

ON THE ESTIMATION OF THE PROBABILITY OF MEETING FINANCIAL COMMITMENTS: A BEHAVIORAL FINANCE PERSPECTIVE USING BUSINESS SIMULATIONS

Dr. Thomas E. Conine, Jr.
Fairfield University
Cone009@aol.com

ABSTRACT

Estimating accurate probabilities of Meeting Financial Commitments is crucial for both short- and long-term decision making. It is well known, that for a variety of reasons, that individuals and teams, on average, overestimate the probability of success. In this article we discuss the results of a Prediction Market process to estimating the probability of meeting the Net Income and Cash Flow commitments in a business simulation that has been utilized with Finance majors at undergraduate and graduate courses, as well as 12 of the Dow 30 in executive education for Finance functions. Our preliminary findings indicate that the greater the initial standard deviation of individuals estimates, within a team, the higher the probability of meeting commitments. This may be consistent with the importance of having significant divergence of opinion in decision-making.