Behavioral Finance Quiz

Behavioral Finance Quiz Answer. In this post you will get Quiz Answer Of Behavioral Finance

Behavioral Finance Quiz

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Week 1 Quiz

1.
Question 1
One example that we saw in Utility of Money was labeled "Example 1: Two Decisions with Gains and Losses." You were invited to make two decisions, to which many people select outcomes A & D. The Example is replicated below.

Which
axiom does the A-D error violate?

1 point

- **Dominance**
- Independence
- Invariance

2.
Question 2
Choosing vs. Pricing: preferring one option, but being willing to pay more for the other, violates which axiom?

1 point

- Dominance
- Independence
- **Invariance**

3.
Question 3
Here is the Allais Paradox, which we looked at this week.

Which of the following axioms does the Allais Paradox violate?

1 point

- Invariance
- **Independence**
- Dominance

4.
Question 4
For many years—for so long, in fact, that he practically forgot that he had them—Mr. Duke has owned $20,000 worth of shares in a certain company. One day he remembers them and considers whether he should sell them. He notes that they have exactly maintained their value over the years, so he decides to hold onto them.

A few months later, the company unexpectedly fails, and his shares are no longer worth anything. Mr. Duke realizes that he has lost $20,000.

1 point

- **Omission Bias**
- Loss Aversion
- The Disposition Effect
- Risk Aversion

5.
Question 5
Suppose that Mr. K buys 1,000 shares in a software company at $25 / share. The company is currently attracting considerable media attention for its new accounting software, a highly touted product that is expected to become the industry standard, with considerable improvements in both efficiency and ease of use.

1 point

- **Risk seeking over losses**
- Risk aversion over gains
- Loss aversion

6.
Question 6
Think about the visual illusion in which three triangles somehow became four triangles, even though the changes on the page were not triangular. Suppose we compare this visual distortion to the way in which we sometimes “distort” rational decision-making by violating the Axioms.

This visual illusion could serve as a metaphor for the violation of which Axiom?

1 point

- **Independence**
- Invariance
- Dominance

7.
Question 7
Let’s assume we all have preferences that are consistent
with Prospect Theory. Suppose also that
we could select whether our salaries are paid on a weekly basis or a monthly
basis. Which alternative would we pick,
assuming that the total monthly salary is the same as the sum of the weekly
payments? Ignore the impact of extra
interest that we could earn in our bank accounts if we were paid on a more
frequent basis.

1 point

- Monthly
- **Weekly**

8.
Question 8
Now suppose you have the option to pay your utility bills on
an annual rather than a monthly basis.
Assume that you have enough money in the bank that you could pay the
annual bill (which is simply the sum of all of your monthly bills) without
running an overdraft or taking out a loan.

If your choices are consistent with
Prospect Theory preferences, would you choose to do so? Once again, ignore the impact of any interest
that you would earn (or forego).

1 point

- Monthly
- **Annually**

9.
Question 9
This week, you were introduced to the Disposition
Effect, which highlights the way in which many people’s preferences “flip” from Decision A to
Decision D—even though A & C are identical, as are B & D. [Note: There is more than one correct answer]

Which of the following aspects of Prospect
Theory help(s) to explain this violation of the Invariance Axiom (select all that apply).

1 point

- **Risk seeking over losses**
- Loss aversion
- **Risk aversion over gains**

10.
Question 10
Suppose there are two investors: Michael and Steve. Both have pension funds, into which they deposit money each month from their paychecks.
Both are in their early 30s, and anticipate retiring at around age 65. Neither anticipates withdrawing any money from his pension fund prior to retirement.

1 point

- Risk seeking over losses
- Risk aversion over gains
- **Loss aversion**

11.
Question 11
Assume an investor recently purchased shares in Dynamo Products (a hypothetical company) at $60 per share. Shares are now at $40. See the three attached Prospect Theory value functions. Which of the value functions below correctly reflects the investor's value function assuming:

(1)
The investor has updated his reference point for the price of the Dynamo shares?

(2)
The investor has not updated his reference point?

