312- Behavioural Finance

1. What is the primary focus of the Traditional/Conventional View of Financial Markets?

a. Understanding irrational behavior

b. Maximizing investor emotions

c. Efficient market hypothesis

d. None of the above

Answer: c. Efficient market hypothesis

2. What defines Financial Market inefficiencies in Behavioral Finance?

a. Anomalies and crises

b. Perfect market conditions

c. Rational investor behavior

d. None of the above

Answer: a. Anomalies and crises

3. What is the scope of Behavioral Finance?

a. Exploring efficient market behaviors

b. Studying irrational behavior in financial decision-making

c. Ignoring psychological factors in finance

d. None of the above

Answer: b. studying irrational behavior in financial decision-making

4. How does Behavioral Finance differ from Standard Finance?

a. By focusing on market efficiency

b. By ignoring psychological aspects

c. By acknowledging irrational behaviors

d. None of the above

Answer: c. By acknowledging irrational behaviors

5. What is an example of a limitation of the Traditional View of Financial Markets?

a. Efficient market conditions

b. Anomalies and crises

c. Rational investor behavior

d. None of the above

Answer: b. Anomalies and crises

6. What defines External factors influencing investor behavior in Behavioral Finance?

a. Political events

b. Demographic, social, and economic factors

c. Market efficiency

d. None of the above

Answer: b. Demographic, social, and economic factors

7. How do Geomagnetic Storms affect financial markets, according to Behavioral Finance?

a. No impact on financial markets

b. Can cause irrational investor behavior

c. Improve market efficiency

d. None of the above

Answer: b. Can cause irrational investor behavior

8. What characterizes the types of investors in Behavioral Finance?

a. Only rational investors

b. Only emotional investors

c. Systematic investors and their sentiments

d. None of the above

Answer: c. Systematic investors and their sentiments

9. What influences the Investment Cycle in Behavioral Finance?

a. Rational decision-making

b. Fear and Greed

c. Efficient market conditions

d. None of the above

Answer: b. Fear and Greed

10. What defines systematic investors' sentiments in Behavioral Finance?

a. Rational decision-making

b. Emotional biases

c. Efficient market conditions

d. None of the above

Answer: b. Emotional biases

11. What concept is associated with Bounded Rationality in Behavioral Finance?

a. Perfect market conditions

b. Limited investor knowledge and information processing

c. Efficient market hypothesis

d. None of the above

Answer: b. Limited investor knowledge and information processing

12. What does Cognitive Dissonance theory explain in Behavioral Finance?

a. Investors' rational decision-making

b. Investors' consistent behavior

c. Discomfort from holding conflicting beliefs

d. None of the above

Answer: c. Discomfort from holding conflicting beliefs

13. What is Prospect Theory in Behavioral Finance?

a. Rational investment decision-making

b. Emphasizes gains more than losses

c. Ignoring investor emotions

d. None of the above

Answer: b. Emphasizes gains more than losses

14. What is Loss Aversion in Behavioral Finance?

a. Investors prefer losses to gains

b. Emphasizes losses more than gains

c. No preference between gains and losses

d. None of the above

Answer: b. Emphasizes losses more than gains

15. What does the concept of Limit to Arbitrage suggest in Behavioral Finance?

a. Unlimited arbitrage opportunities

b. Barriers preventing arbitrage activities

c. Efficient market conditions

d. None of the above

Answer: b. Barriers preventing arbitrage activities

16. What is Heuristics in Behavioral Finance?

a. A systematic approach to decision-making

b. Intuitive mental shortcuts

c. Rational decision-making process

d. None of the above

Answer: b. Intuitive mental shortcuts

17. What characterizes Cognitive Biases in Behavioral Finance?

a. Rational decision-making

b. Emotional and cognitive errors

c. Perfect market conditions

d. None of the above

Answer: b. Emotional and cognitive errors

18. How are biases classified in Behavioral Finance?

a. Heuristic drive and frame-driven

b. Cognitive and emotional biases

c. Only frame-driven biases

d. None of the above

Answer: b. Cognitive and emotional biases

19. How do biases impact investors in Behavioral Finance?

a. Enhance rational decision-making

b. Improve market efficiency

c. Influence suboptimal investment decisions

d. None of the above

Answer: c. Influence suboptimal investment decisions

20. What is the Nudge Theory in Behavioral Finance?

a. Encouraging rational decision-making

b. Influencing behavior without restricting choices

c. Promoting perfect market conditions

d. None of the above

Answer: b. Influencing behavior without restricting choices

21. How do heuristics and biases affect Corporate Financial Decision-Making?

a. Improve decision-making accuracy

b. Introduce errors in investment, financing, and dividend decisions

c. Ensure rational corporate behavior

d. None of the above

Answer: b. Introduce errors in investment, financing, and dividend decisions

22. What is the significance of Dividend in Corporate Behavioral Finance?

a. No impact on corporate decisions

b. Influences Ex-Dividend Day behavior

c. Reduces cognitive biases

d. None of the above

Answer: b. Influences Ex-Dividend Day behavior

23. When does the timing of corporate news/announcement play a role in Corporate Behavioral Finance?

a. It has no impact on investor behavior

b. During market closures only

c. It affects investor reactions and decisions

d. None of the above

Answer: c. It affects investor reactions and decisions

24. What is Insider Trading in Corporate Behavioral Finance?

a. Legal corporate practices

b. Employees trading stocks based on non-public information

c. Promoting market efficiency

d. None of the above

Answer: b. Employees trading stocks based on non-public information

25. What is the implication of corporate scandals in Behavioral Finance?

a. Improved market reputation

b. No impact on investor behavior

c. Reduced investor trust and confidence

d. None of the above

Answer: c. Reduced investor trust and confidence