

A STUDY ON THE IMPACT OF MARKET FLUCTUATIONS ON MANAGERIAL DECISION-MAKING IN MODERN BUSINESSES: A BEHAVIORAL ECONOMICS PERSPECTIVE

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Abstract:

Market volatility is a reality in contemporary economic environments, and it affects the way managers process information, make risk assessments, and make strategic decisions. This paper investigates the effect of market volatility on managerial decision-making, using the behavioral economics approach, and it highlights the importance of psychological factors, emotions, and cognitive limitations in managerial decision-making. The paper investigates how factors such as uncertainty, loss aversion, overconfidence, herding, and risk perception influence decision-making during market instability. The study also investigates how managers strike a balance between short-term survival and long-term organizational success when faced with changes in demand, prices, or financial conditions. The study uses both theoretical and practical approaches to identify the patterns of decision-making under pressure and to point out the behavioral aspects that can be both helpful and harmful to business success. The results of the study are expected to provide insights into the human aspects of strategic decision-making and to provide frameworks for improving decision quality in dynamic market environments.

Keywords : Market Volatility, Managerial, Decision-Making, Behavioral Economics, Risk Perception, Cognitive Biases, Strategic Decisions, Organizational Performance, Loss Aversion, Herding Behaviour, Dynamic Market Environments, Decision Quality.

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Introduction:

In today's rapidly changing business environment, market fluctuations have become a normal and inevitable phenomenon. Changes in stock prices, interest rates, inflation levels, government policies, global events, and customer demand continuously influence business operations. These uncertainties create pressure on managers who must make critical decisions regarding investment, budgeting, pricing, expansion, and risk management. During periods of volatility, decision-making becomes more complex and challenging.

Traditional economic theory assumes that managers are fully rational and always make decisions aimed at maximizing profits. However, real-world decision-making often deviates from pure rationality. Human behavior is influenced by emotions, past experiences, overconfidence, fear of loss, and various cognitive biases. Behavioral economics examines how these psychological factors shape economic and managerial decisions. In times of market instability, managers may respond differently—some become risk-averse and avoid bold

strategies, while others take impulsive risks to recover losses quickly. Such behavioral responses can significantly impact organizational performance, financial stability, and long-term growth.

This research aims to examine the impact of market fluctuations on managerial decision-making through the lens of behavioral economics, highlighting how psychological factors influence strategic business choices in uncertain economic conditions.

Review of Literature:

Kahneman and Tversky's theory of prospect theory in 1979 fundamentally changed the rational actor model as they found that people evaluate outcomes relative to a reference point, they are loss averse, and they tend to misweight probabilities. This theory explains why managers tend to make suboptimal decisions during periods of market volatility as they try to minimize their losses by selling assets at lower prices than they were originally purchased for or become too risk-averse during periods of volatility.

Following this theory, Thaler and Johnson's study in 1990 found the "house money effect," where people take more risks when they have made gains, and the "snake bite effect," where people become too risk-averse when they lose. These two effects have direct implications for managerial decisions during periods of volatility. Managers who have made large losses during a downturn may become too risk-averse during a period of an upturn.

The strategic management literature has extensively studied the need for adaptation of the planning processes in the face of environmental turbulence. **Ansoff's (1965)** work on corporate strategies was based on the premise that the environment was relatively stable, and an extrapolative approach could be effective. However, **Ansoff (1980)** later acknowledged that for turbulent environments, the need was for "weak signal processing."

Mintzberg's (1994) critique of the strategic planning process was that it was not effective under uncertain conditions because it was based on the premise that the environment was predictable. He advocated the "emergent strategy" approach, i.e., an adaptive approach that involves learning and adapting to environmental changes, which has assumed added importance due to the increased turbulence in the markets.

Garg and Sah (2024) present detailed empirical results on the cyclical nature of the Indian business, credit, and investment sectors based on annual data from 1980 to 2021. Using the Hodrick-Prescott filter, structural vector autoregressive models, and Granger causality tests, the authors arrive at the following critical results: Firstly, they observe the existence of a diverging trend between domestic and global financial cycles; that is, the Indian business, credit, and investment cycles have their unique characteristics, which cannot be reduced to global influences alone. Secondly, they validate the existence of a long-run relationship between business, credit, and investment cycles. Most importantly, their results indicate that the credit cycles could be useful to manage business cycles in India .

This study has direct relevance to managerial practice; that is, knowing the current state of the economy with respect to the credit cycle could be useful to managerial decisions on strategic business issues. Managers who keep track of the credit cycle may have an upper hand in terms of predictability relative to those who keep track of the business cycles only.

