Single person decision theory and efficient market theory

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12 March Single Person Decision Theory: The single person decision theory explainsthe way individuals decide rationally under the conditions of uncertainty, and the way individuals approve the information concept that allows the decision makers to enhance their own beliefs from their decisions regarding the payoffs of the future. Single person decision theory has three basic components, namely choice under uncertainty, producer theory, and the consumer theory (Stinchcomb 3). This theory sufficiently explains the process of decision making. The single person decision theory represents the perfect way in which decisions can be made. The theory trusts the decision making capability of an individual and holds the belief that the decision maker is equipped with extreme computational expertise. According to the single person decision theory, investors should be completely made aware of the potential threats of investment along with the benefits that are frequently advertised. Not just this, the investor should also be made aware of the possible strategies that can be implemented to combat the threat. This requires the experts to be experienced enough to identify the potential threats that can be encountered as a result of the investment, and propose the solutions accordingly. Some of the key features of the single person decision theory are as follows: 1. It is essentially a model that formally explains the best way important decisions can be made and information can be considered. 2. It takes investing parties as risk averse. 3. It considers new information important enough to bring change in the decisions. 4. When new information is found, it may alter the original beliefs of the individuals responsible for decision making. 5. It explains the way an individual can make rational decisions while being in the state of uncertainty (Scott 60). 6. The decision maker selects the most appropriate choice from a whole range

of alternatives. Efficient Market Theory: Unlike the single person decision theory, the efficient market theory thinks of all information as easily available and accessible in stock market. “ The efficient-market hypothesis (EMH) is a theory of investment that says that the stock market always takes into account all information that is relevant about a company when pricing a stock” (Doyle). Almost all information about the stocks can be retrieved by any investor except for information about the insider trading. The efficient market theory asserts that information about stocks is same for all investors. However, an investor can not gain knowledge about something about a particular stock as long as its price is already not exposed. An individual who believes in the efficient market theory can not select leading stocks which aim to be winners. Instead, the investors may only try to make their efforts consistent with the market activity. In addition to that, the efficient market theory believes that an asset’s actual worth sufficiently explains all underlying factors that are related to it. Claims regarding the future cash flows are symbolized by the financial security measures. Therefore, the cash flow’s existing is value is fundamentally the value that a security holder intends to obtain. Works Cited: Doyle, K. M. “ What Is the Efficient-Market Hypothesis?” 2011. Web. 12 Mar. 2011. . Scott, William R. Financial Accounting Theory. 5th edition. Prentice Hall, 2009. Print. Stinchcomb, Maxwell B. “ Notes For Micro I: Single Person And Multiperson Decision Theory.” pp. 1-111. n. d. Web. 12 Mar. 2011. .