Old Exam Questions
Behavioral Finance

READ FIRST: The following questions are reproduced from my previous exams. Exam formats have differed over time, so you may notice some differences in formatting or question style. The intent is that these questions will help you to practice, but it is ***NOT*** intended to replace your own study habits.

1. [Conceptual] You predict that the health care sector will provide the highest returns of any sector over the next few years. A few months down the road, you look at returns data, and you see that there is 1 health care company in the top 50 returns. You are convinced that this shows your prediction is accurate. What is this an example of?
   A. Availability bias
   B. Confirmation bias
   C. Disposition effect
   D. Framing effect
   E. Hindsight bias

2. [Conceptual] Preference for known risks over unknown risks is known as ________.
   A. Ambiguity aversion
   B. Common sense
   C. Conservatism
   D. Risk aversion
   E. None of these

3. [Conceptual] The concept of “paper losses”—that losses aren’t real until you actually sell the security—is ***MOST*** consistent with __________.
   A. Conservatism
   B. Disposition effect
   C. Hindsight bias
   D. Hyperbolic discounting
   E. Representativeness

4. [Conceptual] A commonly heard criticism of corporate activity is that management and shareholders are overly focused on this quarter's earnings, even at the detriment of future earnings. Which bias would this illustrate?
    A. Ambiguity aversion
    B. Framing effect
    C. "Hot hand" fallacy
    D. Hyperbolic discounting
    E. Representativeness

5. [Conceptual] You are tracking third quarter earnings reports. You see that SilverPerson Investments has an earnings call scheduled for tomorrow. Knowing that every one of the 5 financial firms to announce so far has underperformed their earnings guidance, you choose to short the firm's stock in advance of the announcement. What bias might this be an example of?
    A. Conservatism
    B. Hindsight bias
    C. "Hot hand" fallacy
    D. Overconfidence
    E. Prospect theory

6. [Conceptual] From your experience, utility companies are always rather boring—their earnings are consistent, with only slight increases each quarter. You see that Storm Electrical has significant volatility in its earnings over the past few years. Its earnings have increased significantly on average, but they vary significantly quarter-to-quarter. You don't really take that seriously, thinking that it is simply a blip in the data and that it is no different from other utilities. What is this an example of?
    A. Availability bias
    B. Conservatism
    C. Framing effect
    D. Hindsight bias
    E. Representativeness

7. [Conceptual] You are looking at your portfolio holdings. You notice that Sandor Defense Contractors is up 10%, while Bolton Enterprises is down 10%. You are happy with the Sandor gain, but you are very upset by Bolton's underperformance. What is this an example of?
    A. Hindsight bias
    B. Overconfidence
    C. Prospect theory
    D. Representativeness
    E. Self-attribution bias

8. [Conceptual] You're reviewing the price history of Super Cabs. You see that the firm's share price was $20 a year ago. Six months ago, the price had risen to $50. However, the price today is $40. Suppose someone had told you one year ago that today's price was $40. Now, suppose someone told you that six months ago. What are your reactions an example of?
   A. Anchoring
   B. Availability bias
   C. Disposition effect
   D. Hindsight bias
   E. Hyperbolic discounting

9. [Conceptual] You conducted a performance attribution analysis on your portfolio. You found that you had positive value added due to security selection for your investments in energy and commodities. On the other hand, you find a negative value added due to security selection in your investments in financials and utilities. You conclude that you got a bad break in your financials and utilities selections, while you are proud of your investment choices in energy and commodities. What is this an example of?
   A. Availability bias
   B. Framing
   C. Hindsight bias
   D. Representativeness
   E. Self-attribution bias