaking...

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