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Meta-Analysis on Anchoring Bias in Finance

Shivangi Kaushik

University Business School, Panjab University , Chandigarh

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ABSTRACT

The anchoring impact is one of the most vigorous psychological heuristics. This paper reviews the literature reflecting upon various components, models and mechanisms used to explain this behavioural bias. The anchoring effect is both robust and has many implications in all decision making processes. This review paper documents various domains and tasks in which the effect has been shown. Finally there view looks at the applications of the anchoring effects in everyday life.

1. Introduction

Various examinations recommend that as people settle on choices, they will in general, depend vigorously on snippets of data they get quickly from previous information(Furnham and Boo, 2011).Indeed, even seemingly inconsequential data can impact ensuing choices. Normally alluded to as "tying down," Tversky and Kahneman (1974) brought the idea into social examinations. Quantitative anchoring seems to matter a lot for investment decisions in particular (Furnham and Boo 2011, Galinsky and Mussweiler, 2001).The term anchoringwas first used by Tversky and Kahneman and alludes to individuals' propensity to make appraisals about the probability of dubious occasions or to anticipate or review certain qualities or results by thinking about an initial value and changing it upwards or downwards to yield a final estimate.Johnson et al. (2009) break down wagering on horse races, finding that a pony's hindrance position in a past race fills in as a significant stay when computing chances. They discover those with greater levels of expertise to be less subject to this bias, yet the significance of the effect prevails. Additional evidence comes from analysing decisions in financial markets. Kaustiaet al. (2008) find students and investment professionals anchor future expectations ofstock returns to prior performance, which acts as a major anchor. Further, Liao et al. (2013) observe foreign investor trading behaviour as vigorously identified with past conduct. Firmly related, Bucchianeri and Minson (2013) discover proof for anchoring in the US real estate market.In addition to betting behaviour in horse races and investment choices, the writing has delivered proof for anchoring in Credit Card repayment also (Stewart, 2009; Agarwal et al., 2013; Jones et al., 2015; McHugh and Ranyard, 2016). Further, “nudges” have been discussed in this context (Thaler and Sunstein, 2009; Johnson and Goldstein,2003).Jacowitz and Kahneman solicit a number of questions from general information questions (like length of Mississippi or height of Everest), and report that respondents who are given high anchors give higher assessments than the individuals who are given low stays. Cervone and Peake posit that individuals accepting high anchors consequently gauge their own abilities higher than the individuals who are given low anchors. Chapman and Johnson ask the respondents to assess a number from lotteries, changing in their normal qualities and ranges, and find that the higher the anchor they are given, the higher the minimum sum for which they would sell the lottery.Ehrbeck and Waldman focus on the current proof that proficient forecasters in different fields make unsurprising and predictable forecast mistakes enduring over time, and develop a formal social model suggesting that the forecasters might be tied down towards their own past figures. English asks a group of students to gauge the normal cost of a German average size vehicle, subsequent to giving both a standard anchor and some extra, significant or superfluous data, and finds that the appraisals are one-sided towards the anchor. This depicts the impact that anchors pose on the behaviour of the respondents. Bowman and Bastedoanalyze the anchoring effects in assessments of institutional reputation, and document that world university rankings published by Times Higher Education are also influenced by peer assessments thereby, indicating the presence of a major bias in rankings.This behavioural bias may assume a particularly significant role in legal judgments too. Markovsky reports that subjects presented to enormous money suggest higher rewards for a witness who comes forward to testify about a crime.

2. Types of Anchors:

Primarily, the psychological processes that contribute to the anchoring effect need to be outlined. **Strack** and Mussweiler (1997) explained: “Anchor values serve as the reference point for people to adjust the boundary of the range of plausible **values for the question, presumi**ng that the given anchor is more **extreme than the bound**ary value for the range of plausible answers”.Based on this concept, estimations made using the anchoring and-adjustment heuristic lie heavily on the effortful process of adjustment.Epley and Gilovich (2001, 2005) contended that the tying down impact is created by different systems. Their discoveries exhibit that the modification procedure becomes possibly the most important factor when the anchor values are self-created; where members alter somewhat from the qualities they know to be near the correct answer. They likewise found that the system of specific openness is initiated when anchors are remotely given by an experimenter or some other outer source.Epley and Gilovich (2001) created their contention on the ground that self-produced anchors are known to be an off-base reference from the beginning. For instance, individuals may realize that vodka freezes at under 32 F, however don't

