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Jaroslav Bukovina

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Social Media Big Data and Capital Markets – an Overview

Jaroslav Bukovina

Department of Finance, Faculty of Business and Economics, Mendel university in Brno, Zemědělská 1, 613 00 Brno, Czech Republic, e-mail: jaroslav.bukovina@mendelu.cz.

Abstract

A growing body of research and practical applications employ social media data as the proxy for a complex behavior of a society. This paper provides an overview of academic research related to a link between social media and capital markets. The theoretical rationale of this relationship is predominantly defined by behavioral finance. Behavioral finance augments the standard model of efficient markets and considers less rational factors like investors' sentiment or public mood as influential for asset pricing and capital market volatility. In this context, social media is a novel tool enabling the collection of data about such less rational factors at the level of a society. The paper introduces social media data from a technical and economic point of view. In addition, it contributes to the theoretical construction of the transmission mechanism between social media and capital markets currently missing in the literature. Subsequently, the paper summarizes the main findings in this field and outlines future challenges in this research.

Key words

Social media, retail investors, information demand, sentiment, transmission mechanism

JEL: G02, G19

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