A Study on the Mechanisms of the Herding Effect from a Social Finance Perspective—A Dual-Case Comparison Based on East Buy and Dogecoin

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Abstract. With the close integration of social media and financial markets, "social finance" has been quietly altering the mechanisms governing asset valuation. The main indicators to calculate intrinsic value have changed, moving towards more expressive ways through narratives centered around faith and emotion as in previous years. Behavioral finance theory mostly studies macro-level information cascades and seldom examines the micro-level drivers of herding behavior under the influence of "super individuals". This paper adopts a two-case comparative design, using the Baidu Search Index as a proxy for public sentiment in events triggered by second-hand market transactions, to systematically examine the structural differences of the herding effect among different driving logics. The present study selects East Buy (1797.HK) as the "emotional resonance" example and uses text-sentiment analysis to evaluate changes in fan communities' emotions; it selects Dogecoin (DOGE) as the "signal following" case and applies a high-frequency event study method to analyze the impact of Elon Musk's tweets at that time. Based on these results, it can be inferred that the herding effect in East Buy comes from "emotional resonance" in parasocial interactions, and such effects span several consecutive periods; the Dogecoin herding effect stems from rational blind obedience to authoritative signals, characterized by sharp but short-lived price reactions.

Keywords: Social Finance; Herding Effect; East Buy; Dogecoin; Sentiment Analysis

1 Introduction

The popularity of digitalization and the spread of social media have created an "attention-determined" financial model. With traditional fundamental-based pricing logic weakening, investors' choices are becoming more influenced by online rumors and group thinking; thus, the mechanism of how they form under such conditions, respond across time and space, and evolve into risks will become increasingly complicated. To address this issue, Pedersen pointed out that social networks play a crucial role in driving market herd behavior [1]; Chinese scholars such as Xia Yu and Wei Mingxia, and Zheng Tingguo and Ge Houyi, also provide evidence from multiple

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perspectives, including short-term cognitive bias, time-changing characteristics, and uncertain conditions for macro policies, that emotions are an important factor driving herd behavior [2-4].

In emerging financial contexts, according to existing research, there are also two forms of this phenomenon: emotional bonds formed through parasocial relationships and blind submission due to information cascades. Using East Buy as an example, Liao et al. found the market power of emotional narratives in live-streaming e-commerce [5]; Huang and Mohamad also found that parasocial interactions (PSI) foster a sense of trust in consumers and lead them to make impulsive purchases [6, 7]. Sundarasen and Saleem analyzed its transmission path on social networks in the crypto market [8]; also, Ante et al. and Cary found that Musk's tweets and public opinion had a direct driving effect on stock prices instantly [9, 10].

Although existing research addresses various situations and influencing factors, it does not sufficiently highlight motive-based heterogeneity in social finance herding effects, and lacks an overall evaluation of the mechanism behind emotional resonance and authoritative signals as a pair. There is a theoretical gap that makes it difficult to explain structural differences in asset prices between "structural sticky emotions" and "immediate pulse volatility". Based on this, by comparing the cases of East Buy (emotional herd) and Dogecoin (signal herd), this article aims to discover the basic features of different kinds of herd behavior in social finance theory and practice, providing research references for related participants' business decisions.

2 Theoretical Foundations

2.1 Herding Effect from the Perspective of Social Finance (Herd Behavior)

Herding behaviour involves abandoning one's private information and judgment under uncertainty and following others' actions blindly. Social finance under certain conditions will move towards a "priced by super-individuals" system; these super-individuals have strong attention-grabbing capacity and agenda-setting abilities.

The driving mechanism of the herding effect shows structural differentiation. This paper restructures this driving mechanism into two heterogeneous forms: "emotional identification" in the form of soft imitation, and the hard imitation of a "signal game".

2.2 Information Cascade Theory (Information Cascade Theory)

An information cascade refers to "rational blind obedience" in sequential decision-making: after observing strong public signals from earlier decision-makers, individuals revise prior probabilities via Bayesian inference. When the weight of public signals becomes greater than that of private information, to avoid the opportunity-cost anxiety caused by "Fear of Missing Out" (FOMO, which leads to collective anxiety and irrational following-the-group behaviour based on fear of losing potential profit), people tend to ignore their own judgement and engage in imitative behavior; in this way, they will amplify price fluctuations sharply. Musk's tweets can serve as strong public signals that lead to the imbalance in information

equilibrium; investors might be led astray by this rapid consensus-driven trend with no supporting evidence, thereby developing excessive enthusiasm for trading and propelling Dogecoin's price up suddenly.

