UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2022

Course: Behavioral Finance	**Semester: III**
Program: MBA FINANCE	**Time: 03 hrs.**
Course Code: FINC8034	**Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.	Statement of question	Marks	CO
Q1.	You are looking at your portfolio holdings. You notice that Sandor Defense Contractors is up 10%, while Bolton Enterprises is down 10%. You are happy with the Sandor gain, but you are very upset by Bolton's underperformance. What is this an example of? a. Hindsight bias b. Overconfidence c. Prospect theory d. Representativeness	2	CO1
Q2.	Preference for known risks over unknown risks is known as _____. a. Ambiguity aversion b. Common sense c. Conservatism d. Risk aversion	2	CO1
Q3.	You predict that the health care sector will provide the highest returns of any sector over the next few years. A few months down the road, you look at returns data, and you see that there is 1 health care company in the top 50 returns. You are convinced that this shows your prediction is accurate. What is this an example of? a. Availability bias b. Disposition effect c. Framing effect d. Hindsight bias	2	CO1
Q4.	Define Endowment effect	2	CO1
Q5.	Name two tests of semi-strong form market efficiency	2	CO1

Q6.	Who proposed Prospect Theory
	
	    a. Jegadeesh and Titman
	    b. Daniel Kahneman and Richard Thaler
	    c. Daniel Kahneman and Amos Tversky
	    d. Amos Tversky and Richard Thaler
		2	**CO1**

Q7.	An important element in prospect theory is loss aversion.
	
	    a. True
	    b. False
		2	**CO1**

Q8.	Under loss aversion, the value function is steeper for losses than for gains.
	
	    a. True
	    b. False
		2	**CO1**

Q9.	According to weak-form efficiency, technical analysis of assets is not useful.
	
	    a. True
	    b. False
		2	**CO1**

Q10.	Assume you play a lottery, which earns you INR0 with probability 0.9 and INR10000 with probability 0.1 (Option A). Your second option is to win a certain amount of INR1000 (Option B). Which option would you choose, if you were risk-averse (without knowing the precise utility function)?
	
	    a. Option A
	    b. Option B
	    c. Indifferent between options A and B
		2	**CO1**

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SECTION B
4Qx5M= 20 Marks

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Q11	Explain the nature, scope, and applications of Behavioral Finance.	**5**	**CO2**
Q12	Explain the concepts of representativeness and anchoring.	**5**	**CO2**
Q13	What is regret aversion and illustrate it with any one example. **OR** What is overconfidence bias. What are the different causes/forms of overconfidence.	**5**	**CO2**
Q14	Brief (i) Gambllers fallacy (ii) Hot hand fallacy	**5**	**CO2**

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SECTION-C
3Qx10M=30 Marks

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Q15	The question is a matter of life and death: a new disease is sweeping across the country, and epidemiologists project it will claim the lives of 600 people. Scientists	**10**	**CO3**

	have proposed two alternative programs to address the outbreak, and you must decide which to implement		
	• If program A is adopted, 200 people will be saved.		
	• If program B is adopted, there is a one-third probability that 600 people will be saved, but a two-third probability that no one will be saved at all.		
	Which one do you select? Why?		
	OR		
	Identify the differences between rational / classical finance and behavioral finance and explain them in detail.		
Q16	EMH states that investors are rational. Behavioral finance states they are not. Justify your stand by explaining market and investor behavior supporting your stand.	**10**	**CO3**
Q17	Critically examine Equity Premium Puzzle and Myopic Loss Aversion? How could the latter explain the former?		
	OR		
	How does the following behavioral biases function?	**10**	**CO3**
	(i) Herding		
	(ii) Conservatism		
	(iii) Anchoring		
	(iv) Confirmation		
	(v) Disposition effect		
	SECTION-D **2Qx15M= 30 Marks**		
Q18	How Prospect theory is different from Expected Utility Theory? Explain major aspects of Prospect Theory with graphs.		
	OR		
	How does the following behavioral biases act in various fields of management? Explain them with examples.	**15**	**CO3**
	(a) Omission bias		
	(b) Ambiguity aversion		
Q19	How market anomalies challenge market efficiency? Explain with examples different stock market anomalies.		
	OR	**15**	**CO4**
	Criticize Efficient Market Hypothesis and explain (a) Weak-form market efficiency (b) Strong form market efficiency.		