GL BAJAJ
Institute of Management & Research
Greater Noida
F I N D   Y O U R   S P A R K

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POST GRADUATE DIPLOMA IN MANAGEMENT (2023-25)
END TERM EXAMINATION (TERM -V)

Subject Name: Behavioral Finance	Time: **02.00 hrs**
Sub. Code: PGF 55	Max Marks: **40**

Note: All questions are compulsory. Section A carries 12 marks: 6 questions of 2 marks each, Section B carries 18 marks having 3 questions (with internal choice question in each) of 6 marks each and Section C carries 10 marks one Case Study having 2 questions of 5 marks each.

SECTION - A		
Attempt all questions. All questions are compulsory. **2×6 = 12 Marks**		
Questions	**CO**	**Bloom's Level**
Q. 1: (A). What is Behavioral Finance?	CO1	L2 and L3
Q. 1: (B). What is the key difference between the traditional finance model and the behavioral finance model?		
Q. 1: (C). What is the role of mental accounting in financial decision-making?		
Q. 1: (D). How does cognitive psychology contribute to the field of Behavioral Finance?		
Q. 1: (E). What are heuristics, and how do they affect financial decision-making?		
Q. 1: (F). Explain Prospect Theory and its connection to Loss Aversion.		
SECTION – B		
All questions are compulsory (Each question has an internal choice. Attempt anyone (either A or B) from the internal choice) **6 x 3 = 18 Marks**		
Questions	**CO**	**Bloom's Level**
Q. 2: (A). An investor, Ali, consistently outperforms the market but attributes his success solely to his skills, ignoring the role of luck. However, after a series of poor returns, Ali blames the market conditions. What behavioral biases is Ali exhibiting, and how do they affect his investment decisions? **Or** **Q. 2: (B).** A group of investors, all influenced by each other's choices, decide to invest in a stock simply because everyone in their social circle is doing the same, even though they lack detailed research. How does herding behavior influence their financial decisions, and what potential risks does this pose? **Q. 3: (A).** Ekta tends to invest more in companies from her home country and industries she is familiar with, even though other opportunities may offer higher returns. What behavioral biases are at play, and how might they limit Ekta's investment strategy? **Or**	CO2	L3 and L4

Q. 3: (B). In the stock market, a small-cap company outperforms large-cap companies for several consecutive quarters, attracting a large number of investors. Following this trend, investors begin flocking to small-cap stocks, causing their prices to rise further. How do momentum and calendar effects influence this scenario?

Q. 4: (A). A company's CEO, Jagdish, consistently takes on risky ventures with high potential returns, believing that he is immune to failure. Despite evidence suggesting that riskier investments are not yielding expected returns, Jagdish continues to push for aggressive strategies. What role does CEO overconfidence play in corporate decision-making, and what could be the consequences?

<center>**Or**</center>

Q. 4: (B). A company is considering an acquisition, but the management team is heavily influenced by industry trends and the success stories of other companies. Despite warning signs from analysts, the company moves forward with the acquisition. What behavioral finance factors are at play, and how might they impact the merger or acquisition decision?

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SECTION - C
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Read the case and answer the questions   **5×02 = 10 Marks**

Questions	CO	Bloom's Level
Q. 5: Case Study: A prominent technology company, TechFusion Inc., has experienced significant growth over the last five years, with its stock price consistently outperforming the market. The company's CEO, Olivia, has made bold investment choices, acquiring smaller tech startups in a bid to stay ahead of competitors. However, some analysts have raised concerns about the company's high debt levels and the sustainability of its growth strategy. Despite this, Olivia remains highly optimistic, attributing the company's success to her strategic vision, and dismisses the concerns as minor setbacks. Meanwhile, investors, mostly influenced by the media's portrayal of the company's success, continue to buy into the stock, driving its price even higher. A few of these investors also exhibit **herding behavior**, deciding to buy more shares simply because everyone else is doing so. They ignore warning signs, such as rising debt and slowing innovation from some of the acquired companies. Some investors are also heavily invested in the technology sector due to **familiarity bias** and choose to ignore diversification opportunities in other sectors that could provide better returns. In the aftermath of a major market downturn, TechFusion's stock begins to plummet. As prices drop, many investors feel regret and start selling in panic. Olivia's overconfidence leads her to stick to the company's aggressive strategy, which further strains its financial position. Questions: **Q. 5: (A).** How does CEO overconfidence and herding behavior influence both TechFusion's corporate strategy and investors' decision-making, and what are the potential long-term consequences for the company and its investors? **Q. 5: (B).** In what ways does familiarity bias contribute to the concentration of investments in the technology sector by TechFusion's investors, and how could this lack of diversification impact their portfolios in the event of a market correction?	CO3	L5

Kindly fill the total marks allocated to each CO's in the table below:

COs	Question No.	Marks Allocated
CO1	Q.1 all parts	12
CO2	**Q.2, Q3,Q4**	**18**
CO3	Q.5	10

(Please ensure the conformity of the CO wise marks allocation as per your TLEP.)

Blooms Taxonomy Levels given below for your ready reference:

L1= Remembering
L2= Understanding
L3= Apply
L4= Analyze
L5= Evaluate
L6= Create