



JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

SIXTH TRIMESTER (Batch 2020-22)

ENDTERM EXAMINATION, April 2022

SET 2

Course Name	Behavioural Finance SET 2	Course Code	FIN 601
Max. Time	2 hours	Max. Marks	40 MM

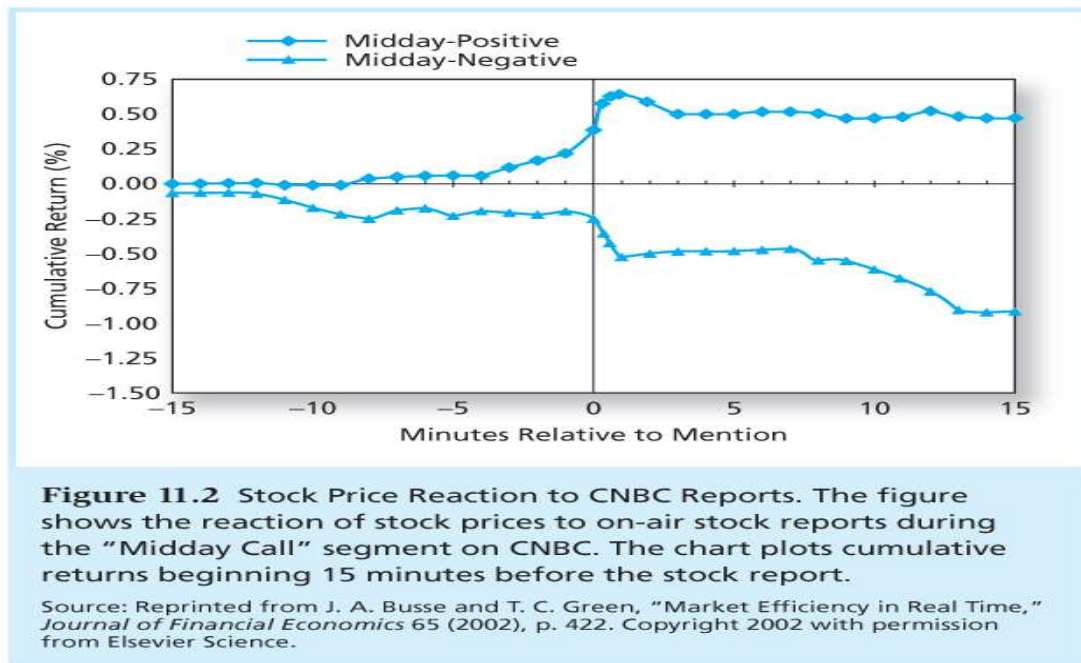
INSTRUCTIONS:

- 1. This is an open book exam and answers to the questions will be plagiarism checked on assignment basis in Moodle with limit of 10%. Every additional 10% shall attract penalty of 5 marks**
- 2. Please submit the answers in MS word.**
- 3. Answer should be precise and to the point.**
- 4. All questions are compulsory**

Q1. We may discover an overpriced stock. Fall in the value of the stock is desired. In reality, it may continue to rise in value, causing huge overvaluation. Similarly, we might find a stock which is low in value in comparison to the real worth. Logically, the share should appreciate in value and become more reasonable. But that's not always the case. These situations frequently confound investors. **Keeping in mind the situation, explain the difference between expected utility theory and prospect theory with suitable example. {CLO3; BT level IV} (6 MARKS)**

Q2. The Efficient Market Hypothesis (EMH's) validity has been questioned theoretically and empirically. Some investors have outperformed the market, including Warren Buffett, who gained billions by investing in inexpensive stocks and inspiring many others. There are portfolio managers with stronger track records and investment companies with greater research analyses. Those who support EMH say that those who outperform the market do so owing to chance, not skill: in a market with many actors, some will outperform the mean, while others will underperform. However, prospect theory is against it. **Explain three specific reasons for market inefficiencies using the prospect theory's three aspects (biases). {CLO3; BT level IV} (6 MARKS)**

Q3. Please look in the below chart and explain which single bias best explains the investors reactions in the stock market. {CLO4; BT level IV} (6 MARKS)



Q4. In the below chart, explain investors sentiments and identify three biases that lead to following changes in Balarampur Chini Mills Ltd. share prices. {CLO4; BT level IV}

(10 MARKS)



Q5. Overconfident individuals discuss an informational benefit upon the group. On the other hand, herd individuals are more willing to blindly following informational flow. **Explain the sentence with suitable examples. {CLO3; BT level IV} (6 MARKS)**

Q6. There are three heuristic biases that make disposition effect so strong that investors keep doing the exact opposite of what they should do – sell the poor shares and keep the good ones. **Identify and describe these biases with examples. {CLO1; BT level I} (6 MARKS)**