GL BAJAJ
Institute of Management & Research. PGDM Institute
FIND YOUR SPARK
GL BAJAJ GREATER NOIDA (Approved by A.I.C.T.E., Ministry of HRD, Govt. of India)

Roll No…………

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2024-26)
MIDTERM QUIZ EXAMINATION (TERM -V)

Subject Name: Behavioural Finance	Time: **01.00 hrs**
Sub. Code: PGF 54	Max Marks: **20**

Note:
1. Writing anything except the Roll Number on the quiz paper will be deemed as an act of indulging in unfair means, and action shall be taken as per the rules.
2. There is no negative marking for wrong answers.
3. Tick the correct answer.

Attempt all questions. All questions are compulsory.   **40×0.5 = 20 Marks**

Q1. Behavioural finance primarily focuses on:
A. Mathematical modelling of asset prices
B. The impact of psychological factors on financial decisions
C. Market efficiency assumptions
D. Corporate accounting practices

Correct Answer: B
CO: CO 1, L2

Q2. Which assumption is central to the traditional finance model?
A. Investors are boundedly rational
B. Emotions influence investors
C. Investors are fully rational and utility maximisers.
D. Markets are inefficient

Correct Answer: C
CO: CO 1, L1

Q3. Behavioural finance challenges the traditional finance model mainly by emphasising:
A. Arbitrage opportunities
B. Psychological biases and irrational behaviour
C. Dividend irrelevance theory
D. Capital structure optimisation

Correct Answer: B
CO: CO 1, L4

Q4. Cognitive psychology in finance primarily examines:
A. Financial regulations
B. How investors process information and make decisions
C. Stock exchange mechanisms
D. Risk-free asset pricing

Correct Answer: B
CO: CO 1, L2

Q5. Heuristics in behavioural finance are best described as:
A. Complex statistical tools
B. Formal decision rules
C. Mental shortcuts used in decision-making
D. Accounting conventions

Correct Answer: C
CO: CO 1, L1

Q6. Which of the following best explains *prospect theory*?
A. Investors always maximise expected utility
B. Investors evaluate outcomes relative to a reference point
C. Investors ignore losses
D. Investors prefer certainty in all situations

Correct Answer: B
CO: CO 1, L2

Q7. Loss aversion implies that investors:
A. Value gains and losses equally
B. Prefer risky investments
C. Experience losses more intensely than gains
D. Ignore negative outcomes

Correct Answer: C
CO: CO 1, L4

Q8. Mental accounting refers to:
A. Professional bookkeeping practices
B. Treating all money as perfectly fungible
C. Categorising money into separate mental accounts
D. Evaluating portfolios as a whole

Correct Answer: C
CO: CO 1, L4

Q9. Regret theory suggests that investors:
A. Always follow market trends
B. Anticipate regret when making decisions
C. Ignore past outcomes
D. Rely solely on expert advice

Correct Answer: B
CO: CO 1, L2

Q10.

Hindsight bias occurs when investors:
A. Predict outcomes accurately
B. Believe past events were predictable after they occurred
C. Ignore historical data
D. Avoid learning from mistakes

Correct Answer: B
CO: CO 1, L1

Q11. Overconfidence bias leads investors to:
A. Underestimate their knowledge
B. Trade less frequently
C. Overestimate their abilities and information
D. Avoid risky assets

Correct Answer: C
CO: CO 2, L2

Q12. Self-attribution bias is reflected when investors:
A. Blame market conditions for gains
B. Attribute success to skill and failure to external factors
C. Avoid taking responsibility
D. Rely only on advisors

Correct Answer: B
CO: CO 2, L2

Q13. Herding behaviour occurs when investors:
A. Make independent decisions
B. Follow fundamental analysis
C. Imitate the actions of others
D. Focus on long-term strategies

Correct Answer: C
CO: CO 2, L4

Q14. Groupthink in financial markets often results in:
A. Diverse opinions
B. Rational decision-making
C. Suppression of dissenting views
D. Reduced market volatility

Correct Answer: C
CO: CO 2, L2

Q15. Familiarity bias causes investors to:
A. Diversify globally
B. Prefer well-known or local investments
C. Avoid domestic markets
D. Focus on high-risk assets

Correct Answer: B
CO: CO 2, L1

Q16. Home bias refers to investors':
A. Preference for foreign securities
B. Tendency to invest heavily in domestic assets
C. Avoidance of equity markets
D. Focus on short-term gains

