PRESIDENCY UNIVERSITY
BENGALURU

Department of Research & Development

Mid-Term Examinations - AUGUST 2024

Odd Semester: Ph.D. Course Work

Course Code:COM843

Course Name: Behavioral Finance

Department: Commerce & Economics

Date: 12-08-2024

Time: 09.30am to 11.00am

Max Marks: 50

Weightage: 25%

Instructions:
  (i) *Read the all questions carefully and answer accordingly.*
  (ii) *Do not write any information on the question paper other than roll number.*

Part A (Thought Provoking)

Answer all questions. Each question carries 5 marks.   (4Qx 5M=20M)

1. In expected utility theory risk aversion is equivalent to concavity of utility function, recognize this argument with diagram and numerical example
2. Discuss *reflection effect* in choice preference of individuals as a violation of arguments of expected utility theory
3. Outline generally observed behavioral biases in investment decisions in financial markets
4. Write a note information cascades in stock market

Part B (Problem Solving)

Answer all questions. Each question carries 10 marks.   (3 Q x 10 M=30 M)

5. An investor is facing two business opportunities as given below;
    a. Investment in common share of company A with probability 0.6 to gain Rs.40000 and 0.4 to gain Rs.25000 otherwise against the alternative of investing a debt instrument with certain gain of Rs. 33000
    b. Investment in common share of company B with probability of 0.6 to gain Rs.40000 and 0.4 probability to gain Rs. 0otherwise against the alternative of investing in common share of company C with0.6 probability to gain of Rs. 30000 and 0.7 to gain Rs.0 otherwise.

    Identify the choice decision by investor by computing the prospects of these opportunities based on expected utility function and also discuss how this choice get affected by *certaintyeffect* in decision making

6. The case of two investors A and Band their trading behavior in post Covid-19 economic recovery scenario is given below

a. Investor A held a portfolio of stocks (R,T) from FMCG sector a during the peak of Covid-19 and booked profit 4 times of initial investment from R and T stocks by December 2022 and further aggressively engaged in trading in these stocks resulting in cumulative loss of 75% of the previous gain by December 2023.

b. Investor B held stock (S) from banking sector during the period of Covid 19 outbreak which recorded 70% decline by December 2022. But B held his stock on the point that the stock S had touched a price in 2017 that was 5 times higher than his purchase price of the same in 2019.

Discuss the behavior of these two investors A and B in the line of behavioral bias in individual investor decisions making.

7. Define behavioral finance and discuss in details its significance in general and in understanding the asset price fluctuations in the market.