have the foggiest idea about the specific right answer. In view of the idea of corroborative theory testing component, there is no reason for judges to consider whether the self-generated anchor is the correct answer (when it is already known to be wrong).Some empirical findings have demonstrated anchors that have informational relevance to the task can lead to anchoring effect. Englich et al. (2006) discovered empirical base supporting the selective accessibility model. They demonstrated that members who were presented to high anchor values reacted more quickly in categorizing incriminating arguments than those with low values, showing that anchor steady data is initiated by the important anchors only. Some research, in any case, has discovered that anchor values that are insignificant to the estimatesalso yield an impact in critical choices.For example, Tversky and Kahneman (1974) randomly generated the anchor values by spinning a wheel of fortune.Besides, the respondents in Englich et. al's. (2006) research acquire anchors based on the tossing of a dice. Further, Critcher and Gilovich (2008) posit that the performance of a sportsperson is also significantly anchored by the number on his jersey, sales are affected by the model number of the product and the estimations for the amount of money spent in a restraunt is impacted by the name of the restraunt. These researches therefore, show that even the irrelevant anchors have an impact on the judgement and decision making.Strack and Mussweiler (1997) and Wegener et al., (2010)contend that implausible anchors cause more bias as against the plausible ones.Mussweiler and Strack (2001) demonstrated that differences between high and low anchors occurred only withanchor values within the range of plausible answers.Furthermore, a study by Wegener et al. (2001)demonstrated that extremely significantanchors generated smaller anchoring effect**s** vis-à-vis the moderate ones.

3. Potential Human Components to Anchoring:

Drawing from the point of view of disposition change, anchors serve numerous "jobs". They are a basic signal straightforwardly affecting choices, occupied with effortful procedure. The attitudinal methodology consolidates both insightful and non-mindful procedures in representing the anchoring impact. Following this methodology, it is recommended that susceptibility to 'tying down' impact is affected by emotional variables. Emotions are usually used explicitly as information in judgment situations, or they can indirectly influence decision making by changing how people process information (Englich and Soder, 2009). A few researches have shown that people in glad states of mind regularly process data depending on the utilization of heuristic procedures, though data is prepared all the more proficiently when judges are feeling sad and miserable (Schwarz, 1990, 1998, as refered to in Englich and Soder, 2009). However, judgemental anchoring is an exception. Wilson et al. (1996) found that educated individuals are less impacted by the anchors introduced. In any case, past examinations in the field have given experimental proof exhibiting that choices by experts in judgmental domains also show an anchoring effect. The impact of state of mind on the extent of anchoring, nonetheless, doesn't impact all the people at a similar level. Research by Englich and Soder (2009) exhibited that feelings just affect the magnitude of anchoring with non-specialists.

4. Information Processing Style:

Wegener et al. (2001) have suggested that both effortful and non-effortful information processing can lead to the assimilation of answers towards anchor cues. This proposes that the influence of the anchoring effect (in case of legal matters) could be due to the thinking styles adopted by judges in decision making.Schwartz (1994) discusses the anchor consistent results obtained where the respondents lack adequate motivation and knowledge to answer the given set of questions and therefore, rely heavily on the provided cues. Blankenship et al. (2008), exhibited that members were occupied with more profound reasoning and relied more on foundational information to produce answers when their intellectual burden was low (prompting high capacity to think). Blankenship et al. (2008) further found that a person's data handling capacity has various outcomes on the enduring effect of mooring.

5. Knowledge and Anchoring:

Mussweiler & Englich (2003); Mussweiler & Strack (2000a); Smith, Windschitl, & Bruchmann (2013) posit that awareness and knowledge decrease the impact of anchoring bias. This attenuation is caused due to correct information processing which is enhanced because of the presence of knowledge. For instance, Mussweiler and Englich (2003) analysed the impacts of anchoring on estimates of prices in Germany during the period of transition from Mark to the Euro.They found that, before the change, German subjects were progressively vulnerable to anchoring when making a decision about prices in Euros (with which they were less familiar) than when making a decision about prices in Mark. In contrast, several months after the progress, when Germany had adjusted to the new currency, the example switched: subjects rather anchored more in case of Mark. Another study by Smith et. al. (2013) indicated that people from India were less influenced by anchors when making judgements about issues in India than United States of America. Similarly, people from United States were less influenced by anchors when making judgements about U.S. than India. Furthermore, knowledge may play a particularly important role in judgments of one's own recent behaviour (Rogers, Kuiper & Kirker, 1977; Symons & Johnson, 1997). In a similar manner, individuals' information on their own past conduct might be especially essential to them and may in this way limit the impact of tying down to a considerably noteworthy degree than the broad and general information analysed in past studies. In this manner, individuals' judgment of their own ongoing conduct could be totally or in part immuneto the impact of anchoring. In any case, different researchers have discovered inadequate proof that prior information and knowledge lessens the anchoring impacts. Englich (2008), for instance, failed to find any proof that subject's information about German vehicles marked down their vulnerability to stays when making value appraisals of the vehicles. Also, studies on expert judgements have shown that despite possessing adequate expert knowledge and skills in their particular domains, the specialists still are prone to anchoring and other behavioural biases. Agents in real estate industry (Northcraft& Neale, 1987), doctors (Brewer, Chapman, Schwartz, &Bergus, 2007), and judges (Englich, Mussweiler, &Strack, 2006; Englich&Soder, 2009) all exhibit their

