

An Empirical Analysis of Behavioral Biases in Stock Market Reactions to Macroeconomic Announcements: Evidence from the U.S. Economy

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Abstract. This study investigates the impact of behavioral biases on stock market responses to macroeconomic announcements in the United States. By employing a comprehensive dataset spanning the last decade, we utilize advanced econometric techniques to analyze the reaction patterns of stock prices against various macroeconomic indicators. Our findings reveal significant deviations from rational market hypothesis, with notable prevalence of over-reaction and under-reaction phenomena. This research contributes to the understanding of investor psychology and its implications for market efficiency, highlighting the need for enhanced predictive models that incorporate behavioral finance theories. The analysis provides critical insights for policymakers and investors aiming to navigate the complexities of economic announcements.

Keywords: Behavioral Finance, Macroeconomic Announcements, Stock Market Reactions, Investor Psychology, Market Efficiency, U.S. Economy, Cognitive Biases, Efficacy of Predictions

Introduction

The continuing turbulence observed in global financial markets has drawn considerable attention from both academics and practitioners, particularly concerning the role of behavioral biases in shaping investor responses to macroeconomic information. As the world braces for potential recessions and fiscal realignments over the coming years (2024-

2026), understanding these biases becomes paramount for effective market forecasting and policy formulation. Behavioral economics posits that cognitive limitations and emotional factors significantly influence decision-making processes, often leading to irrational market behaviors that deviate from the predictions made by classical financial theories. This research aims to unpack the intricate relationship between macroeconomic announcements—such as GDP growth rates, unemployment figures, and inflation data—and the resulting stock market fluctuations within the context of behavioral finance. By focusing specifically on the U.S. economy, we delineate how investor psychology can lead to systematic mispricings in the stock market, evidenced by statistical anomalies in trading volumes and price adjustments following key economic releases. Our methodological framework incorporates extensive econometric modeling, enabling us to dissect the effects of various behavioral biases on market reactions. Through this empirical analysis, we aspire to offer actionable insights that extend beyond theoretical discourse, serving as a vital resource for investors and policymakers alike. This paper is structured as follows: the subsequent section reviews the relevant literature, followed by a detailed account of the methodology employed. We then present our empirical findings, culminating in a discussion of their implications. Finally, we provide concluding remarks and avenues for future research.

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