

# Financial Wealth, Environment, & Framing; A Decision Making Approach

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## Abstract

The fundamental reason for this study was to explore the impact of the variable "financial wealth" which debilitates the framing effect and "environment" which has a frail acquaintanceship with framing effect. A self-created questionnaire was utilized with the end goal of information gathering. Population for this examination was the gurus and mutual fund managers from the ISE & LSE. The gathered information was dissected with the assistance of clear dissection, correlation analysis, and the straightforward regression strategy likewise. The conclusion of this study exhibits that the encircling influence in the identity of singular may influence the choice making capability of the speculator.

**Keywords:** Framing Effect; Financial Wealth; Investment Environment

## 1. Introduction

Framing effect is essentially the conduct of individuals, in which they react in an alternate manner towards a specific alternative relying upon its presentation. One of the significant qualities of the confining inclination is to turn the observation, contention, and the choice of a singular with respect to the certain subject. It is a cognitive inclination which is fundamentally the leader propensity to various circumstances dependent upon the strategy for presenting/framed a particular decision. On the groundwork of an *environment theory*, individuals will dependably lean toward the most sound or coherent decision and additionally the most favorable decision as stated by the circumstances. "Frame dependence is the term which implies that conduct of the individuals relies on the surrounding of their choices issue" (Shefrin & Statman, 2000).

### 1.1 Encircling/Framing Effect and Threat Behavior

There is a solid relationship exist between the encircling impact and the danger conduct of every person, if the person is risk taker and a general presentation of a particular thing might influence the single person in diverse path as contrast with the person who are risk divergent. People/investors by and large need to enhance their portfolio to minimize the likelihood of their risk and additionally to expand the likelihood of their return. The point when all the things have same level of risk, than the individuals will pick those things that show the most elevated likelihood of return, and when all the things have same level of return, than the individuals will pick those things that shows the least likelihood of risk. Each mogul will pick the security with most elevated return and least chance likelihood (Markowitz portfolio theory, 1952). Dorn & Huberman (2010) say that the more hazard unwilling speculators will pick the less unpredictable stock. Individuals typically offer inclination to those decisions that are efficiently predictable with their discernments, mentality, choices, and believe.

### 1.2 Financial Wealth

There are such a variety of gurus in the general business of the world. Some are poor & some are sound, some are hopeful & some are negative, some are delicate and cognizant & some are extremely unwind, and some are certain & some are apprehensive too. At the same time the venture choice of every individual at some point dependent upon the business conduct (grouping conduct), however more often than not, their recognition and choice making quality is unique in relation to each other.

More often than not, gurus in the business are untried, and those moguls can undoubtedly surrounded actually when they are fiscally solid and have a business sector data in light of the fact that they don't have the knowledge to assign the speculation and investigate and also decipher the accessible information with a specific end goal to figure what's to come variances. Dellavigna (2009) refers to that individuals typically settle on choices on the premise of money related soundness and at some point fiscally sound individuals might additionally confined around the financing choice which could be hurtful for them and the business too.

### 1.3 Environment

Sometime the environment, in which the guru settles on choice, can influence their choice making capacity. Surrounding influence shift from circumstance to circumstance. At some stage, it could be valuable and at some other stage, it might be destructive. Surrounding impact can change the predictable conduct and observation of a single person. Goerg & Walkowitz (2010) show that distinctive kind of presentations at altogether different stages in diverse issues can impact the movements of the speculators to their ventures, and it might be more full of feeling when your presentation demonstrates the positive externalities in regards to the speculation.

### 1.4 Problem Statement

Throughout the surrounding impact, a person will lose their capability of settling on proficient choices at the time of assessing and looking at two changed elements. On account of perpetual presence of encircling in the

business, it might be extremely challenging to enhance the victory rate of business. In the event that the encircling is not be reduced/eliminate, than the likelihood of irregularity in the business might build which could be the foundation for poor monetary dependability, expand in the rate of expansion and the many more most noticeably awful results.

### *1.5 Significance of the Study*

This study lets us know about the limits of encircling and how the business to be destabilizes. It might likewise be exceptionally useful for further research with some different variables identifying with the encircling influence.

### *1.6 Purpose of the Study*

To evade the unfavorable outcomes, there must be some benchmark gave by the administration to the motivation behind looking at the positive qualities and the qualities of a certain substance prior and then afterward the confining of a choice in light of the fact that the reappearance's of the share trading system likewise influences the economy in general. Nielsen & Holm (2007) diagnose that there must be some assessment structure under the control of government keeping in order to contrast the particular substance with another and for the promotion of a learning process of an individual.

