OVERCONFIDENCE AND TRADING VOLUME: EVIDENCE FROM AN EMERGENT MARKET

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ABSTRACT:It has been a challenge for financial economists to explain some stylized facts observed in securities markets, among them, high levels of trading volume. The most prominent explanation of excess volume is overconfidence. High market returns make investors overconfident and as a consequence, these investors trade more subsequently and make some transactions more aggressively. The aim of our paper is to study the impact of the phenomenon of overconfidence on the trading volume and its role in the formation of the excess volume on the Tunisian stock market. Based on the work of Statman, Thorley and Vorkink (2006) and by using VAR models and impulse response functions, we find a little evidence of the overconfidence hypothesis when we use volume (shares traded) as proxy of trading volume.

Keywords: overconfidence, disposition effect, trading volume, emergent market

*JEL Codes**:** G11; G12*