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

UPES

End Semester Examination, May 2025

Course: Behavioral finance **Semester : VI**

Program: INT-BBA-MBA **Time : 03 hrs.**

Course Code: FINC 3040P **Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q .1 a)	Ambiguity aversion results in investors: a. Investing confidently in uncertain markets b. Focusing on well-known stocks or sectors c. Choosing riskier portfolios d. Ignoring volatility	**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)	Representativeness bias involves: a. Estimating probabilities based on how much one thing resemble another b. Averaging past performance c. Overweighting random outcomes d. Ignoring historical data completely	**2**	**CO1**
e)	What concept suggests that individuals have limited cognitive resources and make decisions within those constraints? a) Efficient Market Hypothesis b) Bounded Rationality c) Rational Expectations Theory d) Random Walk Theory	**2**	**CO1**
f)	A news headline influencing investor decisions is an example of: a. Anchoring b. Familiarity bias	**2**	**CO1**

	c. Availability bias d. Representativeness bias		
g)	Heuristics in decision-making are: a. Complex mathematical models b. Legal regulations for markets c. Mental shortcuts or rules of thumb d. Government-imposed financial rules	**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)	According to Prospect Theory, people tend to: a. Consider all probabilities equally b. Ignore rare events c. Distort probabilities based on psychological impact d. Only rely on historical averages	**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.	How does mental accounting influence investor behavior during market downturns?	**5**	**CO2**
Q3.	How does familiarity bias affect diversification in investment portfolios?	**5**	**CO2**
Q4.	Explain the concept of expected utility and how it helps in decision-making under uncertainty.	**5**	**CO2**
Q5.	Explain the concept of risk preference and how it relates to framing bias	**5**	**CO2**
SECTION-C 3Qx10M=30 Marks			
Q6.	Priya Sharma's utility function for wealth is: $u(w) = \sqrt{w}$ Suppose Priya Sharma has a 25% chance of wealth of ₹4,000,000, 35% chance of wealth of ₹2,000,000, and 40% chance of wealth of ₹1,000,000. a. What is the expected value of wealth? b. Is Priya risk averse, risk neutral, or risk-seeking? c. What is Priya's certainty equivalent for the prospect? d. Graph Priya's utility function and describe its shape.	**10**	**CO3**
Q7.	Analyze the relationship between investor sentiment and asset pricing. Provide examples of how sentiment-driven markets might create opportunities and risks. **OR**	**10**	**CO3**

	Create a financial decision-making scenario where the framing effect significantly alters the outcome and analyze why this occurs.		
Q8.	Analyze how overconfidence bias affects trading volume and investment outcomes. In what ways can technology or financial advisory services reduce its impact?	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
Q9.	How do Expected Utility Theory and Prospect Theory differ in explaining decisions under risk? Illustrate your answer using a real-life example. **OR** Sam Billings and Roger Twose presented the following choice problems to a number of respondents. PROBLEM 1: Choose between A: • 2500 with probability 0.33 • 2400 with probability 0.66 • 0 with probability 0.01 B: • 2400 with certainty PROBLEM 2: Choose between C: • 2500 with probability 0.33 • 0 with probability 0.67 D: • 2400 with probability 0.34 • 0 with probability 0.66 In Problem 1, 82 per cent of the respondents chose B, and in Problem 2, 83 per cent of the respondents chose C. This pattern of preferences violates expected utility theory. Why?	**15**	**CO4**
Q10.	HDFC Securities, a leading brokerage firm, is organizing a seminar on behavioral finance and market efficiency for young professionals. As part of the case-based learning module, participants are asked to analyze investor behavior and evaluate the implications of the Efficient Market Hypothesis (EMH) for modern portfolio strategies. Task: Part A: Analyze the following real-life investor scenarios and identify the most applicable form of EMH (Weak, Semi-Strong, or Strong). Justify your reasoning in each case.	**15**	**CO4**

	Scenario 1: Mr. X, a technical analyst, frequently trades based on moving averages, trendlines, and past stock price movements. Over time, he claims to consistently beat the market using these strategies. Scenario 2: Ms. Y, a financial journalist, immediately responds to earnings reports and economic data releases by buying or selling stocks. She earns modest but consistent returns by acting quickly on this publicly available data. Scenario 3: Mr. Z, an investment banker, uses confidential merger and acquisition (M&A) information to make trades before public announcements. His clients see substantial returns due to his privileged access. Part B: Critically evaluate how the principles of EMH influence the effectiveness of the following investment strategies: 1. Active Investing – where fund managers aim to beat the market through security selection and timing. 2. Passive Investing – such as investing in index funds that aim to replicate market performance.		