

## CRYPTOCURRENCY INVESTMENT DECISION MAKING IN ECONOMIC PSYCHOLOGY PRESPECTIVE

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**Abstract :** *The psychological dimensions of economic activities, including the actions of investing in cryptocurrencies, cannot be divorced from the economic activities themselves. The purpose of this study is to investigate the impact of various schools of thought within economic psychology on the decision-making process of investors choosing to put their money into cryptocurrencies. This research use normative research with data collection techniques with literature studies taken from books, journals and articles or the web that support this research which is then analyzed using descriptive analysis. The results of this study are the psychological aspects of cryptocurrency investors, namely deep thinking and rational choices so that they can maximize their investment profits, but there are irrational things that investors do.*

**Keywords :** *Maksimum 5 kata kunci dipisahkan dengan tanda koma. [Font Times New Roman 12 spasi tunggal, dan cetak miring]*

### 1. INTRODUCTION

Cryptocurrency is a digital currency that is privately issued and cryptographically secured, cryptocurrency was first introduced by Satoshi Nakamoto's account in the form of bitcoin, and bitcoin has now also been used for investment. Cryptocurrency has 2 main elements, both are: cryptography and blockchain (Dupont, 2019). The word cryptography is taken from the Greek word cryptos which means secret writing. According to Bruce Schneier, cryptography is the science or art of maintaining message security by converting the original message (plaintext) into an encrypted message (ciphertext), and converting this message is called encryption.(Dupont, 2019)

Crypto technology (cryptography) is a technology used to secure communication between one party and another while third parties cannot interfere with the confidentiality and integrity of the data sent, then blockchain technology enhances crypto technology that functions to connect servers in a decentralized peer to peer manner. form a transaction ledger or ledger by using crypto technology to verify it.(Wibisono, 2020)

According to Ikhwan (2021) that more people's interest in the use of cryptocurrency, it will have the potential to be part of the economic revolution. As explained by cryptocurrency observer Murad Mahmudov "it is a new form of thinking about money, storing money, transferring money, and just dealing, managing, and understanding money, and all kinds of second-order financial effects that come out of it". Cryptocurrencies offer several improvements in terms of finance including 1. Valuable, *cryptocurrency* is made in

limited quantities to make it a rare asset that is unlikely to depreciate, 2. Efficient, cryptocurrency transactions are also cheaper because they do not use third parties, 3. Uncensored, cryptocurrencies are regulated by mathematics and cryptography (Bintarto et al., 2022).

Economics in cryptocurrency refers to many aspects of the Austrian economy, one of which is the theory mentioned by Friedrich August Hayek (1976) in his book "Denationalization Of Money" which argues that competition in currencies is not discussed by economists and there is no answer in the literature why monopoly over universal provision of money is a necessity or belief that only comes from postulates that cannot be explained in a certain area to one type of money (Hayek, 1976)

There are some previous studies related about cryptocurrency is a new thing that has become the focus of researchers, but in many previous studies, many have only focused on policy, legality, cryptocurrency law in Islam, etc., and until this research was made there had not been found research that focused on the view economic psychology prespective. about cryptocurrencies, here are previous studies on cryptocurrencies: *First*, research from Dewanti Arya Maha Rani, I Nyoman Gede Sugiarta and Ni Made Sukaryati Karma entitled Cryptocurrency as a Means of Money Laundering in Stock Trading and the result in this study the author focuses on analyzing the existence of virtual money or cryptocurrencies in Indonesia.(Maha Rani et al., 2021) *Second*. Reseach from Mark Gates, and result of his research is Law enforcement has acknowledged this possibility, but has not seen any large-scale activity in this area. This seems odd given the prevalence of Bitcoin in criminal communications, but may reflect a general lack of participation in cryptocurrency or a lack of knowledge and resources among the relevant population. It can also indicate that Bitcoin is being used as a transition currency, with Bitcoin being converted to fiat currency as soon as the (criminal) transaction is complete. Older Bitcoin through an open and easily accessible entry-level facility is likely to increase the availability and adoption of this cryptocurrency for criminals in the future.(Gates, 2017)

Cryptocurrency is a new thing in economics that still needs to be studied, this study explains how the psychology views cryptocurrency actors or investors in making decisions because there are rational choices and irrational chices in decision making to maximize profits.

## 2. METHODS

This study uses a normative research method, this research can be said to be normative research because this research places the law as a system of norms that is built on principles and this research uses a lot of secondary data taken from the literature. (Soemitro, 1983) Data collection techniques used in normative research are document studies or literature studies, therefore the data collection used in this research is written data taken from books, scientific works and the web that support and relate to this research(Sunggono, 2015). After collecting the data in the research, the next step is to analyze the data, and in this study using descriptive analysis methods. Descriptive research technique is an analytical technique that describes or describes the subject or object of research, and the researcher does not provide justification for the results of research.(ND & Achmad, 2010)

### **3. RESULT AND DISCUSSIONS**

#### **3.1. Cryptocurrency As A Investment**

The definition of investment according to Van Home (1998) states that "The investment decisions are the important of the three decisions when it comes to the creation of the value. Capital investments the allocation of the capital to investment proposals whose benefits are it a realized in the future. Because the future benefits are not known with certainly, invest proposals with necessary involve risk. Consequently, they should be evaluated in relation to their expected return and risk." and understanding of investment according to Charles (2002) The investment is the study of the process of committing funds to one or more assets: Emphasis on holding financial assets and marketable securities, concepts also apply to real assets, foreign financial assets should not be ignored. From definitions above.(Safelia, 2012) Researchers concludes that the notion of investment is the expenditure or placement of funds owned by a person in the present to obtain profits or other benefits in the future.

