

Behavioral Bias in Firms' Growth Expectations*

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April 17, 2017

Abstract

This paper finds firms have a behavioral bias in growth expectations. We explore the determinants of optimism and pessimism of firms and find that macroeconomic state and firms' idiosyncratic condition generate such bias. We also demonstrate that the bias affects real business decisions of firms. Firms' investment and R&D expenditure are driven by optimism and dampened by pessimism. The above findings imply that behavioral bias generated by the firms can be an alternative explanation on how macroeconomic and financial conditions affect firms' investment behavior in addition to the traditional optimization mechanism.

Keywords: Behavioral bias, Expectations, Firm, Investment, Optimism, Survey data

JEL Classification: E03, E22, D84

*We thank xxxxx. The views expressed in this paper do not necessarily reflect those of the Bank of Japan.

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