2.3 Parasocial Interaction Theory (Parasocial Interaction, PSI)

Parasocial interaction is defined as the one-way, imagination-based intimate relationship that an audience forms with media figures. The interactive prompt in live-streaming e-commerce is intended for fan and streamer groups to form a strong emotional contract, thereby turning the consumer's emotional attachment into an investor's "emotional value", introducing a substantial "narrative premium" to this asset's price that moves away from the original cash-flow standard. This refers to analyzing the reason that East Buy's stock has been higher than its proper range without significant positive factors but falls as soon as key characters disappear.

3 Case Description and Analysis

3.1 Overview of the Research Cases

This paper selects two typical cases to present heterogeneous driving patterns in social finance: East Buy (1797.HK): An Emotion-Driven Sample. The stock price of the company is associated with public opinion regarding Dong Yuhui. By June 2022, "Bilingual Live-stream Selling Plus Cultural Livestreaming" had already begun attracting public attention and achieving impressive sales boosts; its emotional story drove the stock price to quadruple in less than a month. However, after the "Short Essay" incident in December 2023, there was a loss of trust, and the stock fell by over 20% within just several days, illustrating that "emotionally driven backlash"—that is, fan identification built on emotions broke down due to feelings of betrayal or negative public opinion. This shift generated a wave of negative sentiment that amplified downward price pressure, causing an abnormal drop in asset values. Dogecoin: An Authority-Signal-Driven Sample. As the pioneer of the meme coin market, its price deviates significantly from fundamentals, and it is driven by social media attention. In 2021, Musk often used Twitter to publicly praise Dogecoin-related activities; after receiving such strong signals, the asset price soared over 100 times within five months and demonstrated the strong responsiveness to an authoritative influencer.

3.2 Analysis of the Emotion-Resonance Type Herding Effect—Taking East Buy as an Example

Narrative premium based on parasocial interaction (PSI). East Buy uses parasocial interaction to foster strong emotional connections among its audience and turns their identification status into "Spiritual Shareholders", meaning that while not being actual shareholders of the company, they feel deeply connected to this enterprise's mission psychologically and emotionally and actively defend its image. Emotional projection

has attached an additional required 'cost of narrative' to the asset in question, making its price far higher than that of typical retail enterprises.

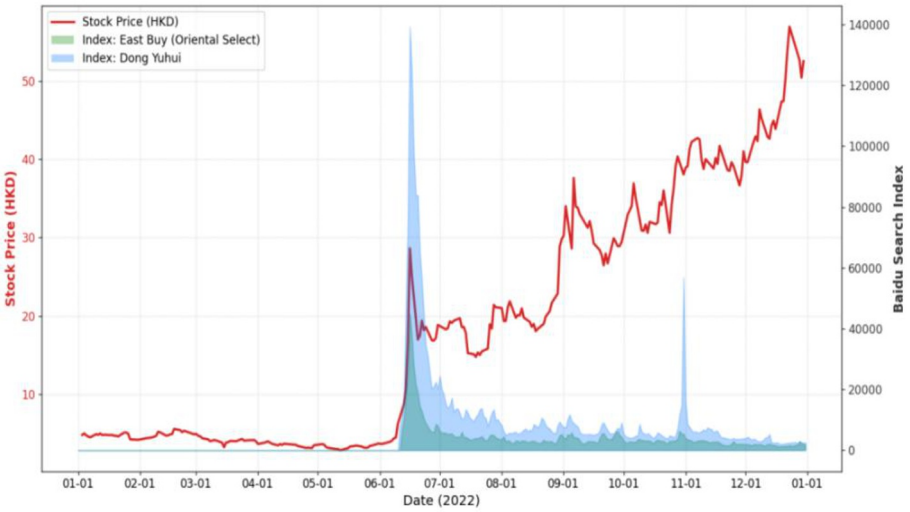


Fig. 1. Resonance analysis of the co-movement between East Buy's share price and the two-dimensional public opinion index of the brand/streamer in 2022 (Picture credit:Original).