In investing there are several things to consider including the rate of return, rate of risk and the availability of funds to invest, return is the level of profit of the funds invested, the return is divided into two, both are expected return and realized returns. And risk is a possible return that materializes differently from what is expected. Risk can be one of the considerations for investors in choosing investment facilities, the higher the investment risk, the higher the expected return.(Lubis, 2009)

In addition to the above risks, investors are also faced with several problems in investing, one of which is fraudulent investment, what is meant by fraudulent investment here is illegal investment without clear legality, but there are still people who believe and follow the investment because it offers promising returns for investors, and if someone wants to invest, the first thing to pay attention to there are 5 kinds, namely: the legality of the investment, the mechanism of the investment institution, the track record of the investment institution, the achievements of the investment institution, and the offer of high profits in a short time, usually illegal investment institutions offer high returns. and stable to potential investors to convince them.(Herlianto, 2013)

The presence of cryptocurrencies in the financial sector has now been considered a legitimate investment instrument, but cryptocurrencies have high volatility or high risk and high returns, therefore investing in cryptocurrencies must be considered in real-time, for short-term investments in cryptocurrencies can reach substantial returns, but with substantial risk. And in the long term, investing in cryptocurrencies can also earn high returns depending on regulatory developments and the dynamics of the cryptocurrency market.(Saksonova & I, 2019) Cryptocurrencies can be grouped as diversified in investment, according to Markowiz (1952) many researchers have focused on the advantages of diversifying investments and also analyzing asset combinations that can maximize profits and minimize volatility, popularity. Cryptocurrencies are currently attracting investors to include them in their portfolios.(Susilo et al., 2020) Several researchers have analyzed whether cryptocurrencies have anything in common with other instruments such as gold. According to Nikolaos (2020) in his research he mentions that

overall, it can be supported that cryptocurrencies are comparable to gold in terms of their global safe-haven properties.(Kyriazis, 2020) There are several reasons for choosing cryptocurrency as a means to invest, including: 1. Investors or traders who have a mature strategy will have more potential and get the maximum return. 2. Investing in cryptocurrency can be for a very small amount of money. 3. Investors or traders take part in the growth and adoption of new ones that promote a decentralized economy.(Hobbs, Jonathan, 2018)

### **3.2.Discussions**

Gabriel Tarde (1902) who first to use the term 'economic psychology'. He drew attention to the need to analyze economic behavior from a psychological perspective in his French book *La psychologie économique*. He criticized Adam Smith for not incorporating human psychology into economics. Hugo Münsterberg (1912) established the movement in German-speaking countries. Münsterberg emphasized psychology and economic policy despite criticism from Wilhelm Wundt. He studied social engineering, work monotony, hiring decisions, and advertising's effects. Despite promising beginnings, economic psychology faded as labor, employee, industrial, and organizational psychology developed.(Kirchler & Hoelzl, 2018)

In nineteenth-century, C. Menger-exemplified Austrian school had close relations to the Brentano school of psychology. Meanwhile, the "psychological" tradition asserts that the ultimate explanation for economics must be found in psychological truths. Menger and his colleagues consider psychological processes such as needs, desires, and satisfaction to be the "essence" of economic phenomena, and they believe that these psychological experiences form their basis.(Takemura, 2019). Some classical economists such as Gill, David Ricardo and Adam Smith explained that the importance of the inclusion of human psychology in assessing economic activity. This agrees with what Bakar and Yi (2016) explained that psychological factors have a significant impact on decision making by economist.(Hadrian & Adiputra, 2020)

One of the psychological aspects in investment selection is rational choice. Rationality is considered important for modern economics where profit and utility maximization are at the center of analysis. Rationality according to Sen (1977) rationality has a role in economics, he states that rationality has two meanings, first, maximizing one's own profit and second, consistency in the utility or benefits that are expected and chosen by each individual.(Jones, 2021). According to Stanovich (2014), rationality is the choosing of alternatives in the form of an action to achieve goals in the most effective manner. In the meantime, according to Hastie and Dawes (2010), an action is rational if it satisfies certain conditions, namely: first, the action is based on thorough study and provides alternatives to the action, and second, the action must take into account the current consequences. secondly, that an alternative action must also examine the repercussions of its implementation. Third, if the outcome of the consequence is still undetermined or probable, the value or outcome is evaluated using the probability theory.(Hidayat, 2016)

Rational in investment and trading activities, where economicst make a decision and have considered all the best options using deep thinking to maximize its utility. Investors or traders must be careful and always be rational in all their actions.(Pradana, 2017) Then rationality in cryptocurrency can also be interpreted as a rational process carried out by cryptocurrency users in utilizing cryptocurrency technology with goals that are in accordance with the wishes and expectations of users to maximize the usefulness of their actions.(Kumalasari, n.d.)

The rationality desired by cryptocurrency users is not only the pursuit of short-term profits, but also growth in the long term with the entire ecosystem owned by cryptocurrencies so that users can benefit, in today's cryptocurrency if the profits are not greater than the costs incurred then the motivation of users will reduce (Yoo, 2021). But in practice, often traders or investors who are always irrational, namely with traders or investors may overreact in the short term when they are pessimistic about the market and pay attention to events or news that have just happened without making deeper observations of the data historical.(Darmayanti, 2020) Another irrational thing that traders or investors do is imitate other people when making decisions in transactions without further research or action.(Yoo, 2021)

#### 4. CONCLUSIONS

The view of economic psychology in cryptocurrency investment is that there are psychological aspects that can influence the choice of cryptocurrency, one of which is deep thinking and rational choices that affect the maximization of investor profits, but investors are often faced with irrational choices, namely with traders or investors may overreact in the short. term when they are pessimistic about the market and pay attention to events or news that have just happened without making deeper observations of the historical data

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