Name: Enrolment No:	

UPES

End Semester Examination, December 2024

Course: Behavioral finance | **Semester : III**
Program: MBA (FINANCE) | **Time : 03 hrs.**
Course Code: FINC 8034 | **Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q .1 a)	**Which of the following is an example of a seasonal anomaly in the market?** a) January effect b) Efficient market anomaly c) Black-Scholes anomaly d) Random walk anomaly	**2**	**CO1**
b)	**In prospect theory, what concept suggests that individuals place greater weight on small probabilities than expected utility theory predicts?** a) Endowment effect b) Weighting function c) Loss aversion d) Confirmation bias	**2**	**CO1**
c)	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**
d)	**Which bias involves making decisions based on how information is presented rather than its actual content?** a) Anchoring bias b) Framing effect c) Availability bias d) Recency bias	**2**	**CO1**
e)	**What concept suggests that individuals have limited cognitive resources and make decisions within those constraints?** a) Efficient Market Hypothesis	**2**	**CO1**

	b) Bounded Rationality c) Rational Expectations Theory d) Random Walk Theory		
f)	**Mental accounting refers to:** a) Organizing financial activities into separate compartments b) Making decisions based on cognitive biases c) Focusing on information that confirms preconceptions d) Ignoring probabilities when making decisions	**2**	**CO1**
g)	**Representativeness bias involves:** a) Ignoring probabilities when making decisions b) Making decisions based on recent events c) Failing to consider all available information d) Assessing the likelihood of an event based on its similarity to a prototype	**2**	**CO1**
h)	**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**
i)	**Active portfolio management often underperforms due to:** a) Efficient market hypothesis b) Overtrading and behavioural biases c) Government regulations d) Lack of diversification	**2**	**CO1**
j)	**Neurofinance explores the connection between:** a) Biology and decision-making b) Economics and finance c) Psychology and investment strategies d) Sociology and market behaviour	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
Q2.	Explain how mental accounting affects investment choices.	**5**	**CO2**
Q3.	Explain the endowment effect and its implications for asset pricing	**5**	**CO2**
Q4.	How does familiarity bias affect diversification in investment portfolios?	**5**	**CO2**
Q5.	Explain the concept of risk preference and how it relates to framing bias	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			

Q6.	Analyze the relationship between investor sentiment and asset pricing. Provide examples of how sentiment-driven markets might create opportunities and risks.	**10**	**CO3**
Q7.	Create a financial decision-making scenario where the framing effect significantly alters the outcome, and analyze why this occurs.	**10**	**CO3**
Q8.	Evaluate the consequences of overconfidence bias on trading volume and investment performance. How can technology or advisory services help mitigate this issue?	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
Q9.	Critically analyze the implications of the disposition effect on both individual investor welfare and overall market efficiency. How does the disposition effect, where investors are more likely to sell winning investments too early and hold onto losing investments too long, impact long-term portfolio performance? **Or** Compare and contrast Expected Utility Theory and Prospect Theory by applying their principles to a real-world decision-making scenario under risk.	**15**	**CO4**
Q10.	Based on the following real-life scenarios, identify the form of market efficiency that is most applicable to each situation, and justify your answer by explaining how the market behaves in each case. **Scenario 1: Technical Analysis and Abnormal Returns** Mr. X is an investor who consistently earns abnormal returns by analyzing historical stock prices and identifying technical patterns such as moving averages and chart trends. He claims that by using these techniques, he can predict future stock prices and outperform the market. **Scenario 2: Trading on Public Information** Ms. Y is an equity analyst who consistently earns above-average returns by acting quickly on public information such as quarterly earnings reports, news releases, and other publicly available financial data. She believes that she can beat the market by reacting to new information faster than other market participants. **Scenario 3: Insider Trading and Abnormal Returns** Mr. Z, a hedge fund manager, claims to have access to confidential, non-public information regarding an upcoming merger. Using this inside information, he generates extraordinary returns for his clients by making large, profitable trades before the news becomes public. Based on the following real-life scenarios, **identify and explain the form of market efficiency** that is most applicable and **justify your answer**.	**15**	**CO4**