

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**

**PGDM / PGDM (M) / PGDM (SM)**

**SIXTH TRIMESTER (Batch 2022-24)**

**ENDTERM EXAMINATION, April 2024**

**SET 2**

Course Name	Behavioural Finance	Course Code	20242
Max. Time	2 hours	Max. Marks	40 MM

**INSTRUCTIONS:**

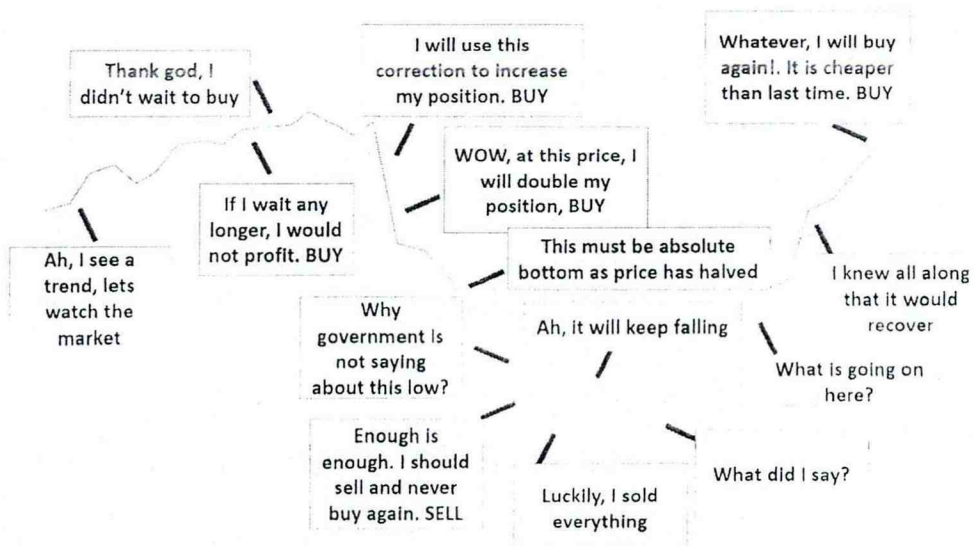
- 1. Answer should be precise and to the point.**
- 2. All questions are compulsory**

**Q1.** Explain the impact of mind and emotions on the subprime crisis 2007-2008. Identify **three specific biases** using bounded rationality concept. Analyze which **single aspect** of bounded rationality best explains investors reactions towards market anomalies.

{CLO2; BT level III, IV} (10 MARKS)

**Q2.** In the below chart, explain investors sentiments and identify three biases that lead to following changes {CLO3; BT level II, III}

(7 MARKS)



Q3. Determine the intricate interplay between loss-averse bias and the equity premium puzzle within the framework of behavioral finance. Analyze how the presence of loss aversion influences the measurement and understanding of the equity premium puzzle, and discuss its broader implications for financial markets. In your response, consider empirical evidence, theoretical insights, and potential strategies for addressing the challenges posed by loss aversion in asset pricing and market dynamics. {CLO3; BT level V, IV} (8 MARKS)

Q4. Both conceptually and experimentally, the validity of the Efficient Market Hypothesis (EMH) has been contested. Some investors have beaten the market, such as Warren Buffett, who made billions by buying cheap stocks and served as an example to numerous others. There are investment firms with more thorough research assessments and portfolio managers with a better track record. In a market with numerous actors, some will outperform the mean, while others will underperform, according to those who believe EMH. Those that outperform the market do so due to chance, not competence. The prospect theory, however, is against it. **Explain three specific reasons for market inefficiencies using the prospect theory's three aspects (biases).** {CLO2; BT level II} (10 MARKS)

Q5. When looking at important market indicators, there can be a certain bias. Even though people are aware of this mistake, they still make it. People often make the same simple math mistakes even though they know they are wrong. Experts who make important decisions often make the same mistake. Almost no economists, analysts, or statisticians saw these possibilities, which shows how hard it is to prevent committing this error. **Identify this belief preservation bias and describe the main source of this bias with example.** {CLO2; BT level I, III} (5 MARKS)