

Bubble and Burst: A Psychoanalytic Perspective on The Financial Instability

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Emotional finance is at the core of explaining the frenzies of investors' behaviours leading to bubbles and bursting of financial markets around the world as opposed to traditional economic theories. This paper engages in exploring the psychoanalytic perspectives in understanding the financial markets instabilities and the irrational behaviours of financial practitioners. The paper has observed that financial anomalies encountered in different eras are ignifed through the process of an 'emotional trajectory' related to four crucial stages. These stages involve 'Excitement, Domination, Jitters, and Panic and Blame' which provide crucial information on the behaviours adopted by investors during the different phases of the financial instability. Each phase has been analysed using over and under-reaction theories in order to present a clearer perspective on the crisis and explaining the irrational exuberance of investors. Moreover, emphasis on the mode to which investors buy, sell or hold financial assets during period of uncertainty implies an ambivalent emotional relationship to them which can be examined through the psychoanalytic analysis. In this line of thought, an interdisciplinary theory which will recognise the integration of emotional experiences may be highly helpful to financial and economic agents than the actual traditional economic theories.

Keywords: Behavioural Finance, bubbles, market instability

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