Do negative events have higher impact on human behaviour?: A country level study

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The decision-making process of people is affected by the opinions formed by thought leaders and ordinary people. Psychologically impact of negative events is nearly twice the impact of positive once. This negative bias among human beings makes them to exhibit risk avoiding behavior. Hofstede (2010) posited that decision making process of humans is impacted by the varied cultural dimensions of the countries. As negative events attract uncertainty, countries which are high on uncertainty avoidance would show more conservative behavior. This risk avoiding behavior would be reflected in their day to day decision making process including financial markets. Thus, negative events will lead to higher impact on financial markets for equivalent positive event

Stock markets are financial institutions which heavily depend upon the unsystematic events such as coming of new government into power or recession. According to efficient market hypothesis, in strong-form efficiency, stock prices reflect all information, public and private, and no one can earn excess returns. This has been demonstrated in previous studies which have shown impact of news on stock prices. These days, availability of online news articles has shrunk the world making details of every event available instantly. In this study we try to investigate

- Do citizen have stronger reactions to negative articles than to positive news articles?
- Does the extent of negative impact differ between India and USA?

The answers to these research questions will provide insights as to how citizens of different countries react to negative events; if a country is less susceptible to negative events, it is more conducive for business groups to venture there. This would be beneficial as citizens would recover quickly from the loss and take rationale decisions in adverse situations.

For the study we will use data from GDELT dataset. Quad class helps us in classifying various events where verbal cooperation and material cooperation are positive events. Verbal conflict and material conflict are negative stimuli. Goldstein scale gives the potential impact of the event on the range of -10 to 10. To measure impact of news articles on countries financial markets we take national stock price index available online for daily transactions. For the analysis we use panel regression with daily observations as unit of time.

Most previous studies have concentrated on examining whether online news articles impact stock prices. We take a step forward and analyze if the impact of negative

news articles is more critical than the positive once. This does not only explain the risk taking behavior in financial services but can be generalized to other decision making process like consumer recovery, disaster management among others.