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**PRESIDENCY UNIVERSITY**

**Bengaluru**

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| **Ph.D. Course Work End Term Examinations – JAN-FEB 2025** |
| **Date:** 06 – 02- 2025 **Time:** 09:30 am – 12:30 pm |

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| **School:** SOC | **Program:** Ph. D |
| **Course Code :**COM843 | **Course Name :** Behavioral Finance |
| **Semester**:  | **Max Marks**:100 | **Weightage**:50% |

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| **CO - Levels** | **CO1** | **CO2** | **CO3** | **CO4** | **CO5** |
| **Marks** | **10** | **-** | **40** | **20** | **30** |

**Instructions:**

1. *Read all questions carefully and answer accordingly.*
2. *Do not write anything on the question paper other than roll number.*

**Part A**

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| **Answer ALL the Questions. Each question carries 10 marks. 6Q x10M=60Marks** |
| **1** | Investment decisions are a critical aspect of financial management for individuals, companies, and governments. They involve allocating resources to investment opportunities to achieve specific goals, such as profitability, growth, or sustainability. **Required Questions:**1. Explain the concept of judgment under uncertainty in investment decisions.
2. Discuss how cognitive biases, such as **mental accounting & Herd Mentality,** influence an investor's decision-making process with relevant examples.
 | **10 Marks** | **Understand**  | **CO2** |
| **2** | Expected Utility Theory (EUT) is a foundational concept in economics, decision theory, and behavioral science that explains how individuals make decisions under conditions of risk and uncertainty. It is based on the idea that individuals choose between alternatives by considering the potential outcomes and their associated probabilities, and then selecting the option that maximizes their expected utility.**Required Questions:**1. Critically evaluate the limitations of Expected Utility Theory (EUT) in real-world decision-making under risk and uncertainty.
2. Do you believe that investors always behave rationally? Justify your answer with arguments and examples.
 | **10 Marks** | **Evaluation** | **CO5** |
| **3** | Imagine a scenario where stock prices deviate significantly from their intrinsic values due to psychological biases. **Required Questions:**Apply the limits of arbitrage model to explain why such deviations might persist despite opportunities for arbitrage. | **10 Marks** | **Apply** | **CO3** |
| **4** | Market predictability is crucial for investors, businesses, and policymakers as it impacts decision-making, resource allocation, and financial stability. However, market predictability is deeply influenced by investor behavior and psychological biases. **Required Questions:**1. Develop a hypothetical case study where market predictability is influenced by investor behavior and psychological biases.
2. Propose strategies that market participants could adopt to minimize the impact of these biases on their investment decisions.
 | **10 Marks** | **Create** | **CO5** |
| **5** | Suppose an investor repeatedly invests in local companies due to a sense of familiarity, ignoring better opportunities elsewhere. Identify the heuristic at play and explain how this behavior might impact their portfolio performance over time. | **10 Marks** | **Apply** | **CO3** |
| **6** | Representativeness bias occurs when investors judge the probability of an event based on how similar it appears to a known category or stereotype, rather than analyzing its actual likelihood. **Required Questions:**1. Design a framework or strategy to help investors identify and mitigate the effects of representativeness bias and anchoring in their decision-making processes.
2. Give an example to illustrate how the framework would work in real-world investment scenarios.
 | **10 Marks** | **Create** | **CO5** |

**Part B**

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| **Answer the Questions. Each question carries 20 marks 2Q x 20 = 40 Marks** |
| **7.** |  | You are a financial analyst observing a market where stock prices deviate significantly from their intrinsic values. Some investors continue to trade based on *technical analysis* while ignoring *fundamental information*.**Required Questions:**1. Analyse the role of *psychological biases* that may be influencing investor behaviour in this scenario.
2. Discuss how the *limits of arbitrage* might prevent rational investors from correcting these price anomalies.
 | **20 Marks** | **Analyze** | **CO4** |
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| **8.** |  | Suppose you are an individual investor who prefers to invest in companies you are familiar with, such as local businesses or brands you frequently use. However, this strategy has limited your portfolio diversification.**Required Questions:** **A.** Identify the heuristic influencing your behaviour and explain its potential risks.**B.** Propose a plan to overcome this bias and expand your investments while maintaining a balanced portfolio. | **20 Marks** | **Apply** | **CO3** |

\*\*\*\* BEST WISHES\*\*\*\*