Objectives of the Study:

1. To Evaluate The Role of Behavioral Bias (Such As Over Confidence, loss Aversion, Anchoring And Herd Behavior) In Shaping Managerial Responses To Market Changes.
2. To Study How Managers Interpret Economic Signals And Market Trends In Making Business Decisions.
3. To Analyze How Market Fluctuations Influence Strategic Managerial Decisions.
4. To investigate Whether Market Volatility Increase Short-Term Thinking In Managerial Decision.
5. To Investigate How Market Fluctuations Drive Innovation In Product Development And Business Model Pivots.

Research Methodology:

1. Research Design

The research design used in the study will be descriptive-analytical to assess the effect of market fluctuations on managerial decision-making processes, as perceived by the lens of behavioral economics.

2. Research Approach

A mixed approach to the study will be used:

Quantitative approach to assess the relationship between market fluctuations and managerial decision-making.

Qualitative approach to assess the perception of emotions influencing decision-making processes.

3. Data Sources

Primary Data: Structured questionnaires and semi-structured interviews with managers from diverse industries.

Secondary Data: Journals, research papers, financial reports, and books on behavioral economics and market analysis.

4. Sampling Method

Managers and decision-makers who have experience in managing market uncertainty would be sampled using the purposive sampling technique. The sample size may vary from 50 to 100 respondents.

5. Data Collection Tools

A questionnaire with Likert scale items on risk perception, confidence levels, and market change response.

A set of interview questions on behavioral issues such as loss aversion, overconfidence, and herd behavior.

6. Data Analysis Techniques

Quantitative data would be analyzed using statistical tools such as percentage analysis, correlation, and regression analysis.

Qualitative data would be analyzed using thematic analysis to identify behavioral patterns.

Significance of the Study:

Practical Value for Managers: This study will help managers understand the impact of market fluctuations on their decision-making process and how psychological factors like risk perception, emotions, and cognitive biases come into play.

Contribution to Behavioral Economics: This study will contribute to the existing body of literature on behavioral economics and its application to business management.

Support to Organizations: This study will help organizations in the development of effective decision-support tools and strategies to manage risks and prepare their managers to deal with the volatile market environment.

Policy Support: This study may help policymakers and financial regulators understand the behavior of managers in the face of economic instability and develop policies to maintain market stability and guide managerial decision-making.

Academic Relevance: This study may act as a reference point for future researchers in the area of market dynamics and psychology, encouraging further research in this area.

Analysis and Data Interpretation:

Descriptive Analysis:

TABLE-1
Age Wise Classification of Respondents

Age	Responses	Percentage
18-25	45	90%
26-35	1	2%
36-50	1	2%
50+	3	6%
Total	50	100%

Source: Compiled

From Primary Data:

The data shows a massive skew towards the youngest demographic. 45 out of 50 respondents (90%) are aged between 18 and 25.

This overwhelmingly suggests that the survey pool consists primarily of entry-level employees, interns, or students.

Because the "18-25" group dominates, any conclusion drawn from this data is statistically representative only of that age group, not of the general management population.

Only 1 person falls into the 26-35 bracket And Only 1 person falls into the 36-50 bracket.

3 people are over 50. This creates a barbell distribution (very young, few middle-aged, a handful of older). The voice of mid-career managers (who usually handle operational decisions) is almost entirely absent.

TABLE-2

Managers sometimes decide based on feelings instead of facts?

Age Groups	Agree.	Disagree.	Neither disagree nor agree	Strongly Agree	Strongly Disagree.	TOTAL	Perccenatge
18-25	18	7	12	3	5		90%
26-35	1	-	-	-	-		1%
36-50	-	-	-	1	-		2%
50+	2	-	-	1	-		6%
TOTAL	21	7	12	5	5	50	100%

Source: Compiled From Primary Data.

The largest category is the Agree category, which had 21 votes. Then there is the Neither disagree nor agree category with 12 votes. Finally, there is the Disagree category with 7 votes, and the Strongly Agree and Strongly Disagree categories both had 5 votes.

For the Age group 18-25 category, there was a significant number of votes in all categories:

18 votes for the Agree category.

7 votes for the Disagree category.

12 votes for the Neither disagree nor agree category.

3 votes for the Strongly Agree category.

5 votes for the Strongly Disagree category.

For the Age group 26-35 category, there was only 1 vote for the Agree category.

For the Age group 36-50 category, there was also only 1 vote for the Strongly Agree category.

For the Age group 50+ category, there were 3 votes:

2 votes for the Agree category.

1 vote for the Strongly Agree category.

There was a total of 50 votes. The Agree category had the most votes among the categories provided.

