Name: **Enrolment No:**	UPES UNIVERSITY OF TOMORROW

UPES
End Semester Examination, December 2023

Course: Behavioral Finance | **Semester: III**
Program: MBA | **Time: 03 hrs.**
Course Code: FINC8034P | **Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q.1	What is bounded rationality in real market conditions? A) Making decisions based on strict rules B) Making decisions with limited information and cognitive resources C) Making decisions based on emotions D) Making random decisions	**2**	**CO1**
Q.2	Corporate finance can influence mergers and acquisitions decisions by introducing biases. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.3	What is the theoretical foundation of the Efficient Market Hypothesis (EMH)? A) Markets are always irrational B) Markets are perfectly efficient C) Markets are driven by emotions D) Markets are unpredictable	**2**	**CO1**
Q.4	Behavioural Investing and Neuro finance are fields that combine behavioural insights with finance. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.5	What is confirmation bias? A) Seeking out information that confirms one's existing beliefs B) Ignoring all information C) Giving equal weight to all information D) Disregarding one's own beliefs	**2**	**CO1**
Q.6	The sentiment effect in asset pricing refers to the impact of investor sentiment on stock prices. a. True b. False	**2**	**CO1**

Q.6	The January effect is the tendency of stock prices to rise in January. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.7	Who developed Prospect Theory? A) Daniel Kahneman B) Adam Smith C) John Maynard Keynes D) Milton Friedman	**2**	**CO1**
Q.8	The sunk cost fallacy is the tendency to continue an investment because of the resources already invested, even if it no longer makes sense. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.9	What does the introduction of the probability weighing function in prospect theory mean? A) Assigning different weights to probabilities B) Ignoring probabilities C) Using only high probabilities D) Removing probabilities from decisions	**2**	**CO1**
Q.10	Behavioral corporate finance can not influence mergers and acquisitions decisions by introducing biases. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
Q.11	Explain the confirmation bias.	**5**	**CO2**
Q.**12**	Describe the framing effect in investment choices.	**5**	**CO2**
Q.**13**	Discuss how behavioral factors can impact capital budgeting decisions.	**5**	**CO2**
Q.**14**	What does the introduction of the probability weighing function mean in prospect theory?	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			
Q.15	Provide an example of how overconfidence bias can lead to suboptimal investment decisions	**10**	**CO3**

Q.16	How does ambiguity aversion influence the way individuals approach uncertain investment options? **Or** (i) Given the choices below; **Choice A :** Win INR 1500 with 0.45 probability **Choice B :** Win INR 500 for sure Which one you choose A or B, and why? (ii) Given the choice below; **Choice C :** Loss of INR 500 for sure **Choice D :** Loss of 1500 with 0.45 probability Which one you choose A or B, and why?	**10**	**CO3**
Q.17	With an example explain the concept of anchoring bias and provide an example of how it can impact investment decisions.	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
Q.18	Explain prospect theory in detail, emphasizing critical elements like value function, weighting function, and loss aversion. Provide examples of how these components impact individuals' decision-making in financial contexts.	**15**	**CO4**
Q.19	Investigate the phenomenon of mental accounting in personal finance and investment decisions. Discuss how individuals categorize their financial resources and analyze potential consequences for portfolio allocation and risk management.	**15**	**CO4**