

Abstract

This thesis investigates the potential of cumulative prospect theory to explain future cryptocurrencies' returns. Moreover, the study aims to determine whether the predictive power of cumulative prospect theory value persists when cumulative prospect theory value is computed by plugging the percentage form of return (for instance, 5%) instead of the decimal form (for instance, 0.05). Using a rolling sample of 200 cryptocurrencies with the highest market capitalisation for each month from March 2017 to March 2023, we found that regardless of using returns in percentage or decimal form, the cumulative prospect theory value function produces comparative abnormal portfolio returns and confirms the hypothesis that cryptocurrencies with high (low) cumulative prospect theory value earn low (high) subsequent returns.

JEL Classification	G11, G12, G41
Keywords	Prospect theory, Cumulative Prospect Theory, Cryptocurrency, Behavioural Economics
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