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How Rational Decision-Making Mechanisms of Individuals Are Corrupted under the Presence of Others and the Reflection of This on Financial Crisis Management Situations

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Abstract : It is known that the most crucial influence of the psychological, social and emotional factors that affect any human behavior is to corrupt the rational decision making mechanism of the individuals and cause them to display irrational behaviors. In this regard, the social context of human beings influences the rationality of our decisions, and people tend to display different behaviors when they were alone compared to when they were surrounded by others. At this point, the interaction and interdependence of the behavioral finance and economics with the area of social psychology comes, where intentions and the behaviors of the individuals are being analyzed in the actual or implied presence of others comes into prominence. Within the context of this study, the prevalent theories of behavioral finance, which are The Prospect Theory, The Utility Theory Given Uncertainty and the Five Axioms of Choice under Uncertainty, Veblen's Hidden Utility Theory, and the concept of 'Overreaction' has been examined and demonstrated; and the meaning, existence and validity of these theories together with the social context has been assessed. Finally, in this study the behavior of the individuals in financial crisis situations where the majority of the society is being affected from the same negative conditions at the same time has been analyzed, by taking into account how individual behavior will change according to the presence of the others.

Keywords : conditional variance coefficient, financial crisis, garch model, stock market
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