Lingnan University 嶺南大學 香港 Hong Kong

Faculty of Business 嶺南大學商學院

Department of Accountancy
Hong Kong Institute of Business Studies

Decoding Managers' Overconfidence

ABSTRACT

Overconfidence is pervasive in business decision-making. However, prior studies primarily focus on the return overestimation aspect of overconfidence (i.e., optimism) while neglecting the risk underestimation aspect (i.e., miscalibration). They also fail to consider that overconfidence is influenced by the external environment and thus fluctuates over time. To address these issues, I use statistical machine-learning tools to create two measures that quantify time-varying optimism and miscalibration. Using these measures, I estimate whether and how optimism and miscalibration jointly affect investment decisions and financial outcomes. I find that miscalibration has a stronger positive association with capital expenditure and R&D investment than optimism and increases the likelihood of overinvestment in capital expenditure. I also show that optimism negatively predicts return on assets, while miscalibration is positively associated with future earnings volatility. These findings underscore the distinct roles of optimism and miscalibration in shaping decision-making and financial outcomes, highlighting the importance of considering miscalibration when evaluating the effects of overconfidence. Further analyses reveal that miscalibration has a greater impact when uncertainty is low and the information environment is poor, offering practical implications for investors and directors.

Date: 7 January 2025, Tuesday
Time: 14:30 - 16:00
Venue: SEK210, 2/F, Simon & Eleanor Kwok Bldg.
Language: English

Ms Xinyi HUANG

PhD. Candidate in Accounting, Emory University, Atlanta, GA

BIOGRAPHY

Xinyi is currently a Ph.D. candidate in Accounting at Goizueta Business School, Emory University. Her research interests lie in earnings forecasts, information processing bias, and information efficiency. She is also interested in applying machine learning, especially statistical machine learning, to accounting research.

Prior to joining the Emory Ph.D. Program, she received her B.S. in Economics from Nankai University and an M.S. in Accounting from Washington University in St. Louis. She is a licensed CPA with work experience as a staff accountant.

LINGNAN UNIVERSITY 香港嶺南大學香港商學研究所 HONG KONG INSTITUTE OF BUSINESS STUDIES HONG KONG

EDUCATION for SERVICE
作育英才・服務社會

For enquiries, please contact 2616-8373 or by email (hkibs@ln.edu.hk). Due date: 8 January 2025