Abstract

Global Financial Crisis affected the stock markets of countries across the world, and it raises the question of rationality of investors' decision. Behavioral finance is a new and emerging field of finance that answers such questions. This study assesses the investors' behavior's and rational expectation of their decisions on the listed textile companies on Pakistan Stock Exchange during global financial crisis. Textile sector is chosen because it is one of the sectors to have most of its companies listed on Pakistan stock market, and it is also one of the sectors that contribute significantly to the economy of the country.

Purpose -The aim of this research is to analyse whether investors are rational and indulge in behavior of confidence, optimism, and pessimism while making their trading decisions before, during, or after global financial crisis.

Design /methods and approach – This research uses secondary data with investors behavior (confidence, optimism, and pessimism) and rational expectation as independent variable and trading volume as dependent variable. This research applies regression analysis to check the influence of independent variables on a dependent variable.

Research Limitation – This research is limited to textile sectors of Pakistan listed on Pakistan stock market, and it analyse rationality and only three behaviors from many behaviors of the behavioral finance. Furthermore, this research is also limited to a time period of 2005 – 2011.

Originality/ Value – This type of research is generally done on the stock market index of a country, and not on a particular sector listed on the stock market. However, this research uses a sector, textile sector, to do its research, so as to understand investors' behavior regarding a sector of the stock market. Moreover, this type of research has not been done in Pakistan before, as well.

Keywords – Behavioral finance, Investors' behavior, Global financial crisis, Pakistan Stock Market, Textile Sector