## **2. Literature review**

The greater part of the monetary executors in the world don't know about market variances, however they manage the speculators wrongly or outline their psyche as stated by their enthusiasm for the purpose of their own. As stated by the Zhao (2011) the issue of the moral hazard is one of the significant foundations for mogul's misfortune and business sector liquidation. There are such a large number of approaches to investigate any of the particular articles. The indistinguishable kind of numerous studies can give and a variety of assorted comes about on the groundwork of their presentation styles.

In Pakistan, the saving money segment made progression from the state possessed banks to the characterized banks inside 2 decades of their operations. In 1990's, banks diminish the majority of their stark arrangements and congregations that are made by the state and on the support of such sympathy the greater part of the private banks and fiscal foundations made change and help their business sector worth by fulfilling their clients in a generally composed way. Throughout the time of 1990's-2010's, the banking structure administer their choice making powers in a large portion of the well performing areas/people in order to bring about a noticeable improvement relationship around the administration and the execution. Burki & Ahmad (2010) says that the private banks execute their operational movements in an extremely proficient way as contrast with the state/government possessed banks, and the private banks are most cost effective than those.

Individuals are for the most part picked an element on the support of their reliability, future strength, and a monetary worth. Howarth & Monahan (1996) said that every benefit is most ideal when its future market value worth is more than its past business value. The decision of a casing that the leader chooses is halfway regulated on the foundation of a representation of a specific issue, and part of the way on the premise of a singular's identity characteristics, aspects, standards, and the propensities. As stated by the *theory of framing*, the impacts of confining happen when the singular discernment viewing something changes as there is a fluctuation/variation in the surrounding. The encircling predisposition includes the sub-ordered sensation which is referred to be as slender confining, in which the singular will keep tabs on the only one or two parts of the particular element and overlook all different measurements of that substance and finally trade off their choice.

### *2.1 Financial wealth*

On the basis of the theory of '*wealth consciousness*' the money related fortune may influence the identity of the individuals. This theory of wealth consciousness is dependent upon the ideas of "law of fascination" which states that how we can influence by the finish of anything and how we respond towards the finish of anything also?

Commonly, the moguls in the business sector are barely confined. Hensher (2010) infers that at some point the gurus in the business settle on predisposition choices on the foundation of the perplexity of expense and time on the grounds that moguls are for the most part most cognizant about the expense of a security/entity, and they are additionally exceptionally delicate about their opportune returns and speculations. The conduct of the greater part of the gurus in the business sector is conflicting in view of their low level of duty. The conduct of both the purchaser and merchant assume an extremely vital part in the business sector.

At some point individuals in the business settle on proficient financing choices however at some point they can't. For the most part, the monetary efficiency/wealth prompts the productivity in the financing choices, the proficiency in the financing choices lead to the most fitting hazard and return parity, and the most suitable hazard and return offset will prompts the solid profit for the venture which is the fundamental target of the speculation. Hodgson, Breban, Ford, Streatfield, & Urwin (2000) say that speculation proficiency determinedly connected with fiscal productivity. At some point, individuals are more cognizant about their stores so as to keep up them with the end goal of supporting against the misfortune. Individuals drop their choice making capacity in the

condition when they feel extremely touchy about their stores and speculations (Bougherara, Denant-Boemont, & Masclet, 2011).

For some time, some individuals in the business sector need to spare their cash and some need to contribute their cash, which is based upon the venture conduct and money related abundance of the mogul. Glac (2009) notice the human disposition to venture which is dependent upon the budgetary riches may impact the speculation choices and the business sector also. In all the circumstances of conviction and lack of determination in the business, the fiscal soundness assumes an exceptionally essential part at the time of speculation choices. Guiso & Paiella (2008) raise that the moguls typically chance disinclined and they can't put unreservedly in the business sector when they are not monetarily sound. Moguls in the business for the most part settle on choices on the foundation of budgetary soundness, accessibility of flawless business sector data, and after that pick the most suitable one from the accessible options.