1 point

- Value Function A reflects that the investor has updated his reference point, while Value Function C reflects that the investor has not updated his reference point
- Value Function B reflects that the investor has updated his reference point, while Value Function C reflects that the investor has not updated his reference point
- Value Function C reflects that the investor has updated his reference point, while Value Function C reflects that the investor has not updated his reference point
- Value Function B reflects that the investor has updated his reference point, while Value Function A reflects that the investor has not updated his reference point
- **Value Function A reflects that the investor has updated his reference point, while Value Function B reflects that the investor has not updated his reference point**
- Value Function C reflects that the investor has updated his reference point, while Value Function A reflects that the investor has not updated his reference point

12.
Question 12
Which bias helps to explain why people like to go to all-inclusive resorts, where the entire cost of the vacation is paid upfront, and guests don't have to pay for individual meals, drinks, activities etc., even though they know they will probably end up paying more for the all-inclusive than if they went to a regular resort?

1 point

- Moving Reference Points
- **Loss Aversion**

- Risk Seeking
- Risk Aversion

Week 2 Quiz

1.
Question 1
In the story of the Man in the Green Bathrobe, there is one particular feature of Prospect Theory that this gambler apparently violates. Which feature?

1 point

Loss aversion

Risk seeking over losses

Risk aversion over gains

2.
Question 2
Many consumers shrink from buying either the highest- or lowest-priced item among a group of similar items, seeming to prefer something in between. For example, retailer Williams-Sonoma Inc. was able to increase sales of its $275 bread machine by adding a second, slightly larger model to its catalogue at a price of just over $400. And Xerox Corp. at one time boosted sales of its high-volume copier to large corporations by introducing a higher-priced model with a few extra bells and whistles. Which one of the following biases best explains this effect?

1 point

Framing

Status Quo Bias

House Money Effect

Anchoring

Availability Heuristic

Disposition Effect

3.
Question 3
When we purchase essential insurance (e.g., health insurance), we are often offered a range of "deductibles," the pre-specified amount that we must pay on a claim before the insurance company will pay the

balance. Assuming that the deductibles themselves
are for dollar amounts that we could afford without significant financial hardship, which
deductible should we select?

1 point

It depends on a number of factors; cannot say
for sure

Always select the policy with the lowest
deductible

Always select the policy with the highest deductible

4.
Question 4
In the material on Framing, you were invited to respond to
two lotteries. They are replicated here.

Which of the following biases and errors could explain why some
respondents to these two lotteries may apparently “flip their preferences”? Please select all that apply.

1 point

Mental Accounting

Risk seeking over
losses

Endowment Effect

Risk aversion over gains

Loss Aversion

5.
Question 5
Oriental rug
salesmen often start a negotiation by mentioning a ridiculously high price for
an item in which you’ve expressed interest. Similarly, posted full fares on
airlines tend to be significantly higher than the price that the average
economy-class passenger typically pays. Which of the following biases best
explains why these merchants quote a starting price far higher than the
ultimate transaction price?

1 point

Money
Illusion

Anchoring

House Money
Effect

Base Rates

Endowment
Effect

6.
Question 6
There is lots of evidence to suggest that we are inclined to
treat “money won” differently from “money earned.” Which of the following biases is best able to
explain this phenomenon, which often results in our being more willing to
gamble with money that we have won, rather than earned?

1 point

Risk Seeking over Losses

Endowment Effect

Loss Aversion

Mental Accounting

Disposition Effect

7.
Question 7
The following experiment was carried out with
undergraduates at Duke University. The
researchers divided participants into two groups. One group was asked to state the highest
price they would pay for a ticket to the NCAA Final Four basketball tournament,
a highly prized item on campus. The other group was told to imagine they had
such a ticket and was asked for the lowest price at which they would be willing
to sell it. The median selling price was $1,500; the median buying price was
$150. Which of the following bias(es) might explain why the buying and selling
prices were so different? Please select
all that apply.

1 point

Endowment Effect

Loss Aversion

Disposition Effect

Regret Theory

8.
Question 8
Prior to the US housing market crash in 2007, which ONE of
the following errors best explains the market’s reluctance to believe that
there could be a country-wide drop in US prices?

1 point

Sample size neglect

Gambler’s fallacy

Non-regressive prediction

Conservatism

9.
Question 9
When the iPod shuffle first came out, there were rumors that the order of the songs wasn’t really random. The following are quotes on an Apple discussion board about the shuffle feature:

“Can some one please explain why on my…iPod songs repeat while on shuffle?”