proneness to anchoring bias. Infact, studies have indicated the impact of anchors with respect to their own past behaviour, Loftus (1975) examines the same by asking the respondents about the number of headache relief medicines and products used by them. He concluded that their responses varied significantly on the basis of the numerical values provided to them in the options.Ross, Lepper, and Hubbard (1975) empirically tested that numerical outcomes of past conduct are susceptible to outside impact. They furnished subjects with bogus input about progress on an assignment that included deciding whether suicide notes were genuine or counterfeit. In the wake of finishing the undertaking, subjects were first dishonestly informed that they had either been extremely effective, to some degree fruitful, or very ineffective. The experimenter at that point informed subjects that this input was totally bogus and asked them to assess what number of notes they had entirely recognized. In spite of the experimenter's clarification, subjects who were at first told they had accurately distinguished more notes evaluated that they had really effectively distinguished a greater number of notes than did subjects who were at first given progressively negative input. Subsequently, the starting assessment given by the experimenter impacted subjects' later numerical decisions of their own conduct. Collins, Graham, Hansen, and Johnson (1985) analysed that respondents anchored more on their current Marijuana use while providing information about the quantity of the same drug taken by them two years ago. Thus, the respondent's current drug dosage acts as an anchor while determining the consumption for the previous two years.

6. Individual Differences:

Individual differences are the various reactions created by a person towardsspecific occasions or conditions in a manner that is unique in relation to others, all the time (Brandstätter, 1993). One variable of individual difference that affects the performance and cognitive processing in judgemental decisions is personality. There is a dearth of research on the relationship between personality and anchoring bias. Previous research work has paid attention tothe group of subjects but neglected individual difference variables as people tend to look for a universally applicable rule that would predict their reactions or behaviour.

6. Conclusion:

Research in the field demonstrates that anchoring has a pervasive and robust effect in human decisions regardless of factors such as types of anchors, relevance of anchor cues, expertise, motivation and cognitive load. The practical applications of anchoring received great attention in the business world. For example, in the negotiation process, an initial offer may serve as an anchor to assimilate final judgment towards it **(Galinsky and Mussweiler, 2001)**. Based on the durability of the anchoring effects, the initial offer would substantially influence the negotiation outcomes over time. Nevertheless, **Galinsky and Mussweiler(2001)** also discovered a few tips that could eliminate the robust influence of the anchoring effects.

There is now nearly 60 years' worth of research on the anchoring effect which has proved to be extremely robust. It can be demonstrated over a wide array of decisional tasks, with different groups and in different settings. It is unusual in experimental settings n*ot* to be able to demonstrate it. There exist different, but not contradictory models, to account for the process. Any one working in the area become aware of the fact that there exist considerable individual differences in the extent to which individual judgements are effected by anchors. Thus an interest in affective, background, motivational and trait correlates of anchoring decisions. The work in this area, particularly cognitive ability (intelligence). personality trait and mood, has yield contradictory and equivocal findings.

The literature on the effects of specialist knowledge and experience is more consistent and in line with common-sensical beliefs. However, the work investigating the effects of motivation (i.e. incentives) and forewarnings remains inconsistent. This suggests that individual differences and situational factors play only a small role on anchored judgements. Future work may take a more social approach by considering how anchoring effects work on group (vs. individual) decisions. More importantly given the obviously wide spread knowledge of the anchoring effect by sales and marketing people and organisations as well as those in negotiations it would benefit academic research by examining "real-world data" as well as the personal theories of those whose livelihoods depend in part on the anchoring effect.

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