Correct Answer: B
CO: CO 2, L2

Q17. Calendar effects in markets indicate that returns:
A. Are random throughout the year
B. Vary systematically across time periods
C. Are unaffected by time
D. Depend only on firm size

Correct Answer: B
CO: CO 2, L2

Q18. The size effect suggests that:
A. Large firms outperform small firms
B. Small firms tend to generate higher returns
C. Firm size is irrelevant
D. Returns are risk-free

Correct Answer: B
CO: CO 2, L4

Q19. Momentum effect implies that:
A. Past losers outperform winners
B. Prices immediately reflect information
C. Assets with recent good performance continue to perform well
D. Returns are unpredictable

Correct Answer: C
CO: CO 2, L3

Q20. CEO overconfidence in behavioural corporate finance often leads to:
A. Conservative investment decisions
B. Underinvestment
C. Excessive risk-taking and overinvestment
D. Reduced mergers and acquisitions

Correct Answer: C
CO: CO 2, L5

Q21. Which factor most clearly differentiates behavioural finance from traditional finance?
A. Focus on market efficiency
B. Emphasis on psychological influences
C. Use of quantitative models
D. Assumption of rational investors

Correct Answer: B
CO: CO 1, L2

Q22. In prospect theory, the value function is typically:
A. Linear for gains and losses
B. Concave for gains and convex for losses
C. Convex for gains and concave for losses
D. Independent of reference points

Correct Answer: B
CO: CO 1, L4

Q23. Which bias explains investors holding losing stocks to avoid realising losses?
A. Overconfidence bias
B. Mental accounting
C. Loss aversion
D. Herding behaviour

Correct Answer: C
CO: CO 1, L3

Q24. Regret theory suggests that investors may avoid certain decisions to:
A. Increase expected returns
B. Reduce anticipated emotional pain
C. Follow market trends
D. Improve diversification

Correct Answer: B
CO: CO 1, L2

Q25. Which behavioural bias is most likely to cause excessive trading by investors?
A. Familiarity bias
B. Overconfidence bias
C. Home bias
D. Hindsight bias

Correct Answer: B
CO: CO 2, L4

Q26. Herding in financial markets can result in:
A. Improved price discovery
B. Reduction in market volatility

C. Asset price bubbles and crashes
D. Perfectly efficient markets

Correct Answer: C
CO: CO 2, L5

Q27. The value effect in stock markets implies that:
A. Growth stocks outperform value stocks
B. Value stocks generate higher average returns
C. Stock prices always reflect fundamentals.
D. Market anomalies do not exist.

Correct Answer: B
CO: CO 2, L2

Q28. Reversal effects in stock returns suggest that:
A. Past winners continue to outperform
B. Prices adjust immediately to information
C. Poor past performers may outperform in the long run.
D. Returns are always stable

Correct Answer: C
CO: CO 2, L4

Q29. In behavioural corporate finance, herding by firms refers to:
A. Independent strategic decisions
B. Firms mimicking competitors' investment or financing choices
C. Regulatory compliance
D. Risk-free investment behaviour

Correct Answer: B
CO: CO 2, L2

Q30. Behavioural perspectives on mergers and acquisitions suggest that M&A activity may be driven by:
A. Perfect valuation accuracy
B. Managerial overconfidence and biases
C. Complete market efficiency
D. Risk neutrality of CEOs

Correct Answer: B
CO: CO 2, L5

Q31. An investor refuses to sell a stock that has fallen significantly below its purchase price, hoping it will rebound to avoid realising a loss. Which behavioural bias best explains this behaviour?
A. Overconfidence bias
B. Loss aversion
C. Herding behaviour
D. Familiarity bias

Correct Answer: B
CO: CO 1, L3

Q32. A portfolio manager evaluates gains and losses relative to last year's portfolio value rather than overall wealth and becomes more risk-seeking after losses. This behaviour is best explained by:
A. Efficient market hypothesis
B. Mental accounting
C. Prospect theory
D. Calendar effect

Correct Answer: C
CO: CO 1, L4

Q33. After a stock market crash, an investor claims that the downturn was "obvious" and should have been predicted easily. This reflects:
A. Regret aversion
B. Overconfidence
C. Hindsight bias
D. Anchoring bias

Correct Answer: C
CO: CO 1, L2

Q34. An investor heavily invests in domestic companies despite evidence that international diversification reduces risk. This behaviour is primarily due to:
A. Familiarity bias and home bias
B. Herding behaviour
C. Loss aversion
D. Momentum effect