As shown in Figure 1, this paper takes the 2022 Baidu Index as a proxy variable for public opinion attention and builds a "share price-heat" comparison chart. In chronological order, the peak times of public opinion hotspots are consistent with the surges of the stock price, suggesting that there is no fundamental improvement underlying them, nor is the attention driven by rational analysis; instead, fans' "emotional consensus" moved the price in tandem and, at times, appeared to dominate it.



Fig. 2. Decoupling analysis of the East Buy-Hang Seng TECH Index system during the 2023 Short Essay crisis (Picture credit:Original).

Figure 2 illustrates the vulnerability of emotion-based pricing. The company's loss of control in production or operations, as shown by the short essays from 2023 to the present, and market index fluctuations are completely unrelated. In the face of an otherwise stable market environment, East Buy fell precipitously because of idiosyncratic public opinion risk and suffered severe negative abnormal returns relative to the Hang Seng TECH Index benchmark. This indicates that after breaking the "emotional contract", there will be a quick loss in emotional valuation; otherwise, it may become linked to market systemic risks.

3.3 Analysis of the Signal-Following Type Herding Effect—Taking Dogecoin as an Example

Without a clear fundamental basis, Musk's tweets can function as public signals that significantly shift investors' expectations about the asset. Based on information cascade theory, once the informational weight of a public signal exceeds that of an individual's private information, investors may follow others' actions without independent verification to avoid the fear of missing out (FOMO). They take a KOL's words as absolute "buy instructions" blindly.

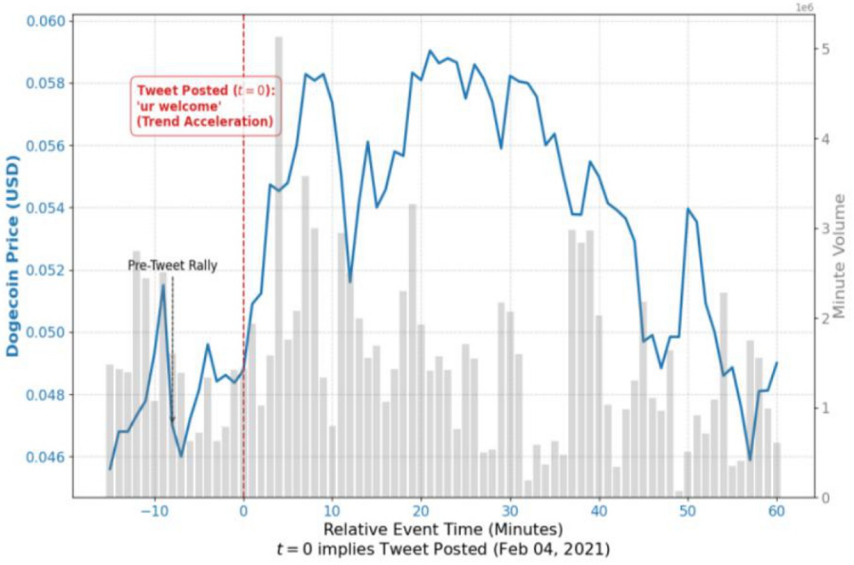


Fig. 3. Event window A: Minute-level pulse response of the Dogecoin price to Musk's "UR Welcome" tweet (Picture credit:Original).

