



Name:  
Enrolment No:

**UPES**  
**End Semester Examination, December 2024**

**Course: Behavioral Finance**  
**Program: BBA-SPZ-FM-V**  
**Course Code: FINC3040\_3**

**Semester : 5**  
**Time : 03 hrs.**  
**Max. Marks: 100**

**Instructions:**

- **Section A has 20 objective-type questions. All are compulsory (Total marks 20 marks)**
- **Section B has 4 questions of 5 marks each. All are compulsory. (Total marks 20)**
- **Section C has 3 Questions of 10 marks each, out of which 2 Questions are compulsory and 1 internal choice to attempt any one. (Total marks 30)**
- **Section D has 2 Questions of 15 marks each, out of which 1 Question is compulsory and 1 Question has internal choice to attempt any one. (Total Marks 30)**

**SECTION A**  
**10Qx2M=20Marks**

S. No.		Marks	CO
Q 1	<p><b>What is the primary focus of behavioral finance?</b></p> <p>A. Analyzing financial markets through historical price patterns.            B. Understanding how psychological factors and biases affect financial decisions.            C. Predicting stock market trends using mathematical models.            D. Studying the role of central banks in global markets.</p>	2	CO 2
Q 2	<p><b>What is "mental accounting" in behavioral finance?</b></p> <p>A. Tracking financial decisions using sophisticated software.            B. The practice of categorizing money into separate accounts based on subjective criteria.            C. Managing finances using psychological counseling.            D. Analyzing the mental health impact of financial losses.</p>	2	CO 1
Q 3	<p><b>After watching news reports about airplane crashes, Sarah believes air travel is more dangerous than car travel, despite statistics showing the opposite. This is an example of:</b></p> <p>a)Anchoring bias            b) Availability bias            c) Confirmation bias            d) Overconfidence bias</p>	2	CO 1

Q 4	<p><b>Which of the following is an example of an anomaly in finance?</b></p> <p>A. Markets moving in alignment with predicted trends.  B. Efficient Market Hypothesis holding true in all cases.  C. A stock outperforming market predictions without apparent reasons.  D. High-risk investments leading to low returns as expected.</p>	2	CO 2
Q 5	<p><b>What does neurofinance primarily study?</b></p> <p>A. The relationship between genetics and wealth accumulation.  B. Financial decision-making through the lens of brain activity and psychological patterns.  C. The role of artificial intelligence in predicting market trends.  D. The impact of political decisions on economic systems.</p>	2	CO 2
Q 6	<p><b>An investor who believes they can outperform the market by analyzing historical stock price patterns is contradicting which form of EMH?</b></p> <p>a) Strong-form EMH  b) Semi-strong form EMH  c) Weak-form EMH  d) None of the above</p>	2	CO 1
Q 7	<p><b>A student believes she failed a test because of a difficult question at the beginning, even though the majority of the test was easier. This reflects:</b></p> <p>a) Anchoring bias  b) Availability heuristic  c) Recency bias  d) Self-serving bias</p>	2	CO 1
Q 8	<p><b>What does the "herd behavior" phenomenon in behavioral finance describe?</b></p> <p>A. Investors acting independently of others' decisions.  B. Investors following the majority without independent analysis.  C. Institutions dominating individual investors in trading volume.  D. Diversification strategies to minimize risk.</p>	2	CO 1
Q 9	<p><b>Which of the following is an example of a cognitive bias in behavioral finance?</b></p> <p>A. Efficient market hypothesis.  B. Diversification of investments.  C. Overconfidence leading to excessive trading.  D. Tax optimization strategies</p>	2	CO 1

Q 10	<p><b>If an investor buys stocks based on a newsletter's stock tips and consistently beats the market, this contradicts:</b></p> <p>a) Strong-form EMH b) Semi-strong form EMH c) Weak-form EMH d) None of the above</p>	2	CO 1
<p><b>SECTION B</b> <b>4Qx5M= 20 Marks</b></p>			
Q 11	Behavioral finance concepts explain the tendency for investors to hold onto the investments for too long and ultimately lose the money (disposition effect). Highlight the strategies that can be adopted to avoid this bias.	05	CO 3
Q 12	Explain the concept of expected utility and how it helps in decision-making under uncertainty.	05	CO 2
Q 13	Define the concept of Behaviour Corporate Finance and why it is required?	05	CO 2
Q 14	Describe the framing effect in Prospect Theory. How does it demonstrate deviations from rational decision-making?	05	CO 4
<p><b>SECTION-C</b> <b>3Qx10M=30 Marks</b></p>			
Q 15	An investor who has made a few successful trades in the past starts to believe that they have special insight into the stock market, leading them to make riskier investments. What behavioural bias does this exemplify, and explain the ways to overcome it.	10	CO 4
Q 16	Briefly explain the term heuristics and how it works in investment/financial decision making?	10	CO 4
Q 17	<p>Infer the meaning of Stock Market Puzzle and explain its three forms- equity premium, value premium and momentum premium puzzle.</p> <p style="text-align: center;"><b>Or</b></p> <p>Explain the concept of Sentiment in Asset Pricing. How traditional asset pricing model vary from the sentiment-based asset pricing model?</p>	10	CO 3
<p><b>SECTION-D</b> <b>2Qx15M= 30 Marks</b></p>			
Q 18	Elucidate the concept of Efficient Market Hypothesis (EMH). EMH has three variations/forms which constitute different market efficiency levels, explain them in detail.	15	CO 3
Q 19	<p>A person is given a choice between:</p> <ul style="list-style-type: none"> <li>• <b>Option A:</b> 40% chance to gain \$100,000 and 60% chance to gain \$10,000.</li> <li>• <b>Option B:</b> A sure gain of \$45,000.</li> </ul> <p>Calculate the expected value of Option A and explain why Prospect Theory might lead a risk-averse individual to choose Option B.</p> <p style="text-align: center;"><b>Or</b></p> <p>Infer the term rational behaviour in decision-making and further elaborate the steps involved in the decision-making process</p>	15	CO 2

