

Interconnected Market Hypothesis: A Conceptual Model of Individualistic, Information-Based Interconnectedness

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Abstract : There is currently very little understanding of how the interaction between investors, consumers, the firms (agents) affect a) the transmission of information, and b) the creation and transfer of value and wealth between these two groups. Employing scholarly ideas from multiple research areas (behavioural finance, emotional finance, economy-biology, and game theory) we develop a conceptual theoretical model (the 'bow-tie' model) as a framework for considering this interaction. Our bow-tie model views information transfer, value and wealth creation, and transfer through the lens of "investor-consumer connection facilitated through the communicative medium of the 'firm' (agents)". We confront our bow-tie model with theoretical and practical examples. Next, we utilise consumer and business confidence data alongside index data, to conduct quantitative analysis, to support our bow-tie concept, and to introduce the concept of "investor-consumer connection". We highlight the importance of information persuasiveness, knowledge, and emotional categorization of characteristics in facilitating a communicative relationship between investors, consumers, and the firm (agents), forming academic and practical applications of the conceptual bow-tie model, alongside applications to wider instances, such as those seen within the Covid-19 pandemic.

Keywords : behavioral finance, emotional finance, economy-biology, social mood

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