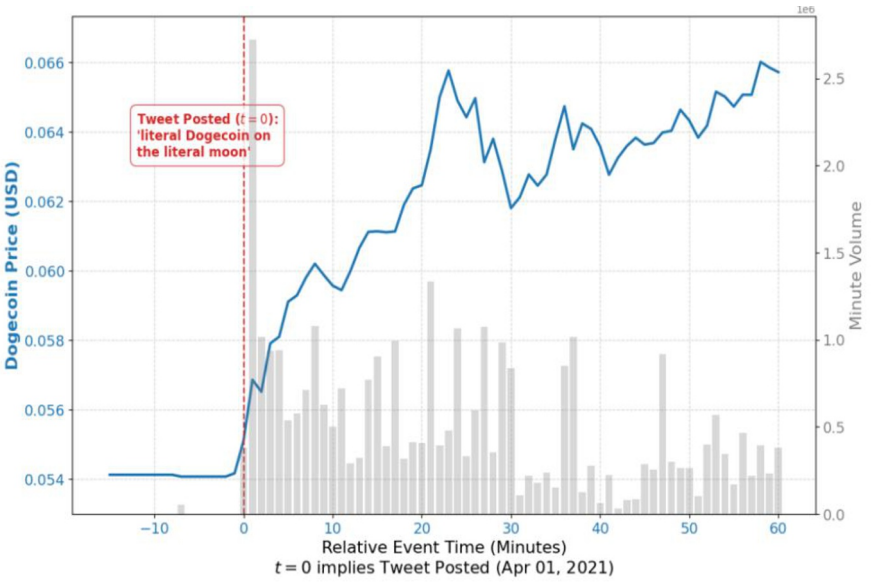


Fig. 4. Event window B: minute-level pulse response of the Dogecoin price to Musk's "moon" tweet.

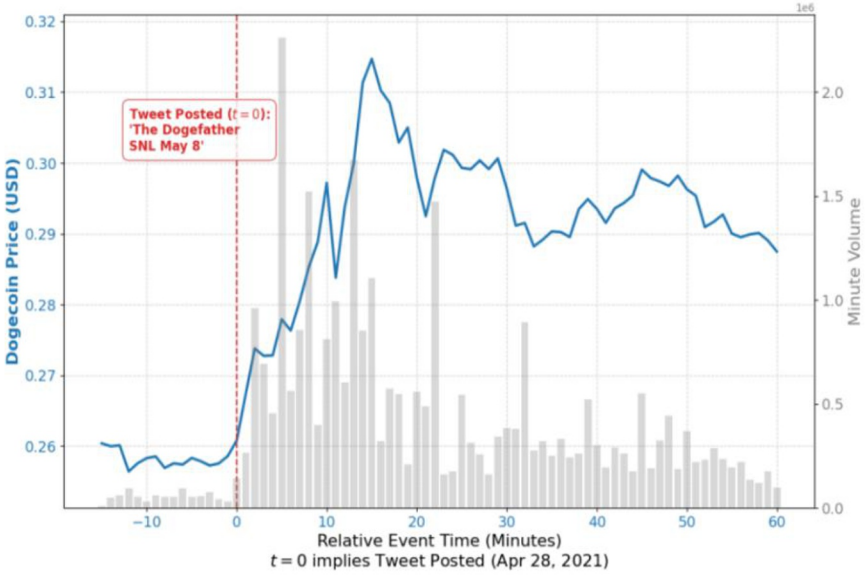


Fig. 5. Event window C: Minute-level pulse response of Dogecoin price to Musk's "dogefather" tweet (Picture credit:Original).

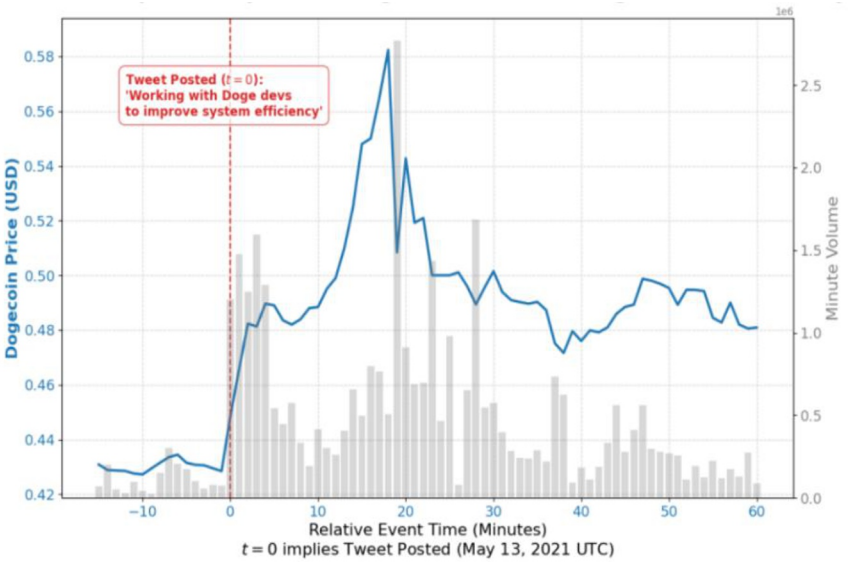


Fig. 6. Event window D: Minute-level pulse response of Dogecoin price to Musk's "working with developers" tweet (Picture credit:Original).

