

Cognitive Biases in Finance and their Consequences"

Bruno Dupire (Bloomberg, USA)

We review a few biases especially relevant for financial decision-making, such as: disposition effect (refusal to accept sure losses => stick to losers), overconfidence (underestimation of the uncertainty), regret aversion (creates artificial demand for convexity), confusion correlation/causation, difficulty to develop scenarios and analyze their consequences (building tails by conditioning), conjunction fallacy.

We investigate their impact on market dynamics, artificial risk premia and product structuring.