

Understanding the Complexities of Consumer Financial Spinning

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Abstract : This research presents a conceptual framework termed “Consumer Financial Spinning” (CFS) to analyze consumer behavior in the financial/economic markets. This phenomenon occurs when consumers of high-stakes financial products accumulate unsustainable debt, leading them to detach from their initial financial hierarchy of needs, wealth-related goals, and preferences regarding their household portfolio of assets. The daring actions of these consumers, forming a dark financial triangle, are characterized by three behaviors: overconfidence, the use of rationed rationality, and deceitfulness. We show that we can incorporate CFS into the traditional CAPM and Markovitz’ portfolio optimization models to create a framework that explains such market phenomena as the global financial crisis, highlighting the antecedents and consequences of ill-conceived speculation. Because this is a conceptual paper, there is no methodology with respect to ground studies. However, we apply modeling principles derived from the data percolation methodology, which contains tenets explicating how to structure concepts. A simulation test of the proposed framework is conducted; it demonstrates the conditions under which the relationship between expected returns and risk may deviate from linearity. The analysis and conceptual findings are particularly relevant both theoretically and pragmatically as they shed light on the psychological conditions that drive intense speculation, which can lead to market turmoil. Armed with such understanding, regulators are better equipped to propose solutions before the economic problems become out of control.

Keywords : consumer financial spinning, rationality, deceitfulness, overconfidence, CAPM

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