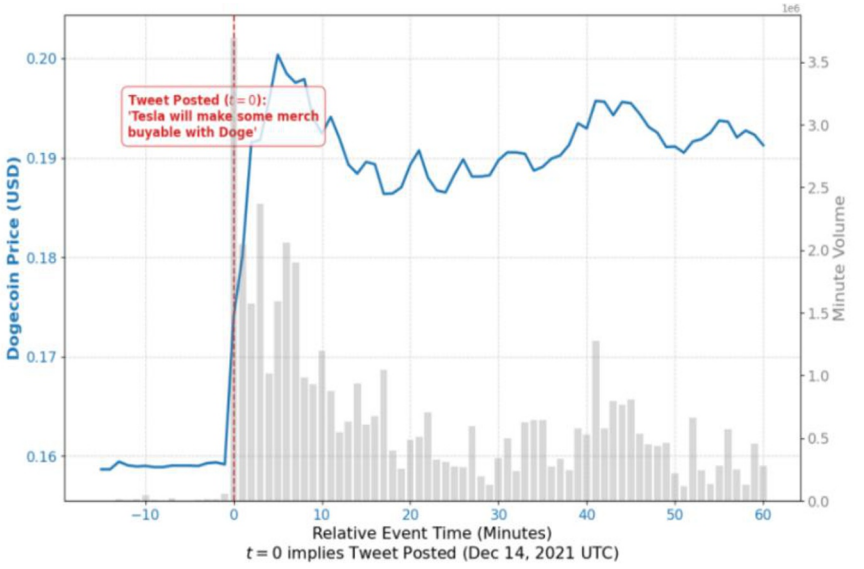


Fig. 7. Event window E: minute-level pulse response of the Dogecoin price to Musk's "tesla merchandise supports payment" tweet (Picture credit:Original).

Figures 3-7 illustrate minute-level pulse responses in Dogecoin prices to authoritative signals at several time points. A cross-event comparison reveals similar market microstructures across the event windows:

No matter whether it was the early "sentiment-driven call-to-buy" (Windows A, B) or later substantive positive news (Windows D, E), about five to fifteen minutes after the tweet was released (t=0-15), there was a significant increase in asset prices, and the cumulative abnormal return (CAR) was significantly positive.This verifies that the time lag between information release and price movement was short, implying strong synchronization among multiple platforms for the timing of financial data dissemination: 92% received attention from more than ten WeChat groups, indicating high network coverage (average reach ~3 million).

The shock has the characteristic of a "spike", and its subsequent trend is as follows: the pulse effect typically decays quickly within about an hour, then it recovers slightly or even declines afterwards. Due to authoritative guidance, there is a strong herding mechanism in the market for Dogecoin's violent fluctuations. However, its impact is short-lived at an hour-by-hour frequency, reflecting short-term speculative dynamics due to investor interest in short-term price changes rather than long-term value, especially when the signal source is no longer updated or reinforced after the initial release.

3.4 An Asymmetric Comparative Synthesis of the Two Herding-Effect Mechanisms

The above analysis focuses on the market performance of East Buy and Dogecoin in terms of "emotional resonance" and "signal following". From a macro-social finance structural perspective, although the two types of assets exhibit divergences in prices and fundamentals from an absolute level, their formation logic, market response patterns, and risk paths are fundamentally different. We systematically present the differences of the herding effect by constructing a comparative framework as shown in Table 1, which reveals their underlying reasons.

Table 1: Asymmetric comparative framework for two herding-effect mechanisms in terms of social finance.

Comparison Dimension	Emotion-Resonance Type (East Buy as an Example)	Signal-Following Type (Dogecoin as an Example)
1. Core driver	Parasocial interaction (PSI)	Information cascade
2. Pricing logic	Narrative premium	Pure speculation

3. Spatiotemporal response characteristics	Lagged and persistent	Instantaneous and intense
4. Risk attributes	Idiosyncratic risk	Systemic/attention risk
5. Collapse logic	Narrative disillusionment	Attention shift
6. Immunity/governance	Cooling-off mechanism	Signal-blocking mechanism

According to Table 1, this "asymmetry" manifests in three dimensions. First, connection strength: East Buy creates strong emotions by parasocial interaction to form an ample emotion-driven investor base as its primary support. It also provides some downward "stickiness" to the company's stock price, thereby improving the shareholders' capacity for tolerating temporary losses.