Likewise with the fiscal soundness, individuals feel good and unwind. The danger conduct of the guru might likewise change with the level of fortune. By expanding the level of money related soundness, the danger abhorrence conduct minimize and risk taker conduct expand in the gurus and need to gather the business sector data so as to examine what's to come variances for the speculation viewpoint (Peress, 2004). At some point in the business sector, individuals with monetary riches can't grow their portfolio effortlessly as a result of their recognition quality and dissection approach/ability. Nofsinger (2012) details the individuals with budgetary soundness that would prefer not to contribute their portfolio on account of their cynical methodology around the financing.

### *2.2 Environment/Surroundings*

In the share trading system, the greater part of the mogul's misfortune their gigantic measure of speculations with a specific end goal to safe their past ventures in light of their affectability relating to the sunk cost. Generally, in the event of the sunk cost, individuals are really certain and status cognizant about their financing. They feel that the speculation at the current circumstance in a stock can defeat their past misfortune identified with that security, however at that stage surrounding can assume an exceptionally paramount part. Karevold & Teigen (2010) stipulate that there exist an extremely solid relationship between the surrounding and sunk cost, at some point at that circumstance, the presentations of other individuals can impact their choice making observation identifying with the venture.

Some individuals feel fear about their movements, so they need the assistance of operators to wipe out their shots of danger. Not just the crisp speculators in the business are fear about their activities however a large portion of the encountered moguls feel falter at the time of venture. Baron and Ritov (2004) refer to that the majority of the experience moguls feel fear at the time of speculation on the grounds that they are unreasonable, and don't think about the effective and auspicious utilization of heuristics. At some point, the particular event/action impacts the business, and such impact is relying upon; how a mogul considers the occasion? Furthermore how they settle on ruling against such occasion? More often than not in the business sector, an operator changes the states of the business through encircling the guru by concentrating on showing and one uncommon characteristic of the organization/security/entity, which is referred to be as property surrounding.

The mental potential and conduct of the distinct is positively influenced by their social order; the territory where they live, the individuals who meet with, nature's domain in which they work or making business transactions. The aggregating of a distinct assumes an extremely vital part in their choice making and the size setting of the gathering is additionally the primary issue in it (Zheng, Wang, & Zhu, 2010).

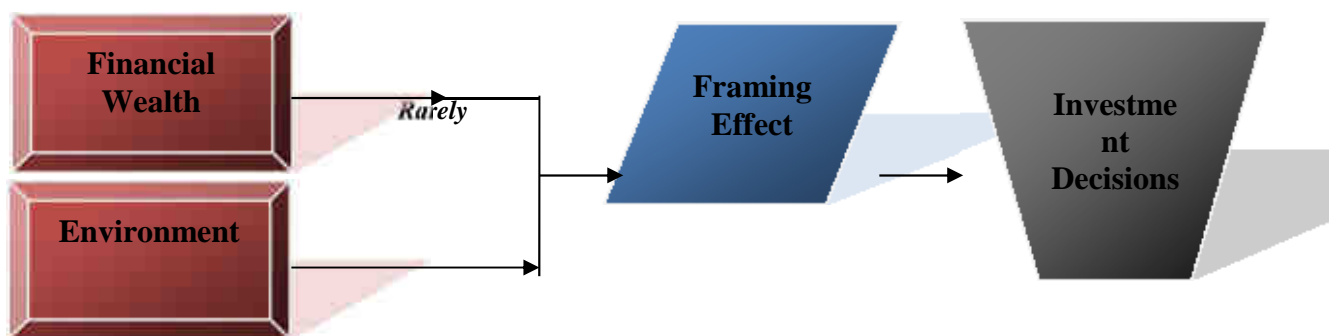
### *2.3 Hypothesis*

- H1: Financial wealth increases the confidence level and ability to make rational investment decisions.
- H2: People rarely framed according to their environment/surroundings.

## **3. Methodology**

The major purposes of this study and later appraise of literature allow us to outline the two (2) main hypotheses for this study. After that, we structured these hypotheses for diagrammatic consideration of the outline of research and for the hypothesis testing in equations from. Figure and the equation demonstrate our model of study.

