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

UPES

End Semester Examination, December 2023

Course: Behavioral Finance — **Semester: V**

Program: B. Com (H) — **Time: 03 hrs.**

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

Instructions:

SECTION A

10Qx2M=20Marks

S. No.		Marks	CO
Q.1	Are investors, portfolio managers, and analysts always rational? A) Yes B) No C) Sometimes D) Depends on market conditions	**2**	**CO1**
Q.2	Who developed Prospect Theory? A) Daniel Kahneman B) Adam Smith C) John Maynard Keynes D) Milton Friedman	**2**	**CO1**
Q.3	Which bias is associated with making decisions based on initial information? A) Anchoring bias B) Representativeness bias C) Availability bias D) Mental accounting	**2**	**CO1**
Q.4	How do behavioural factors influence capital structure decisions? A) They may lead to suboptimal choices B) They have no impact on capital structure C) They always lead to optimal choices D) They only influence dividend policy	**2**	**CO1**
Q.5	What is confirmation bias? A) Seeking out information that confirms one's existing beliefs B) Ignoring all information C) Giving equal weight to all information D) Disregarding one's own beliefs	**2**	**CO1**

Q.6	Behavioral corporate finance can influence mergers and acquisitions decisions by introducing biases. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.7	The sentiment effect in asset pricing refers to the impact of investor sentiment on stock prices. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.8	The sunk cost fallacy is the tendency to continue an investment because of the resources already invested, even if it no longer makes sense. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.9	The Disposition effect is the tendency to hold onto winning investments and quickly sell losing ones.Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
Q.10	Mental accounting is the categorization of money into separate mental accounts. Choose the correct answer and provide an explanation: a. True b. False	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks**			
Q.11	What does the introduction of the probability weighing function mean in prospect theory?	**5**	**CO2**
Q.**12**	Explain the framing effect in investment choices.	**5**	**CO2**
Q.**13**	How can behavioural factors impact capital budgeting decisions?	**5**	**CO2**
Q.**14**	How does behavioural corporate finance influence financial reporting decisions?	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			
Q.15	Provide an example to illustrate the concept of anchoring bias and explain how it can influence investment decisions	**10**	**CO3**
Q.16	How does ambiguity aversion influence the way individuals approach uncertain investment options? **Or** (i) Given the choices below; **Choice A :** Win INR 1500 with 0.45 probability **Choice B :** Win INR 500 for sure Which one you choose A or B, and why? (ii) Given the choice below;	**10**	**CO3**

	Choice C : Loss of INR 500 for sure **Choice D :** Loss of 1500 with 0.45 probability Which one you choose A or B, and why?		
Q.17	Apply your understanding to give an example of how representativeness bias can influence the assessment of investment opportunities.	**10**	**CO3**
	SECTION-D **2Qx15M= 30 Marks**		
Q.18	Examine the empirical challenges to the Efficient Market Hypothesis (EMH) by specifically addressing anomalies like the January effect, momentum, and value investing. Discuss the ramifications of these anomalies for investors and portfolio managers. **Or** Provide a detailed explanation of prospect theory, highlighting the key elements such as value function, weighting function, and loss aversion. Illustrate how these elements influence individuals' decision-making in financial contexts.	**15**	**CO4**
Q.19	Provide an in-depth discussion on overconfidence bias in financial decision-making. Examine the cognitive processes that contribute to overconfidence, its potential consequences for investment performance, and strategies to counteract its effects. **Or** Investigate the phenomenon of mental accounting in personal finance and investment decisions. Discuss how individuals segregate their financial resources and potential consequences for portfolio allocation and risk management.	**15**	**CO4**