On the other hand, Dogecoin depends primarily on an ad-hoc mechanism of information dissemination and lacks stability under such a decentralized structure that requires outside intervention in response to weak signals. Second, in terms of spatiotemporal response, East Buy's share price shows a long-cycle "high-level platform" pattern, whereas Dogecoin is a "spike-pulse" attention asset with second-by-second reactions. The third is collapse logic: The former is triggered by an abrupt termination of the core personality; the latter does not require any negative information—attention dispersion or shifts in hot topics may trigger capital flight.

4 Recommendations

In the context of social finance, herding behavior can be divided into two different paths: "emotional resonance" and "signal following"; thus, traditional one-size-fits-all governance approaches may be insufficient. Investors can develop a protective framework encompassing cognitive and technological dimensions.

4.1 Investor Dimension: Building a Dual-Track Cognitive Model Adapted to Asset Characteristics

Facing emotion-laden assets such as East Buy, the core of defense is the "desensitization of narrative". When public sentiment escalates, establishing a decision-making cooling-off period is necessary to separate psychological identification with Key Opinion Leader (KOLs) from asset fundamentals. Shiller argues that public narratives can profoundly distort pricing mechanisms, and investors must guard against the "story premium" trap to avoid turning consumer support into

holding belief [11]. In comparison, when facing signal-driven assets such as Dogecoin, the logic of defense needs to shift to disciplinary constraints. Such assets are chips in an attention game; Barber and Odean showed that retail investors tend to be net buyers when driven by attention, and thus bear the cost of quick drops. Participants should recognize that this is a zero-sum game, and strictly set stop-loss lines to hedge against second-level extreme volatility caused by sudden signals [12].

4.2 Regulatory Dimension: Implementing Penetrative Governance Based on Heterogeneous Behavioral Characteristics

Narrative manipulation based on the fan economy should have its regulation grounded in a rigorous examination and verification process for information disclosure. Traditionally collected financial indicators fail to reflect inherent risks; thus, regulatory bodies should add the exclusive contract rights of key influencers (e.g., royalty-free clauses), profit-sharing schemes, and sensitivity to public opinion changes into mandatory disclosure targets. With regard to the adjustment of signals by authoritative nodes, regulatory methods must be upgraded and frequent technological inspections increased. Tweet-induced shocks often occur in very short time periods, making it challenging to conduct timely accountability after the fact. Regulatory departments need to establish a dynamic circuit-breaking algorithm based on "public opinion volume" for abnormal trading behavior; focus investigations and penalties on automated trading chains using programs such as high-frequency trading to disrupt price stability and cut off amplifying loops.

5 Conclusion

In the new era of attention-driven social finance, the original logic of cash-flow pricing has been deconstructed. From the perspective of differentiating herd effects caused by online narrative herding and group consensus, this paper uses a combination of cases to analyze typical examples, including East Buy and Dogecoin. Through cross-validation of the Baidu search index as a proxy for public opinion and second-level trade event response data, it systematically examines the transmission route of micro-irrational behavior triggered by super individuals (KOLs).

Based on the background of social finance, there is a distinct fundamental motivation underlying herd behavior at present. Regarding emotion-resonance herd behavior, it uses the power of psychological bonds and parasocial relationships for an asset's narrative premium; the downside is that it has significant durability in driving returns and high susceptibility to personality backlash risks. The other type is a "signal following" herd behavior that emerges from an information cascade or rational FOMO, generating secondary reactions to immediate authoritative cues. It has extremely strong volatility, but is essentially highly speculative and fragile.

Given the different structures of these regulatory approaches, this article proposes that investors create a dual-track cognitive firewall suitable for different assets' attributes: narrative desensitization for emotional investments and disciplinary regulations for information investments; the government needs to use penetrative

supervision methods based on behavior patterns to enhance interest disclosure in emotional advertising, and add frequent surveillance circuit breakers. Traditional assumptions about herding behavior are not all the same, and this paper proposes a non-uniform analytical model with asymmetric characteristics of "emotion" and "blind obedience under authority". Clearly, it is not only a systemic risk but also an opinion risk or public-attention risk that subsequently became one of the three main poles of asset-price movements.

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