In the past two decades, behavioral finance, a new paradigm of finance gained momentum on the foundation of conventional finance. An ongoing debate between behavioral theorists and conventional theorists provides scope for investigation into the changing landscape of investment behavior. Behavioral finance deals with the impact of psychological factors on investment decisions. It deviates from the assumption of rationality and can explain how an investor takes investment decisions. In the changing investment scenario and extreme volatility in the capital market, investors do not conform to rational thinking and reflect numerous biases. Therefore, studying how psychology plays an important role in investment decisions becomes imperative.

Researchers have investigated the role of behavioral finance and its implications on investors and financial markets at both micro and macro level. Extant literature has documented plausible reasons for deviation from approaches guided by conventional financial theories. However, more study needs to be done in India on this phenomenon. This thesis has focused on three major parts of a review of literature, (a) deviation from rational investment decisions, (b) drivers of behavioral biases and (c) establishing relationship between drivers of behavioral biases and investment decision.

Based on the extensive review of literature, the key question that came for perusal- do individual investors’ exhibit deviation from rational investment decision making based on conventional finance approaches? To explore further into the problem, three biases have been studied, a) overconfidence bias b) herd behavior bias and c) risk tolerance bias. The objective of the thesis is to examine the impact of these three biases on the extent of investment in the capital market pertaining to Eastern India. As studies are sparse in the Indian context and individual investors are less proficient than institutional investors, studying their behavioral pattern by using primary data would serve to gain deeper insights into the dynamics of investment decisions. Furthermore, three hypotheses were verified to examine the impact of overconfidence bias, herd behavior bias and risk tolerance bias on the extent of investment in the capital market.

Accordingly, four states of Eastern India: Odisha, West Bengal, Jharkhand and Bihar have been taken into consideration as the scope of research. Studying the investment behavior of investors in these segments would represent the overall behavior of Entire East India. A