Name: **Enrolment No:**	

UPES

End Semester Examination, December 2025

Course: Behavioral Finance

Semester: V semester

Program: BBA/Integrated BBA-MBA **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)	Bounded rationality is often associated with decision-making under which of the following conditions? A) Certainty and complete information B) High motivation and unlimited cognitive ability C) Time constraints and limited resources D) Absolute knowledge and perfect forecasting	**2**	**CO1**
(ii)	Expected Utility Theory assumes that decision-makers: A) Are emotionally driven B) Maximize expected utility C) Ignore probabilities D) Avoid all risks	**2**	**CO1**
(iii)	Which of the following best describes loss aversion in Prospect Theory? A) People prefer certain losses over uncertain gains. B) People feel losses more intensely than gains of the same magnitude. C) People always choose the option with the highest probability of success. D) People avoid making decisions when faced with losses	**2**	**CO1**
(iv)	Individuals are most likely to be risk-seeking when: A) Evaluating potential gains. B) Evaluating certain outcomes only. C) Evaluating potential losses. D) Comparing multiple positive outcomes.	**2**	**CO1**
(v)	How does the concept of "diminishing sensitivity" affect the way people evaluate outcomes?	**2**	**CO1**

	A) People show increased sensitivity to large gains and losses. B) People are indifferent to all outcomes after a certain point. C) People become less sensitive to changes in wealth as amounts increase. D) People prefer smaller gains over larger gains due to diminishing returns.		
(vi)	Who is most closely associated with the development of the Efficient Market Hypothesis? A) Benjamin Graham B) Eugene Fama C) John Maynard Keynes D) Warren Buffett	**2**	**CO1**
(vii)	Mental accounting primarily affects: A) Corporate governance B) How individuals categorize and spend money C) Market liquidity D) Dividend policy	**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 Semi-Strong Form of the EMH asserts that stock prices reflect: A) Only historical data and past trading information. B) All publicly available information, including financial statements and news reports. C) All information, including insider and private data. D) Future price movements.	**2**	**CO1**
(x)	When people overestimate the likelihood of vivid or recent events occurring, they are exhibiting: A) Anchoring bias B) Hindsight bias C) Availability bias D) Confirmation bias	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
	Answer the following questions		**CO2**
Q2	How does behavioural corporate finance contribute to understanding biases in the decision-making of managers?	**5**	**CO2**
Q3	Explain the main steps involved in the decision-making process.	**5**	**CO2**

Q4	What is the "disposition effect," and how it influence the investment decision of an individual investor?	**5**	**CO2**
Q5	In what way does prospect theory challenge traditional assumptions about rationality?	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			
	Answer the following questions		**CO3**
Q6	**Case:** A person receives a tax refund of ₹50,000. They decide to spend ₹20,000 on a vacation, ₹10,000 on a luxury item, and save the remaining ₹20,000, even though they could have used the entire ₹50,000 for a single, more meaningful investment. Discuss the person's spending behavior in the context of mental accounting. How does this bias affect how the individual categorizes and spends money, rather than evaluating the ₹50,000 as a single financial resource?	**10**	**CO3**
Q7	Analyze the effects of representativeness and availability bias on investment choices. How do these biases influence decision-making in high-risk financial environments?	**10**	**CO3**
Q8	**Case:** An investor has the option to invest in two stocks. Stock A has a 60% chance of returning ₹10,000 and a 40% chance of returning ₹1,000. Stock B has a 50% chance of returning ₹15,000 and a 50% chance of returning ₹5,000. The investor has a utility function $U(x) = \sqrt{x}$. Calculate the expected utility for both Stock A and Stock B. Which stock would the investor prefer based on Expected Utility Theory? Explain the reasoning behind the investor's choice. **OR** Analyze the impact of overconfidence bias on corporate decision-making. How might it lead to poor investment choices or misguided strategic moves?	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
	Answer the following questions		**CO4**
Q9	Analyze the Efficient Market Hypothesis (EMH) and discuss the different forms of EMH—weak, semi-strong, and strong. For each form, evaluate the types of information that are reflected in stock prices. How do these forms of EMH influence investors' strategies and their ability to achieve abnormal returns?	**15**	**CO4**
Q10	Design a strategy for a financial advisor to help clients overcome common behavioral biases, such as loss aversion or the endowment effect, when making investment decisions. **OR**	**15**	**CO4**

	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?		