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Summary

This PhD thesis is about behavioral finance, the sub-field of behavioral economics that studies the impact of psychological and cognitive biases in financial decision making. The main hypothesis of behavioral finance is that people systematically make irrational decisions when outcomes are unknown. Behavioral finance is a breakthrough because it managed to challenge the classical economics and financial theories, which are both built on the assumption that individuals are fundamentally rational, as implied by the expected utility theory. The proponents of behavioral finance used lab experiments to prove that individuals making decisions under uncertainty violate the axioms of the expected utility theory. As such, behavioral finance models were designed in a stylized form, disconnected from financial markets. Thus, this thesis adds to the growing literature that attempts to validate the hypotheses made by behavioral finance in real financial markets. In specific, most of my research investigates market inefficiencies which we hypothesize to be explained by the Cumulative Prospect Theory (CPT) probability weighting function. Using ex-ante information from option prices, we find it to play a role in explaining some inefficient behaviors of market makers, retail investors and institutional investors, which produces interesting investment insights. Additionally, my research also recognizes the influence of other cognitive biases, such as *anchoring*, *conservatism*, *overconfidence*, *herding*, *regret*, and *rational bias* amid the behavior of macroeconomic data professional forecasters.