TABLE-3

Managers Take More Risk When The Market Is Stable?

Age Groups	Agree.	Disagree.	Neither Disagree Nor Agree.	Strongly Agree.	Strongly Disagree.	TOTAL	Percentage
18-25	23	5	10	3	4		90%
26-35	-	-	-	1	-		2%
36-50	-	-	-	2	-		4%
50+	1	-	1	-	-		4%
TOTAL	24	3	13	6	4	50	100%

Source: Compiled From Primary Data.

The largest number of responses overall is from the category of Agree, which accounts for 24 responses, followed by Neither Disagree Nor Agree with 13 responses, then Strongly Agree with 6, Strongly Disagree with 4, and finally Disagree with 3.

Age group 18-25

18 - Agree

3 - Disagree

10 - Neither Disagree Nor Agree

3 - Strongly Agree

4 - Strongly Disagree

Age group 26-35

5 - Agree

2 - Neither Disagree Nor Agree

1 - Strongly Agree

Age group 36-50

2 - Strongly Agree

Age group 50+ Has 2 Responses

1 - Agree

1 - Neither Disagree Nor Agree

Total responses: 50

TABLE-4

Market Ups And Downs Affect Important Business Decisions Like Pricing, Hiring And Investment?

Age Groups	Agree.	Disagree.	Neither Disagree Nor Agree.	Strongly Agree.	Strongly Disagree.	TOTAL	Percentage
18-25	14	4	7	14	5		88%
26-35	-	-	-	1	-		2%
36-50	1	-	-	-	1		4%
50+	2	-	-	-	1		6%
TOTAL	17	4	7	15	7	50	100%

Source: Compiled From Primary Data

The highest number of respondents belongs to the Agree group, i.e., 17, while the second highest is for the Strongly Agree group, i.e., 15.

In total, 32 respondents believe that the fluctuations of the market impact the decisions taken for the business.

7 respondents are neutral, i.e., they Neither Disagree Nor Agree.

11 respondents disagree, i.e., 4 Disagree + 7 Strongly Disagree.

Age group 18-25 again has the highest number of respondents:

14 - Agree

4 - Disagree

7 - Neither Disagree Nor Agree

14 - Strongly Agree

5 - Strongly Disagree

Age group 26-35 has 1 response, i.e., Strongly Agree.

Age group 36-50 has 2 responses:

1 - Agree

1 - Strongly Disagree

Age group 50+ has 3 responses:

2 - Agree

1 - Strongly Disagree

Total respondents = 50

TABLE-5

During Market Instability, Managers Focus More On Short-Term Survival Than Long-Term Growth.

Age Groups	Agree	Disagree	Neither Disagree Nor Agree	Strongly Agree	Strongly Disagree	TOTAL	Percentage
18-25	18	5	13	7	2		90%
26-35	-	-	1	-	-		2%
35-50	1	-	-	-	-		2%
50+	2	-	-	1	-		6%
TOTAL	21	5	14	8	2	50	100%

Source: Compiled From Primary Data.

The data indicates a strong support for the claim that market instability causes managers to have a short-term survival focus.

Majority View: 58% of all respondents agreed or strongly agreed that managers focus on short-term survival as opposed to long-term growth in unstable markets. Only 14% of all respondents disagreed with this claim.

Significant Neutrality: 28% of all respondents were neutral on the issue, implying that they are either undecided or believe managers attempt to do both.

Age-Based Insights:

Younger Respondents (18-25): As they make up the majority of all respondents, 55% believe managers have a short-term focus.

Senior Managers (50+): 100% of all senior managers agreed with the statement that managers have a short-term focus in unstable markets. This is significant because it indicates that managers are admitting they are focused on survival as opposed to growth in such situations.

TABLE-6

I Believe Companies Use Economic Crises As An Excuse To Produce Bad Quality Products And Not Lowering Their Product Prices.

Age groups	Agree.	Disagree.	Neither Disagree Nor Agree.	Strongly Agree.	Strongly Disagree.	TOTAL	Percentage
18-25	17	5	15	6	2		90%
26-35	1	-	-	-	-		2%
36-50	-	1	-	-	-		2%
50+	2	-	1	-	-		6%
TOTAL	20	6	16	6	2	50	100%

Source: Compiled From Primary Data.

The data shows a powerful perception of consumers regarding the behavior of companies during an economic crisis. The overwhelming majority of the respondents believes that companies use the crisis as a cover to keep their profits at the expense of the quality of their products.

Dominant Distrust: A remarkable 72% of the total respondents, i.e., 36 out of 50, agreed or strongly agreed with the statement that companies use the economic crisis as an excuse to keep the quality of their products low without lowering the prices.

