Name: **Enrolment No:**	

UPES

End Semester Examination, December 2024

Course: Behavioral Finance

Semester: V semester

Program: BCOM-H-ECOMBI **Time : 03 hrs.**
Course Code: FINC3040 **Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		**Marks**	**CO**
Q 1	Choose the right options for the following questions		**CO1**
(i)	Who is most associated with the development of the concept of bounded rationality? A) Daniel Kahneman B) Herbert Simon C) Amos Tversky D) Richard Thaler	**2**	**CO1**
(ii)	Expected Utility Theory is primarily used to explain how people make decisions: A) Under certainty, where all outcomes are known. B) In complex social interactions. C) Under risk, where outcomes are uncertain, but probabilities are known. D) Based purely on emotions.	**2**	**CO1**
(iii)	Prospect Theory was developed as an alternative to which of the following theories? A) Bounded Rationality Theory B) Expected Utility Theory C) Game Theory D) Rational Choice Theory	**2**	**CO1**
(iv)	People tend to value gains and losses differently. This is known as: A) Risk aversion B) Loss aversion C) Probability weighting D) Utility maximization	**2**	**CO1**

(v)	Which of the following describes "probability weighting" in Prospect Theory? A) People tend to overestimate high probabilities and underestimate low probabilities. B) People accurately assess the probability of each possible outcome. C) People ignore probabilities when making decisions. D) People consider only the outcomes and not their probabilities.	**2**	**CO1**
(vi)	What does the Efficient Market Hypothesis (EMH) primarily claim about the stock prices? A) Stock prices move in predictable patterns. B) Stock prices always reflect all available information. C) Stock prices are entirely based on investors' emotions. D) Stock prices remain constant over time.	**2**	**CO1**
(vii)	Who are the key figures credited with the development of Prospect Theory? A) Herbert Simon and John von Neumann B) Richard Thaler and Daniel Kahneman C) Daniel Kahneman and Amos Tversky D) Amos Tversky and John Nash	**2**	**CO1**
(viii)	The "endowment effect" occurs when people: A) Value an item more once they own it than they would if they didn't. B) Underestimate the value of items they already possess. C) Prefer to receive something now rather than in the future. D) Make decisions based on how recent an event occurred.	**2**	**CO1**
(ix)	The Weak Form of the EMH asserts that stock prices reflect all: A) Public information, including historical and current data. B) Past trading information, such as prices and volume. C) Private, insider information. D) Future forecasts and projections.	**2**	**CO1**
(x)	When investors sell winning investments too early and hold onto losing ones for too long, they may be exhibiting: A) Anchoring bias B) Disposition effect C) Overconfidence bias D) Recency bias	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
	Answer the following questions		**CO2**
Q2	What is neurofinance, and how does it differ from traditional finance?	**5**	**CO2**

Q3	Explain what a “heuristic” is and give an example of one commonly used in decision-making.	**5**	**CO2**
Q4	How does loss aversion bias differ from risk aversion?	**5**	**CO2**
Q5	What is the “probability weighting function” in prospect theory?	**5**	**CO2**
	SECTION-C **3Qx10M=30 Marks**		
	Answer the following questions		**CO3**
Q6	A company offers customers a free trial of a new smartphone for one week. After the trial period, they can either buy the phone at a discounted price or return it. Analyze the offer given by the company in the light of appropriate psychological bias and its impact on the decision of the consumers.	**10**	**CO3**
Q7	Analyze the effects of framing and overconfidence bias on investment choices. How do these biases influence decision-making in high-risk financial environments? **OR** Analyze the impact of confirmation bias on corporate decision-making. How might it lead to poor investment choices or misguided strategic moves?	**10**	**CO3**
Q8	Compare and contrast the behavioral finance explanation of market anomalies with the efficient market view. How do psychological biases contribute to these anomalies?	**10**	**CO3**
	SECTION-D **2Qx15M= 30 Marks**		
	Answer the following questions		**CO4**
Q9	Given the Efficient Market Hypothesis (EMH), how would you assess the impact of different forms of market efficiency (weak, semi-strong, and strong) on stock price behavior? Discuss how each form reflects different types of information and apply these concepts to analyze how investors might approach stock market analysis under each form.	**15**	**CO4**
Q10	Critique the impact of behavioral biases on corporate financial performance. Are these biases more likely to cause harm or present opportunities for firms? Justify your answer with examples. **OR** Critique the use of Prospect Theory in explaining irrational behavior in financial markets. Do you believe that Prospect Theory can fully account for investor behavior, or are there other factors at play?	**15**	**CO4**