Name: Enrolment No:	

UPES
End Semester Examination, December 2023

Course: Behavioral Finance — **Semester : V**
Program: BBA-Spz-FM — **Time : 03 hrs.**
Course Code: FINC3040 — **Max. Marks: 100**

Instructions:

SECTION A
10Qx2M=20Marks

S. No.	**All questions are compulsory and carry equal marks.**	**Marks**	**CO**
Q 1	What is behavioral finance primarily concerned with? a. Efficient market hypothesis b. Understanding how psychological factors influence financial decisions c. Stock valuation techniques d. Risk management strategies	**2**	**CO1**
Q 2	Which of the following is a key concept in behavioral finance? a. Perfect competition b. Rationality of investors c. Prospect theory d. Efficient frontier	**2**	**CO1**
Q 3	What does the "anchoring" bias refer to in behavioral finance? a. The tendency to rely on the first piece of information encountered when making decisions b. The belief that past performance of a stock is indicative of future results c. The idea that investors should diversify their portfolios to minimize risk d. The practice of constantly adjusting one's investment strategy based on market conditions	**2**	**CO1**
Q 4	Loss aversion is a behavioral bias that refers to: a. The tendency to sell winning stocks too soon b. The idea that investors are more averse to losses than they are inclined to seek gains c. The belief that stocks always gain value in the long run d. The practice of taking excessive risks in the hope of large returns	**2**	**CO1**
Q 5	Overconfidence bias in behavioral finance relates to: a. A tendency to underestimate one's own abilities in financial decision-making b. A tendency to rely on expert advice	**2**	**CO1**

	c. A belief in the efficient market hypothesis d. A belief that markets are irrational and unpredictable		
Q 6	Herd behavior in the context of behavioral finance refers to: a. A group of livestock owned by investors b. The tendency of investors to follow the crowd and make investment decisions based on what others are doing c. The study of animal behavior in financial markets d. The tendency to diversify one's investments widely	**2**	**CO1**
Q 7	What is the primary difference between traditional finance and behavioral finance? a. Traditional finance assumes that investors always act rationally, while behavioral finance considers the impact of cognitive biases and emotions on decision-making. b. Traditional finance is focused on predicting market trends, while behavioral finance focuses on historical stock performance. c. Traditional finance relies on the efficient market hypothesis, while behavioral finance rejects this theory. d. Traditional finance is primarily concerned with accounting principles, while behavioral finance emphasizes economic theories.	**2**	**CO1**
Q 8	The availability bias in behavioral finance suggests that people tend to: a. Make investment decisions based on the most readily available information b. Diversify their portfolios extensively c. Base their decisions on rational analysis d. Always seek out expert financial advice	**2**	**CO1**
Q 9	Briefly describe the term Probability weighing function.	**2**	**CO1**
Q 10	What is random walk in relation to stock prices.	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
Q	**All questions are compulsory and carry equal marks.**		
Q 11	State some of the specific objectives of behavioral finance.	**5**	**CO2**
Q 12	Briefly describe emotion as one of the behavioral biases that influence the investment decision of the investor.	**5**	**CO2**
Q 13	Briefly explain the two approaches for decision making that Behavioral finance talks about.	**5**	**CO2**
Q 14	What is the relationship between risk and return for an efficient portfolio?	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			
	Statement of question		
Q 15	Explain the impact of efficient market hypothesis (EMH) on shareholder value principle and what are the theoretical foundation on which the Efficient Market Hypothesis theory is based.	**10**	**CO3**

Q 16	Describe ambiguity aversion, a concept in behavioral finance that addresses how individuals often prefer risky situations with known probabilities.	**10**	**CO3**
Q 17	Discuss probability weighing function which is often used in behavioral economics and decision theory to describe how individuals perceive and evaluate probabilities.	**10**	**CO3**
SECTION-D **2Qx15M= 30 Marks**			
Q	Statement of question		
Q 18	Sentiment plays a significant role in asset pricing under the framework of behavioral finance. Behavioral finance explores how psychological factors and cognitive biases can affect financial markets and asset prices. In context of above statement you are required to analyse how sentiment influences asset pricing.	**15**	**CO4**
Q 19	Behavioural finance is informed by three strands of psychology. The average human – and the average investor – is largely unaware of these inherent psychological inefficiencies, despite the frequency with which they arise in our daily lives. In light of above statement discuss some most common psychological tendencies, chosen for both their prevalence in human nature and their relevance to investing in the financial markets.	**15**	**CO4**