Correct Answer: A
CO: CO 2, L3

Q35. A group of investors rushes to buy a particular stock simply because many others are doing so, ignoring fundamental analysis. Which concept best explains this situation?
A. Mental accounting
B. Groupthink and herding
C. Prospect theory
D. Size effect

Correct Answer: B
CO: CO 2, L4

Q36. A CEO undertakes aggressive expansion projects despite weak cash flows, believing strongly in personal judgment and forecasting ability. This decision reflects:
A. Risk aversion
B. CEO overconfidence
C. Regret theory
D. Value effect

Correct Answer: B
CO: CO 2, L5

Q37. An investor categorises bonus income as "extra money" and invests it in high-risk stocks, while treating salary income conservatively. This behaviour illustrates:

A. Loss aversion
B. Regret avoidance
C. Mental accounting
D. Anchoring bias

Correct Answer: C
CO: CO 1, L3

Q38. A stock that has performed exceptionally well over the past six months continues to attract investors, pushing prices further upward. This phenomenon is known as:

A. Reversal effect
B. Value effect
C. Momentum effect
D. Size effect

Correct Answer: C
CO: CO 2, L2 (Understand)

Q39. Over a long horizon, stocks that previously underperformed the market begin to outperform due to the correction of investor overreaction. This is best explained by:

A. Momentum effect
B. Calendar effect
C. Reversal effect
D. Home bias

Correct Answer: C
CO: CO 2, L4

Q40. During a merger decision, top management ignores contradictory data and relies excessively on optimistic forecasts, leading to value destruction. From a behavioural perspective, this outcome is mainly driven by:

A. Efficient markets
B. Managerial rationality
C. Cognitive biases and overconfidence
D. Arbitrage opportunities

Correct Answer: C
CO: CO 2, L5

Mapping of Questions with Course Learning Outcome

Question Number	COs	Bloom's taxonomy level	Marks Allocated
Q. 1:	**CO-1**	**L2**	**0.5**
Q. 2:	**CO-1**	**L-1**	**0.5**
Q. 3:	**CO-1**	**L-4**	**0.5**
Q. 4:	**CO-1**	**L-2**	**0.5**
Q. 5:	**CO-1**	**L-1**	**0.5**

Q. 6:	**CO-1**	**L-2**	**0.5**
Q. 7:	**CO-1**	**L-4**	**0.5**
Q. 8:	**CO-1**	**L-4**	**0.5**
Q. 9:	**CO-1**	**L-2**	**0.5**
Q. 10:	**CO-1**	**L-1**	**0.5**
Q. 11:	**CO-2**	**L-2**	**0.5**
Q. 12:	**CO-2**	**L-2**	**0.5**
Q. 13:	**CO-2**	**L-4**	**0.5**
Q. 14:	**CO-2**	**L-2**	**0.5**
Q. 15:	**CO-2**	**L-1**	**0.5**
Q. 16:	**CO-2**	**L-2**	**0.5**
Q.17:	**CO-2**	**L-2**	**0.5**
Q. 18:	**CO-2**	**L-4**	**0.5**
Q. 19:	**CO-2**	**L-3**	**0.5**
Q. 20:	**CO-2**	**L-5**	**0.5**
Q. 21:	**CO-1**	**L-2**	**0.5**
Q. 22:	**CO-1**	**L-4**	**0.5**
Q. 23:	**CO-1**	**L-3**	**0.5**
Q. 24:	**CO-1**	**L-2**	**0.5**
Q. 25:	**CO-2**	**L-4**	**0.5**
Q. 26:	**CO-2**	**L-5**	**0.5**
Q. 27:	**CO-2**	**L-2**	**0.5**
Q. 28:	**CO-2**	**L-4**	**0.5**
Q. 29:	**CO-2**	**L-2**	**0.5**
Q. 30:	**CO-2**	**L-5**	**0.5**
Q. 31:	**CO-1**	**L-3**	**0.5**
Q. 32:	**CO-1**	**L-4**	**0.5**
Q. 33:	**CO-1**	**L-2**	**0.5**
Q. 34:	**CO-2**	**L-3**	**0.5**
Q. 35:	**CO-2**	**L-4**	**0.5**

Q. 36:	**CO-2**	**L-5**	**0.5**
Q. 37:	**CO-1**	**L-3**	**0.5**
Q. 38:	**CO-2**	**L-2**	**0.5**
Q. 39:	**CO-2**	**L-4**	**0.5**
Q. 40:	**CO-2**	**L-5**	**0.5**

Note: Font: Times New Roman, Font size: 12.