


Chapter 9

Investor Behaviour, Market Efficiency, and Regulatory Challenges in Digital Currency Investments: A Comprehensive Literature Review

S. Baranidharan

 <https://orcid.org/0000-0002-7780-4045>
Christ University, Bangalore, India

ABSTRACT

The rapid proliferation of digital currencies has ignited significant interest in understanding investor behaviour and the regulatory challenges within this evolving financial landscape. The study seeks to elucidate the factors that influence investor behaviour in the cryptocurrency/digital currency market and explore the regulatory implications associated with digital currency investments. A systematic approach was adopted to identify, review, and analyze relevant scholarly articles from reputable databases. The selected articles span various dimensions of the cryptocurrency/digital currency ecosystem, including investor behaviour, market efficiency, technological innovation, and regulatory measures. It reveals that investor behaviour in the digital currency market is influenced by a complex interplay of emotions, market sentiment, and information asymmetry. Additionally, market efficiency theories are being reconsidered in light of the highly volatile nature of cryptocurrencies. Regulatory challenges encompass issues related to fraud, pump-and-dump schemes, and legal ambiguity.

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1. INTRODUCTION

In recent years, the rapid emergence and growth of cryptocurrencies have revolutionized the financial landscape, challenging traditional notions of value, exchange, and investment. The allure of potential high returns, technological innovation, and decentralized financial systems has drawn significant attention from investors, policymakers, and researchers alike. As the digital currency market continues to evolve, it brings forth a multitude of questions and complexities, ranging from investor behaviour patterns to regulatory frameworks.

The aim of this study is to conduct a comprehensive literature review that delves into the multifaceted realm of cryptocurrency/Digital Currency investment, with a particular focus on investor behaviour and its regulatory implications. By analysing a wide array of scholarly articles and research papers published over the past five years, the study intend to render a comprehensive overview of the key findings, emerging trends, and unresolved challenges in this dynamic field.

1.1 Research Context and Significance

The surge in interest surrounding digital currencies, exemplified by the meteoric rise of Bitcoin and the proliferation of alternative cryptocurrencies, has prompted researchers to examine various aspects of the cryptocurrency/Digital Currency market. Our review synthesizes insights from a diverse array of scholars who have investigated investor behaviour, market efficiency, regulatory measures, and technological innovations within the context of digital currencies.

1.1.1 Investor Behaviour in the Cryptocurrency/ Digital Currency Market

Understanding investor behaviour is crucial for comprehending market dynamics and predicting price movements. Scholars such as Choi, Kang, and Yoon (2022) have explored herding behaviour in cryptocurrency/Digital Currency markets, shedding light on how crowd psychology can lead to market bubbles and crashes. Additionally, studies by Sukumaran, Bee, and Wasiuzzaman (2022) and Kumar (2021) have investigated factors influencing investor decisions and adoption patterns among different demographics, thereby revealing the intricate interplay of emotions, information asymmetry, and rational decision-making.

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