“…that happens to me too. some songs keep getting played, and some I hardly ever hear. It seems the iPod is biased…”

The iPod is not biased – the customers are! Which bias are these customers suffering from?

1 point

Sample size neglect

Non-regressive prediction

Gambler’s fallacy

Conservatism

10.
Question 10
Review the characteristics of four different types of financial market traders. Think about to which biases these traders may be most susceptible.

1. The Headliner
This investor can’t resist a good story. He hears everyone talking about a hot new tech stock or an exciting start-up, and he rushes to buy shares — often at the expense of careful review.

2. The Talent Scout
He believes he has discovered a miracle product, and wants to jump on its manufacturer’s stock before the gizmo becomes a retail sensation.

3. The System Player
This trader develops complex formulas that he relies on when evaluating stocks.

4. The Loyalist
This investor invests heavily in the stock of the company that he works for, at the expense of creating a well diversified portfolio.

Only one
of these Traders suffers from Sample Size Neglect. Which one?

1 point

The Headliner

The System Player

The Loyalist

The Talent Scout

11.
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3. The System Player This trader develops complex formulas that he relies on when evaluating stocks.

4. The Loyalist This investor invests heavily in the stock of the company that he works for, at the expense of creating a well diversified portfolio.

Which two suffer from Illusion of Control?

1 point

The Headliner

The Loyalist

The Talent Scout

The System Player

12.
Question 12
Review the characteristics of four different types of financial market traders. Think about to which biases these traders may be most susceptible.

1. The Headliner This investor can't resist a good story. He hears everyone talking about a hot new tech stock or an exciting start-up, and he rushes to buy shares — often at the expense of careful review.

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4. The Loyalist This investor invests heavily in the stock of the company that he works for, at the expense of creating a well diversified portfolio.

Which three are most likely to suffer from the Availability heuristic?

1 point

The Talent Scout

The Loyalist

The System Player

The Headliner

13.
Question 13
Art galleries sometimes encourage customers to take paintings home and try them out for a while, offering to give a full refund if the customer subsequently wishes to return them. The stores are obviously counting on most customers holding onto the piece of art. Which bias best explains why, even if we were uncertain about the item when we saw it in the gallery, we are much more likely to keep it once we've displayed it at home?

1 point

Mental Accounting

Disposition Effect

Availability Heuristic

Endowment Effect

House Money Effect

Anchoring

Loss Aversion

14.
Question 14
In Greek mythology, the hero Ulysses was returning from the Trojan wars, on a route that would take his ship close to the Sirenusian islands. The Sirens on these islands were known to sing irresistably seductive songs, so that passing seamen felt impelled to steer their ships onto the rocky coast, with shipwreck the inevitable outcome. Mythology has it that no one had ever lived to tell others about the songs. Ulysses devised the following strategy: he told his crewmen to fill their ears with beeswax to block out the singing, to tie Ulysses himself securely to the mast, and not release him under any circumstances. Thus, Ulysses heard the Sirens' songs, the crewmen ignored his entreaties to be untied and, once they were out of range of the island, his men removed their earplugs and released him.

1 point

Loss Aversion

Belief Perseverance

Gambler's fallacy

Preference Reversals

Omission Bias

Week 3 Quiz

1.
Question 1
We
have examined the historic performance of mutual funds, and noted that passive, low-cost funds tend, on average, to outperform their more expensive, actively managed counterparts. And yet investors in droves continue to put their money with actively managed funds. Which of the following bias(s) might help explain this anomaly?

Note: There is more than a single correct answer. Select all that Apply.

1 point

Overconfidence

Anchoring

Sample size neglect

Commitment escalation

2.
Question 2
In
our discussion of the Life Cycle theory of retirement investing, we met Jim, who kept his entire retirement fund in equities and experienced a nearly 40% reduction in his nest egg in the Great Recession. Even though the dollar value of his retirement fund was greater than it would have been if he had followed a life cycle investing approach, his disappointment was considerable. Which bias(es) contributed to this irrational dismay?

Note: These is more than a single correct answer. Select all that apply.