Weak Opposition: On the contrary, only 16% of the total respondents, i.e., 8 out of 50, have shown a form of opposition to the statement.

Neutral View: Only 12% of the total respondents, i.e., 6 out of 50, remained neutral, showing that the majority of the population has a definite opinion regarding the issue, which is negative in its content.

Limitations of the Study:

There are certain limitations to this study that need to be understood and accepted. Firstly, the study is not representative of the views of experienced managers who actually operate in the business arena, as the study is dominated by the responses of the 18-25 age group, i.e., 90%. Secondly, the study is based on the responses of only 50 respondents, which is not representative of the entire population of businesses and managers in the industry. Thirdly, the study is based on the perceptions and beliefs of the respondents rather than actual facts and figures from the companies in the industry. Moreover, the study has a number of neutral responses in the key tables, which create ambiguity in the results, suggesting that the respondents may not have had enough experience to form strong opinions on the matter. Fourthly, the study is not representative of the changing attitudes over time and across different economic cycles. Lastly, the study does not attempt to establish causality

between the fluctuations in the market and the actions of the managers, nor does it consider the industry and cultural differences in the decision-making process, which may have a major impact on the results.

Hypothesis of the Study:

Market Fluctuations have a significant impact on managerial decisions, which are often influenced by cognitive biases and heuristics, resulting in decisions not aligned with rational economic theories.

Hypothesis 1: Cognitive Bias Activation

Managers are found to have stronger cognitive biases, such as overconfidence and loss aversion, during high market volatility compared to stable markets.

Hypothesis 2: Prospect Theory Effects

Managers are found to take high risks during potential loss scenarios in the market, and they are risk-averse during potential gain scenarios, which is in line with the prospect theory.

Hypothesis 3: Framing Effects

Managers are found to make decisions based on the framing of the market situation, irrespective of the true economic conditions.

Hypothesis 4: Herding Behavior

Managers are found to have high herding behavior during extreme market fluctuations.

For Future Research:

1. Comparative Studies Across Age Groups

Since the 18-25 age group dominates this study, future research should aim for a more balanced sample. A comparative study that looks at how Gen Z employees, mid-career managers (26-45), and senior executives (50+) view market-driven decisions differently would offer a more complete picture of organizational behavior during crises.

2. Industry-Specific Analysis

Manager responses to market changes likely differ across sectors. Future research could investigate whether managers in essential industries, such as healthcare and utilities, respond differently compared to those in discretionary sectors like retail, hospitality, and technology during economic downturns. This would help identify whether the idea of "short-termism" is universal or varies by context.

3. Longitudinal Studies on Consumer Trust

Table-6 showed significant consumer skepticism about product quality during crises. A longitudinal study that tracks consumer trust levels before, during, and after an economic downturn could indicate whether this distrust lasts or fades as markets recover. This would assist businesses in understanding the long-term impact of short-term cost-cutting measures on their reputation.

4. Cross-Cultural Comparisons

Managerial ethics and consumer views are strongly shaped by cultural norms. Future research could conduct a cross-cultural study to compare how people in different countries, like those in collectivist versus

individualist societies, perceive corporate behavior during market instability. This would be useful for multinational companies working in diverse global markets.

5. Quantitative Analysis of Actual Corporate Data

While this study focused on perceptions, future research could analyze actual financial data from corporations during past recessions. Researchers could look at metrics such as R&D spending, product quality indices, and pricing strategies to see if the views on "short-termism" and "quality reduction" are backed up by real corporate behavior.

6. The Role of Digital Transformation

As technology changes how businesses operate, future studies could explore how digital transformation affects managerial decision-making during times of volatility. Do companies with advanced AI-driven forecasting and flexible supply chains act differently than traditional firms? Does technology help promote better long-term thinking during crises?

Conclusion:

This study concluded that fluctuations in the market have an important role to play in managerial decisions not only through economic variables but also through psychological variables. Though economic theories emphasize that managerial decisions are taken in a rational way, this study concluded that managerial decisions can also be taken due to variables such as loss aversion, overconfidence, herd effects, and emotional responses to uncertain situations. Managerial decisions can also be taken in situations where the level of fluctuations is high, leading to risk aversion/risk-seeking behaviors.

This study also emphasizes the importance of behavioral economics and the role it can play in managerial practices. Managerial decisions can be taken in a balanced way by understanding the role played by behavioral variables.

This study also concluded that the behavioral factor of decision-making is an important factor for the improvement of both theoretical as well as practical knowledge in managing the organization in the context of fluctuating market situations.

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