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Equally vs. Value-Weighted Market Returns in CSAD-Based Herding Model: A Comparative Analysis

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Abstract: This study investigates the impact of market return measures in the CSAD-based herding model. Although value-weighted market returns (VWR) align with the model's theoretical foundation, equally weighted market returns (EWR) are commonly used in empirical studies. This discrepancy raises concerns about EWR's validity. The findings reveal that EWR and VWR generate similar herding results, particularly with larger samples and longer periods. The minimal differences support EWR as a reliable and practical substitute for VWR. These results enhance the empirical relevance of EWR, reinforcing its utility for analyzing herding behavior in financial markets.

Keywords: CSAD-based Herding Model, Herding Behavior, Equally Weighted Market Return, Value-Weighted Market Return

JEL Classification Number: G10, G17, G40