The Asian Journal of Shipping and Logistics ● Volume 29 Number 1 April 2013 pp. 043-058 ●

Irrational Exuberance, Overconfidence and Short-Termism : Knowledge-to-Action Asymmetry in Shipping Asset Management

Okan DURU *

Contents

Abstract

The aim of this paper is to investigate the irrational investor phenomenon and the disconnection of information, knowledge and practice. A growing attention is allocated for inconsistencies in neo-classical economic theory. Among the variety of debates, irrationality is the major discussion in the behavioural economics. Duru[1)] indicated the market anomalies and the particulars of the impatient capital drawbacks in the dry cargo shipping business. This paper presents a number of theoretical and empirical evidences for the irrational exuberance phenomenon and discusses the asset bubbles from the statistical significance. The empirical work is designed to investigate the asymmetry between orders and the freight market. In the last century, dry cargo freight market indicated similar business cycles including expansion, peak, downturn and recession. Although the business cycle framework is frequently discussed and its significance is cited by many scholars, there is an existing gap between the known facts and the business practice. The possible reasons of such anomalies are investigated in the context of behavioural economics and cognitive bias. Which factors distort the rational expectations and how this phenomenon appears in the business practice of shipping business are the key discussions of this paper.

Key Words : Irrationality, Behavioural Economics, Impatient Capital, Shipping Business

* PhD, Research Fellow, Istanbul Technical University, Turkey, Email : duruokan@yahoo.com

1) Duru(2012), pp. 63-65.

I. Introduction

In last few decades, a particular section of economic research exceptionally raised concentration to the drawbacks of the neo-classical school of economics and contributes to the development of empirical research on *behavioural economics*. The fundamental motivation of behavioural economics is based on the cognitive bias and the irrationality fact. The traditional supply-demand framework is a perfection of equilibrium and the balance of physical asset employment. However, the evidences indicate the duality of concept including objective and subjective measures. Objective measures refer to the balance of existing fleet and the demand for cargo shipments (i.e. supply-demand framework). Therefore, a surplus of any side of balance presents a price change till the size of both ends differs. This is a kind of scale oriented interpretation of the market dynamics. The supply-demand framework is attributed a number of assumptions such as the rationality principle, market efficiency, among others. On the other hand, subjective measures refer to the behavioural aspects of stakeholders in the market place which may fail Pareto optimality. Since the mainstream economic perspective is framing the underlying system and it is based on several assumptions which marginalise the market place, there are many market failures in the sense of isolated market and homo-economicus actors.

There is a stream of studies indicated theoretical and empirical rationale of the behavioural economics. The motivation behind the behavioural economics is raised from the cognitive and emotional factors on economic decisions of actors in market places. One of the first contributions on behavioural economics is indicated by Adam Smith in his seminal work titled "*the theory of moral sentiments*".[2] Although, this study stated the role of psychological factors and perceptions in economic life, the subsequent economic theory is proposed under the assumptions and perfections which fundamentally consider rational actors of self-interest. Kahneman and Tversky[3] discussed the cognitive psychology and particularly stressed the disparities of neo-classical economic theory based on the actions of market players and investors which is a sort of replication of the "*invisible hand*" metaphor in the sense of

2) Smith(1759).
3) Kahneman and Tversky(1979), pp. 274-277.