

## 10.03 The Behavioral Biases of Individuals

### Question 1

The *most appropriate* response to an emotional bias is often to:

- A. recognize it and adapt to it.
- B. change it by changing one's beliefs.
- C. correct it with better education and information.

### Question 2

As a financial bubble begins to unwind, which of the following behavioral biases are *most likely* revealed in investor underreaction to the ensuing crash?

- A. Anchoring and regret aversion
- B. Anchoring and cognitive dissonance
- C. Cognitive dissonance and regret aversion

### Question 3

The halo effect is *most closely* associated with which market anomaly?

- A. Bubbles
- B. Momentum
- C. Value effect

### Question 4

A classically trained fundamental buy-side analyst has done extensive company-specific due diligence on a cyclical industrial company. A portfolio manager questions the analyst's bullish forecast, citing weak recent macroeconomic data and falling bond yields. The analyst contacts the company's CFO, who reiterates the earnings and revenue guidance, thus validating the analyst's bullish view despite these other factors. The analyst *most likely* displays which of the following behavioral biases?

- A. Cognitive cost
- B. Base-rate neglect
- C. Sample-size neglect