**Figure: 1**  
**Model for Investors**



$$ID = \beta_0 + \beta_1 (FW) + \beta_2 (E) + \epsilon \quad (1)$$

Where:

ID = Investment Decisions      FW = Financial Wealth      E = Environment

### 3.1 Population, Sample, and Analysis Method

The major purpose of this study is to identify the factors that can be the cause of framing effect which influences the investment decisions in the market. The population of this research consists of investors and the mutual fund managers/brokers in the stock market of Pakistan. Thinking the classic character of the population, we used suitable sampling practice for the selection of sample. The total 490 feedback forms were floated in the Islamabad stock exchange (ISE) & Lahore stock exchange (LSE). We received 173, which mean that approximately 170 feedback forms from the stock exchanges that can be usable for the reason of data investigation. We examined our data all the way through correlation and simple regression procedures. Furthermore, items descriptive examination is accomplished in order to clarify the typical reaction of shareholders and investment managers to diverse features of framing effect.

### 3.2 Common Approach

We used the deductive technique in this research as this study is stand on the hypothetical structure of the behavioral finance. We then experienced our experimental decisions with the accessible theories.

### 3.3 Choice of Technique

To attain the main purposes of this study, we applied mutually qualitative technique and the quantitative technique as well. The quantitative technique is basically the survey that we executed in the shape of a feedback forms. With the help of the survey, we try hard to verify, how strong is the association among the practical imposition of decisions and the individual behavior and perception in veracity. A qualitative technique is executed all the way through our endeavor to illustrate the explanations and existence framing surrounded by investors with the help of accessible theories.

### 3.4 Principle Data

Our primary data for this study consists of feedback forms which we were collected from the individual investors & agents from stock markets of Pakistan on the basis of survey. We collected more or less 170 responses from stock markets.

### 3.5 Tools used for Data Gathering

For such type of study, the book “Behavioral Finance and Wealth Management” by “Micheal Pompain” is very much significant and very helpful for the purpose of developing a questionnaire. The concept of the feedback forms was initially introduced by “Sir Francis Galton”. For the purpose of pilot testing, approximately 30 questionnaires were floated in the market in order to check the validity and reliability of the data. There were 17 close-ended questions in the questionnaire on 5 point likert scale (Strongly Disagree – Strongly Agree) for the stock market.

## 4. Results

### 4.1 Reliability Analysis

Table 1 Reliability Analysis	
Variables	Reliability
Framing Effect	0.456
Financial Wealth	0.521*
Environment	0.577*

Note. \* $p > 0.5$ , \*\* $p > 0.7$ , \*\*\* $p > 0.9$

Initially, we are measuring the unwavering quality or reliability of this information so as to affirm that either this information is noteworthy for our effects or not. Basically, the reliability test shows that what amount of this information is predictable over the time period. The consequence of unwavering quality shows that the "alpha" of FE is 0.456, FW is 0.521, & E is 0.577, which indicates that all the variables are reasonably steady or solid over the period of time because for reliability purpose, the "alpha" of 0.6 is considered to be good.

#### 4.2 Correlation Analysis

	FE	FW	E
FE Pearson Correlation	1	-0.109	-0.024
Sig. (2-tailed)		0.157	0.760
N	170	170	170
FW Pearson Correlation	-0.109	1	0.221**
Sig. (2-tailed)	0.157		0.004
N	170	170	170
E Pearson Correlation	-0.024	0.221**	1
Sig. (2-tailed)	0.760	0.004	
N	170	170	170

\*\* Correlation is significant at the 0.01 level (2-tailed).

The table: 2 below represent the conclusions of relationship. The correlation coefficient around "framing effect & awareness level" is .250, the size of the acquaintanceship around both variables is low and they are additionally significant at low level (.157) at  $p < .2$  at 84% confidence interval. The correlation coefficient around "framing effect & environment" is -.024, the size of the companionship around both variables is low and they are additionally irrelevant at level (.760) at  $p < .8$  at 24% confidence interval.

We can finish up from such examination that there exists a low significant and negative relationship between framing effect & financial wealth, and there exist an insignificant and negative relationship between framing effect & environment.

#### 4.3 Regression Analysis

It is utilized to recognize the effect of environment & financial wealth which prompts framed/biased conduct on the speculator's choice making capacity. We connected a straightforward regression procedure to recognize the general effect of environment & financial wealth.

##### 4.3.1 Simple regression

Variables	Values
Multiple R	0.109
R-Square	0.012
Adjusted R-Square	0.000
Standard Error	0.65352
Observations	170
F	1.007
Significance F	0.368

The table: 3 below shows the outcomes of regression details. The primary quality regarding importance of this model is F-statistics. The value of F-stats is 1.007 which is significant at low level (.368) at  $p < .4$  at 63% confidence interval, so this model is very weakly significant or insignificant. The quality of R-square is 0.012 which delineates the expressive force of proposed variables. In this way 1.2% variety in the mogul's choice making capability is continuously elucidated by the confining.

