Name: **Enrolment No:**	

UPES

End Semester Examination, May 2024

Course: Behavioral Finance — **Semester: VI**
Program: INT-BBA- MBA — **Time: 03 hrs.**
Course Code: FINC 3040 — **Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q.1	Behavioural corporate finance explores the influence of psychological factors on: a) Individual investors only b) Corporate decision-making c) Financial markets d) Government policies	**2**	**CO1**
Q.2	The disposition effect refers to: a) Selling winners too early and holding onto losers too long b) Selling losers too early and holding onto winners too long c) Buying winners too late and selling losers too early d) Buying losers too late and selling winners too early	**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	Which bias leads individuals to rely heavily on information that is readily available? a) Availability bias b) Mental accounting c) Confirmation bias d) Anchoring bias	**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	Neurofinance explores the connection between: a) Biology and decision-making b) Economics and finance c) Psychology and investment strategies	**2**	**CO1**

	d) Sociology and market behavior		
Q.7	Who developed Prospect Theory? a) Daniel Kahneman b) Adam Smith c) John Maynard Keynes d) Milton Friedman	**2**	**CO1**
Q.8	Representativeness bias involves: a) Assessing the likelihood of an event based on its similarity to a prototype b) Making decisions based on recent events c) Failing to consider all available information d) d) Ignoring probabilities when making decisions	**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	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**
SECTION B **4Qx5M= 20 Marks**			
Q.11	Define behavioural finance and explain its relevance to financial markets.	**5**	**CO2**
Q.**12**	Explain the framing effect in investment choices.	**5**	**CO2**
Q.**13**	Compare Expected Utility theory with Prospect theory.	**5**	**CO2**
Q.**14**	What does the introduction of the probability weighting function mean in prospect theory?	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			
Q.15	How would you apply Prospect Theory to optimize asset allocation for a pension fund?	**10**	**CO3**
Q.16	Create a risk management strategy that addresses the implications of ambiguity aversion in financial markets. **OR** (i) Given the choices below; **Choice A :** Win INR 1800 with 0.5 probability **Choice B :** Win INR 500 for sure	**10**	**CO3**

	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 1800 with 0.5 probability Which one you choose C or D, and why?		
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	Explore the phenomenon of mental accounting in personal finance and investment decisions. Discuss how individuals compartmentalize their financial resources and the potential implications for portfolio allocation and risk management. **OR** Provide a detailed explanation of prospect theory, highlighting the key elements such as value function, weighting function, and loss aversion. Illustrate how these elements influence individuals' decision-making in financial contexts.	**15**	**CO4**
Q.19	Sarah is a 35-year-old professional who works as a marketing manager in a reputable company. She has been investing in the stock market for the past five years. Initially, Sarah was cautious and followed a conservative investment strategy, but recently she decided to take more risks after hearing about the success stories of some of her friends who made substantial profits through day trading. Sarah's investment journey took a significant turn when she started engaging in frequent trading, often driven by emotions rather than rational analysis. She would buy stocks based on hot tips from online forums or news headlines, and sell them hastily at the slightest hint of a downturn, fearing losses. This impulsive behavior led Sarah to experience frequent fluctuations in her portfolio value, causing stress and anxiety. Despite experiencing losses, Sarah found it difficult to break free from her erratic trading habits. She continued to chase short-term gains, hoping to recoup her losses quickly. However, her investment decisions were often influenced by cognitive biases. **Highlights the Sarah behavior in the context of financial decision-making and demonstrates how principles of behavioural finance can be applied to address common challenges faced by Sarah.**	**15**	**CO4**