1 point

Loss aversion

Mental accounting

Anchoring

3.
Question 3
In
the final section of this course, you read about a series of asset
bubble-and-crash cycles over history.
Some behavioral biases appear to be present in all bubbles, while others
do not seem to be essential components. One of the latter type of biases is "Illusion
of Control" in the guise of the "Greater Fool" theory: the belief that you will
be able to make money by buying the bubble asset now, and selling it to someone
else (the "greater fool") before the market inevitably turns. Based on the readings, in which three of the bubbles was there
considerable evidence of investors exhibiting this particular behavioral
"illusion"?

1 point

The South Sea bubble

Tulip mania

The Dot-Com bubble

The Credit Crisis

The 1929 crash

The Railway mania

4.
Question 4
Another distinction among "bubble" scenarios is that some revolve around genuinely innovative technologies that confer long run economic benefits, even though the price increase during the "bubble" phase subsequently appears excessive. Which three of the following bubbles were not fueled initially by such a new technological paradigm?

1 point

The South Sea bubble

The Dot-Com bubble

The Credit Crisis

Tulip mania

The 1929 crash

The Railway mania

5.
Question 5
Among
the six bubble-crash scenarios that you have read about in this course, which

of the following two factors appear
to be characteristic of all of them?

1 point

Cross-country
“contagion” in either the “bubble” phase, the “crash” phase, or both

Evidence
of non-regressive prediction; a belief that the bubble asset will “always go up.”

Low interest rates and easy
credit in the early stages of the bubble

Nationalistic
“fervor” for the bubble asset

Broad societal speculation
in the bubble asset beyond just professional investors/speculators

6.
Question 6
The chart below is
Jean-Paul Rodrigues’s famous phases of a bubble (source: https://en.wikipedia.org/wiki/File:Stages_of_a_bubble.png). The following questions all relate to the
characteristics of each phase, and the behavioral biases most likely to be
present during each phase. Note that not all bubbles follow this pattern exactly;
nor are all of the biases below present in every bubble.

Jean-Paul Rodrigue [Attribution], via Wikimedia Commons

Which of the following biases is most likely to be present at the “Take Off” phase:

1 point

Conservatism

Belief perseverance

Certainty effect

Gambler’s fallacy

7.
Question 7
Which
of the following biases is most likely to be present at the “Bear Trap” phase:

1 point

Conservatism

Belief perseverance

Certainty effect

Gambler's fallacy

8.
Question 8
Which
of the following biases is most likely to be present at the "Greed" phase:

1 point

Status quo bias

Commitment escalation

Confusion of the inverse

Gambler's fallacy

9.
Question 9
Which
of the following biases is most likely to be present at the "Delusion" phase:

1 point

Confusion of the inverse

Confirmation bias

Risk seeking

Money illusion

10.
Question 10
Which
of the following biases is most likely to be present at the "New Paradigm!!!"
phase:

1 point

Non-regressive prediction

Confusion of the inverse

Self-attribution bias

Correlation/causation error

11.
Question 11
Which
of the following biases is most likely to be present at the “Denial” phase:

1 point

Money illusion

House money effect

Risk seeking over losses

Risk aversion over gains

12.
Question 12
Which
of the following biases is most likely to be present at the “Fear” phase:

1 point

Loss aversion

Money Illusion

House money effect

Conservatism

13.
Question 13
Which
of the following biases is most likely to be present at the “Capitulation”
phase:

1 point

Availability heuristic

House money effect

Confirmation bias

Omission bias

Other Questions Of This Category

Q1: Internet History Technology Security Quiz

Q2: High Stakes Leadership Leading

Q3: Moralities of Everyday Life Quiz

Q4: Successful Presentation Quiz

Q5: Data Visualization and Communication with Tableau

Q6: Advanced Interviewing Techniques Quiz Answer

Q7: The Science of Success What Researchers Know that You Should Know Quiz

Q8: Corporate Financial Decision Making for Value Creation

Q9: Finance for Everyone Decisions Quiz

Q10: Alternative Approaches to Valuation and Investment

Q11: Personal Family Financial Planning Quiz

Q12: Positive Psychology Quiz

Q13: Global Financial Markets and Instruments Quiz

Q14: Work Smarter Not Harder Coursera Quiz

Q15: Securing Investment Returns in the Long Run Quiz