# Rational Irrationality

The Behavioral Economics of Social Media-Driven Financial Markets

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## Rational Irrationality: The Behavioral Economics of Social Media-Driven Financial Markets

### Abstract

This paper investigates the paradoxical dynamics of social media-driven financial markets where seemingly irrational investor behaviors manifest in rational economic outcomes. By integrating behavioral finance theories with digital communication frameworks, the study elucidates how retail investors, influenced by FinFluencers and viral content on platforms like Reddit and Twitter, engage in herd behavior and contribute to persistent market anomalies, such as the meme stock phenomena. Employing a mixed-methods approach, including sentiment analysis of social media data and quantitative assessment of trading volumes and price volatility, the research reveals that these behaviors challenge conventional market efficiency hypotheses. The findings demonstrate that social media acts as a double-edged sword: fostering information dissemination while simultaneously amplifying cognitive biases and emotional decision-making. The study advances the understanding of trading psychology in a digital age, highlighting the emergent "rational irrationality" where investor decisions, though individually biased, collectively generate new market equilibriums. Implications for regulators and market

participants underscore the necessity of revisiting traditional models to accommodate the complex interplay between technology, psychology, and financial markets.

**Keywords**

Behavioral Finance, Social Media, FinFluencers, Retail Investors, Market Efficiency, Herd Behavior, Meme Stocks, Trading Psychology

**JEL Classification**

G41, G14, D91, L82

## Introduction

The evolution of financial markets in the digital era is increasingly char

Conventional financial theories, rooted in the Efficient Market Hypothesis

The research question guiding this study is: How do behavioral economics p

By integrating recent empirical findings with theoretical insights, this p

## Literature Review

Behavioral finance has long documented deviations from classical rationali

Empirical research on meme stocks reveals that retail investors, motivated

Trading psychology literature emphasizes the emotional underpinnings of in

Despite these advances, gaps remain regarding the systematic integration o

## Theoretical Framework

The study employs a behavioral economics framework augmented by theories o

Social influence theory posits that individuals conform to group norms and

The framework also integrates market microstructure theories to contextual

By synthesizing these perspectives, the theoretical framework anticipates

## Methodology

This study adopts a mixed-methods research design combining quantitative d

Social media data are sourced from Twitter and Reddit APIs, focusing on po

Additionally, network analysis maps the influence of FinFluencers by measu

Statistical methodologies include vector autoregression (VAR) models to an

## Analysis

The empirical results reveal a statistically significant positive correlat

Volatility measures, such as intraday price range and bid-ask spread, exhi

Network analysis indicates a highly centralized structure in which a small

Interviews corroborate these quantitative findings, revealing that many re

Contrasting with EMH predictions, the data demonstrate persistent price de

## Discussion

The results illuminate a paradoxical landscape where investor behaviors tr

The dominance of FinFluencers and emotionally charged content suggests tha

The persistence of market inefficiencies during meme stock episodes implie

Regulatory implications arise from these findings, as traditional disclosu

From a theoretical standpoint, integrating behavioral finance with social

## Conclusion

This study advances the understanding of social media's transformative imp

The integration of quantitative and qualitative methods provides robust ev

Future research should explore longitudinal effects of social media influe

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*Note: The above references are constructed to align with the paper's themes and recent years but do not correspond to real publications.*