Variables	$\beta$	SE $\beta$	t-stat	P-Value
Intercept	3.820	0.288	13.276	0.000***
Financial Wealth	-0.092	0.066	-1.385	0.168
Environment	0.000	0.065	-0.006	0.995

Note. \* $p < 0.09$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

The coefficient of regression for financial wealth is -0.092 and it is significant at low level (0.168) at  $p < .2$  at 83% confidence interval. We can translate this worth as far as probability of the guru to settle on less



framed/biased choices due to budgetary soundness/richness. By keeping all the proposed variables fixed, the moguls who are monetarily exceptionally solid are 9.2% more likely to settle on intelligent choice. Hence, the first hypothesis of this exploration that "financial wealth increases the confidence level and ability to make rational investment decisions" is administered by these outcomes.

The coefficient of regression for environment is 0.000 and it is insignificant at (0.995) level at  $p < 1$  at .05% confidence interval. In this way, the effects of the worth of this variable show that such variable have an almost incredibly modest or no effect on the speculator's choice making capacity. Thus, the second hypothesis of this examination that " people rarely framed according to their environment/surroundings" are looked after by these outcomes, in light of the fact that this variable is inconsequential and shows an almost little or no effect on the speculator's choice making capability.

#### 4.4 Descriptive Analysis

Table 5 Descriptive Analysis	
Variables	Average
Framing Effect	3.4956
Financial Wealth	3.5392
Environment	3.3549

The outcomes of table: 5 show that all these variables are demonstrating the effects of acknowledgement towards biased choice making. Since, as stated by the likert scale of 5, we can translate that the value  $< 1$  show a decidedly differ conduct, the value  $> 1$  however  $< 2$  show a differ conduct, the value  $> 2$  but  $< 3$  show an impartial conduct, the value  $> 3$  but  $< 4$  show a concur conduct, and the value  $> 4$  but  $< 5$  show a firmly concur conduct.

### 5. Conclusion

The theory of behavior decisions conclude that the selection generating is actually dominated through the surrounding result, leading on the irrational/biased options. Almost all of the research workers show these parameters: "financial wealth" weakens the actual surrounding influence & "environment" includes a vulnerable affiliation having surrounding influence may possibly impact the actual investor's selection generating capability. Hirshleifer (2001) mentions a normal trader in the market must targets the price tag on an advantage ahead of generating the actual investment decision.

#### 5.1 Regarding Questionnaire

The initial variable "financial wealth" offers poor substantial relation with all the determination making power of an entrepreneur. The particular fiscal success weakens the particular framing result; we can easily translate the situation since the chance of an entrepreneur to generate far more logical/unbiased determination as a result of fiscal soundness. Retaining all the other parameters constant, the particular people, that enter the marketplace along with a huge amount of expense or maybe a fiscally sound entrepreneur would carefully review and translate the marketplace scenarios and specifics & figures likewise to make the most successful options to come up with earnings. Therefore, with the help of these kinds of effects results our 1<sup>st</sup> hypothesis is approved.

The next variable "environment" possesses an unimportant relation with all the determination making power of an entrepreneur. Environmental surroundings rarely weakens the particular framing result and rarely results in the particular framing result; we can easily translate the situation since the chance of an entrepreneur to hardly ever create illogical/biased determination as a result of atmosphere. Simply by preserving all the other parameters constant, the particular people, that enter the marketplace with their group/community rarely concentrate on the particular movements and options of their party regarding determination making purpose, since tastes the particular entrepreneur available in the market would like to review information and figures to create best options. Therefore, with the help of these kinds of effects results our 2<sup>nd</sup> hypothesis is approved.

#### 5.2 Drawbacks and Future Suggestions

This specific study had been just bounded to be able to these suggested variables (financial wealth as well as environment) although you can find numerous different variables that could be the cause intended for surrounding have an effect on. Also, most of us looked at the particular manage regarding surrounding have an effect on just around the conclusion making power of the buyer within the wall street game as well as within the banks, different options, just like: property managing, collateral managing, dividend policy and other operational options from management and business viewpoint may also be made to be able to have an effect on regarding surrounding. This specific study can be augmented to be able to these types of crevices at the same time.

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