

Heterogeneity and Anchoring in the Financial Markets

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Abstract

In this paper, I clarify the following two points through an analysis of panel data of Japanese stock market forecasts. First, participants in the Japanese stock market are heterogeneous: the types of firm and business of respondents affect the expectation formation. Second, the majority of market participants –even institutional investors– put significant weights on past forecasted values. Anchoring effects varying in the different types of firm and business suggest the expectation formation is also affected by what types of firms and business of respondents. Findings in this paper are inconsistent with the assumption of the traditional financial theory that the expectation formation is homogeneous and rational.

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