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EXPLORING INVESTMENT DECISIONS: A COMPARATIVE STUDY USING PROSPECT THEORY

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ABOUT ARTICLE

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Abstract: This study explores the effectiveness of Prospect Theory in investment decisions. A sample of 100 participants with investment experience was divided into two groups: a traditional decision-making group and a Prospect Theory group. Both groups were presented with investment scenarios, and data was collected on the participants' investment decisions. The results revealed significant differences between the groups, with the Prospect Theory group more likely to invest in high-risk, high-reward assets and securities and to make decisions based on their perception of potential gains and losses. The findings suggest that Prospect Theory can be an effective tool for making investment decisions, but further research is needed to fully understand its applicability to different contexts and populations.

INTRODUCTION

Investment decisions are crucial for individuals and organizations alike. The decision to invest in a particular asset or security can have a significant impact on one's financial wellbeing. Numerous theories have been proposed to explain investment decisions, including Prospect Theory. Prospect Theory suggests that people's decisions are influenced by their perception of potential gains and losses, and that they are more likely to take risks to avoid losses than to achieve gains.

In this study, we aim to explore the applicability of Prospect Theory in investment decisions. We will compare investment decisions made by individuals using a traditional decision-making approach to those made using the Prospect Theory framework. By doing so, we hope to gain insight into the effectiveness of Prospect Theory as a tool for making investment decisions.

Investment decisions are critical for individuals and organizations alike, as the decision to invest in a particular asset or security can have a significant impact on one's financial wellbeing. Various theories have been proposed to explain investment decisions, including Prospect Theory. Prospect Theory suggests that people's decisions are influenced by their perception of potential gains and losses, and they are more likely to take risks to avoid losses than to achieve gains.

The effectiveness of Prospect Theory as a tool for making investment decisions has been the subject of much debate in the literature. Some studies have suggested that the theory can improve decision-making by taking into account people's perception of potential gains and losses, while others have questioned its applicability in real-world contexts. Despite this debate, there is a need for empirical research that explores the effectiveness of Prospect Theory in investment decisions.

In this study, we aim to address this gap in the literature by exploring the applicability of Prospect Theory in investment decisions. We will compare investment decisions made by individuals using a traditional decision-making approach to those made using the Prospect Theory framework. By doing so, we hope to gain insight into the effectiveness of Prospect Theory as a tool for making investment decisions.

The remainder of this paper is organized as follows: In the Methods section, we will describe the study design and the sample of participants. In the Results section, we will present the findings of the study. In the Discussion section, we will interpret the results, discuss the implications for the effectiveness of Prospect Theory in investment decisions, and highlight the limitations and future research directions of the study.

METHODS

To conduct this study, we recruited a sample of 100 participants who had experience with making investment decisions. We divided the participants into two groups: the traditional decision-making group and the Prospect Theory group. The traditional decision-making group was asked to make investment decisions based on their personal preferences and risk tolerance. The Prospect Theory group was given a brief introduction to Prospect Theory and asked to make investment decisions using the theory's framework.

We provided both groups with the same investment scenarios, each with a potential gain and a potential loss. We then collected data on the participants' investment decisions, including the asset or security chosen, the amount invested, and the reasons behind their decision.

Participants:

The study recruited 100 participants with investment experience, aged 18 to 65, from various professional backgrounds. Participants were recruited through online advertisements and social media platforms. All participants provided informed consent before participating in the study.

Design:

The study employed a comparative design, with two groups of participants: a traditional decision-making group and a Prospect Theory group. Participants were randomly assigned to either group. Both groups were presented with investment scenarios and were asked to make investment decisions based on the presented scenarios.

Procedure:

Participants in the traditional decision-making group were asked to make investment decisions based on traditional investment advice, such as diversifying their portfolio and minimizing risk. Participants

in the Prospect Theory group were given an overview of Prospect Theory and were instructed to make investment decisions based on their perception of potential gains and losses.
Both groups were presented with five investment scenarios, each with a different level of risk and potential reward. For each scenario, participants were asked to indicate whether they would invest in the given asset or security, and if so, how much they would be willing to invest. Participants also provided demographic information, including age, gender, education level, and income level.

Data Analysis:
The data collected from the participants were analyzed using descriptive statistics, independent t-tests, and chi-square tests. The independent t-tests were used to compare the mean investment amounts between the two groups, and the chi-square tests were used to examine the differences in investment decisions between the two groups.

Ethical Considerations:
The study was approved by the institutional ethics committee, and all participants provided informed consent before participating in the study. The study was conducted in accordance with the Declaration of Helsinki, and participants' anonymity and confidentiality were maintained throughout the study.

RESULTS
Our analysis of the data revealed significant differences between the traditional decision-making group and the Prospect Theory group. The Prospect Theory group was more likely to invest in high-risk, high-reward assets or securities than the traditional decision-making group. Additionally, the Prospect Theory group was more likely to invest in assets that would result in a smaller loss than the traditional decision-making group.
The data also showed that the Prospect Theory group was more likely to make investment decisions based on their perception of potential gains and losses. Participants in the Prospect Theory group were more likely to take risks to avoid losses than to achieve gains, consistent with the predictions of Prospect Theory.

DISCUSSION
Our findings suggest that Prospect Theory can be an effective tool for making investment decisions. By taking into account people's perception of potential gains and losses, the theory can help individuals and organizations make more informed investment decisions. However, it is important to note that the effectiveness of Prospect Theory may depend on individual differences in risk tolerance and perception of potential gains and losses.
Furthermore, our study has several limitations that should be taken into consideration. First, our sample size was relatively small, which may limit the generalizability of our findings. Second, we only tested the effectiveness of Prospect Theory in investment decisions, and its applicability to other domains remains unclear. Future research should explore the effectiveness of Prospect Theory in different decision-making contexts and with larger samples.
In conclusion, our study provides evidence that Prospect Theory can be a useful tool for making investment decisions. By taking into account people's perception of potential gains and losses, the

theory can help individuals and organizations make more informed decisions. However, further research is needed to fully understand the theory's applicability to different domains and populations.

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