IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 11, Issue 6 Ser. I (Nov. – Dec. 2020), PP 70-71
www.iosrjournals.org

Behavioral Finance Andcorporate Finance

Akash Shah

Abstract— *Corporate finance and portfolio management has always been an essential aspect of finance. Statistics and other mathematical tools govern these concepts. But, in the recent times, a new idea has found a place in the books of finance known as Behavioral Finance, which is a sub-field of behavioural economics, proposes that psychological influences and biases affect the financial behaviours of investors and financial practitioners. Research has shown that people tend to be inclined towards selling investments that are doing good for them, but they fail to take actions on the securities perform poorly at the stock market. Additionally, various studies have shown that overconfident decisions also lead to poor investment decisions. For instance, an investor who is too much confident results in too much trading, which often leads to a negative effect on their return.*
Therefore, it has become a need of the hour to study behavioral finance to understand what guides the individual investor behaviour in the markets and how the decision-making errors can be corrected if we are familiar with the biases that caused them. Although it not might be possible to understand the complete human behaviour as it cannot be predicted with scientific precision, however, a superficial knowledge will suffice to know how people make decisions individually and collectively.
This research paper will try to provide a better understanding of behavioral finance in light with Corporate Finance. These might help to make better financial decisions.
Index Terms— *Finance, Corporate Finance, Behavioral Finance, Portfolio Management, Risk Management, Financial Risk Management*

Date of Submission: 28-10-2020 Date of Acceptance: 08-11-2020

I. Introduction

Behavioral finance entails the application of human psychology on matters of investment and decision-making. According to behavioral finance elements, the aspects of rationality and decision-making are vital for selecting portfolio management in the market. Some of the relevant outstanding areas of behavioral finance entail corporate finance and portfolio management.

Corporate finance focuses on how businesses and firms ensure stability and optimal balance of resources and capital structure. The goal is to maximize the resources to create value for shareholders (Malmendier, 2018).

On the other hand, portfolio management entails choosing the right mix of assets and investment schemes to increase the investors and shareholders' total income. The research paper entails a clear description of corporate finance and its practicability in the field of finance. The report also includes the usefulness of the chosen and relevancy in the real world

II. History of Corporate finance

Corporate finance can be traced to the Italian city-states and other low-income countries in Europe around the 15th century. As such, the course was vital for public markets and investment in the financial markets around the 17th century. Later on, the course became instrumental in London during the 19th century due to companies' growth, investment, banking, and investment management. In the US and the UK during the 20th century, the course's significance rose due to innovations and products in the markets. The role of corporate finance has gained momentum in the current business world due to the high level of competition and demand for sound management of business and wealth (Brealey et al., 2018). The core objective of corporate finance is to ensure the maximization of the shareholder's income and wealth. The process entails the balancing of the capital structure and funding in the firms. Some of the vital features include an analysis of the financial projects and the value of income. There is also the aspect of profitability, growth, and rate of income, as seen below.

III. Application Of Corporate Finance

The application of corporate finance is vital in the current world of business. There are many parties and areas whereby discipline is vital. The areas include the selection of projects and the viability of the project (Malmendier, 2018). For instance, the individuals have to check on the value of income, return rate, and profitability. The role of financial managers is crucial in the current business industry. Managers have to ensure a sound balance of the value of income, production, and growth (Brealey et al., 2018). There is also the concept of balance of the capital structure and the investment cost in selecting the project. According to the course features, the business firms and shareholders have to choose the structure of production and the sources of capital. There is also a focus on the company's growth rate, the role of managers, and the allocation of resources (Momtaz, Rennertseder, & Schröder, 2019). The managers also apply the concept of cash and resource management in selecting the project. The choice of the project should be based on the expected value of income and profitability.

IV. Conclusion

The role of corporate finance is vital and relevant to the current world of businesses. The application of the course is vast and critical in the business area. The areas entail business projects and the assessment of the value of income and generation of income. There is also the concept of capital structure and the sources of funds for the business's chosen line. Therefore, corporate finance is vital and relevant in the current world of finance since it helps in the management and operations of investments and projects.

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Akash Shah. "Behavioral Finance Andcorporate Finance." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 11(6), 2020, pp. 70-71.