

Mock Exam

“Behavioral Finance”

For the following 4 questions you have 60 minutes. You may receive up to 60 points, i.e. on average you should spend about 1 minute per point.

Please note:

- You may use a pocket calculator that has no option to put text in the memory.
- You may answer all questions either in German or in English. Within each of the 4 main questions, you should not switch languages.
- Use the space below the questions to answer them. Write in a legible way and leave a margin of 3cm. Raise your hand if you need additional answer sheets. Write down your name and student ID number on all additional answer sheets.
- Only write on the front sides of the sheets. **Answers on the back sides will not be graded.**
- Please hand in **all question and answer sheets** after the exam. If only parts of the question or answer sheets are submitted, this will be interpreted as an attempt of deception.
- **Calculate within four digits after the decimal point. This also holds for intermediate results.**
- Please write in a legible way and leave a margin of 3cm.
- **You are not allowed to carry cellphones, smartphones or other mobile devices with you during the exam; any device that you carry with you (no matter if switched on or off) will be counted as an attempt of deception.**
- Provide the following information:

Name	
Student ID number	

Good luck.

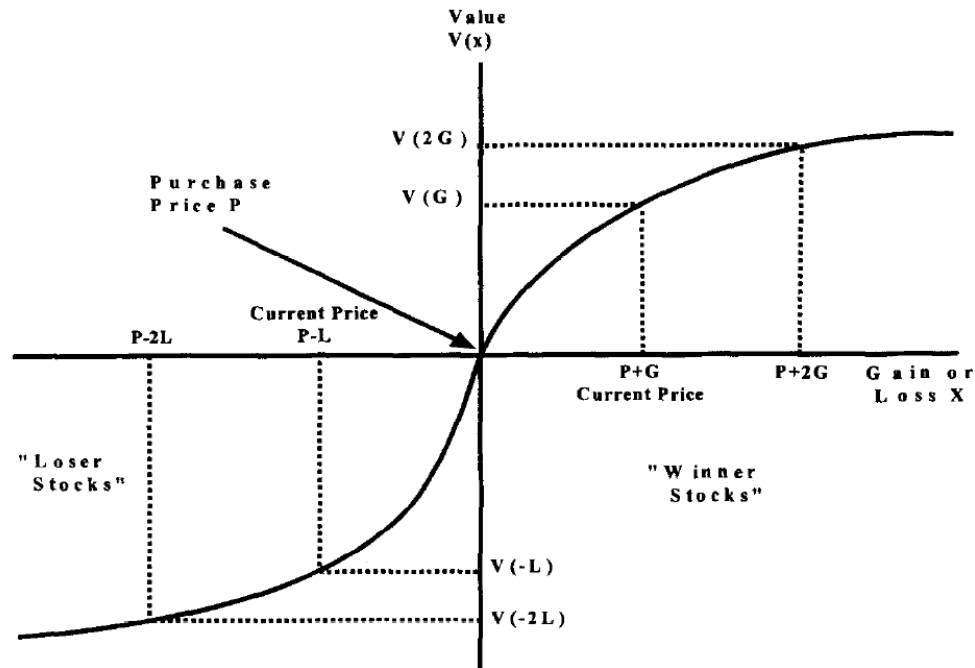
Do not write below this line.

1	2	3	4	sum

1 The Disposition Effect

15 points

- a) Using the figure below, please explain the *disposition effect* in the stock market. (4 points)



- b) Please name and explain two alternative explanations which could also explain the behavior which is usually attributed to the disposition effect. Are these alternative explanations addressed in the studies by Weber and Camerer (1998) and Odean (1998)? If yes, how? (6 points)
- c) Briefly compare the studies by Weber and Camerer (1998) and Odean (1998) by discussing the respective advantages and disadvantages of both studies. (5 points)



Universität Hamburg
DER FORSCHUNG | DER LEHRE | DER BILDUNG

Lehrstuhl für Bankbetriebslehre und Behavioral Finance

Prof. Dr. Markus Nöth

Telefon: +49-40-42838-3337

Fax: +49-40-42838-5512

eMail: markus.noeth@uni-hamburg.de

URL: www.bbf.uni-hamburg.de



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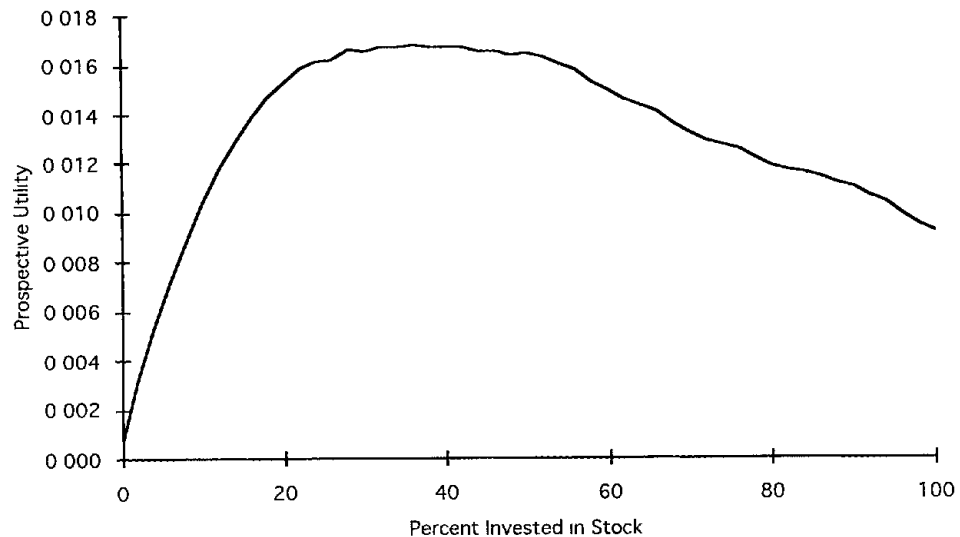
eMail: markus.noeth@uni-hamburg.de

URL: www.bbf.uni-hamburg.de

2 Behavioral Aspects of Household Finance 15 points

a) Stock Market

- a1) Please explain the main insight from the figure by Benartzi and Thaler (1995) shown below. Briefly discuss the plausibility of this result. (4 points)



- a2) Please discuss the following statement:
"Myopic loss aversion is only observed at the individual level; it is irrelevant for organizations" (3 points)

b) Credit Market

- b1) Briefly explain two regulatory aspects which are meant to make the refinancing decisions of German mortgage borrowers as simple as possible. (4 points)
- b2) Briefly explain two reasons why German mortgage borrowers might suboptimally remain with their current lender when refinancing. (4 points)



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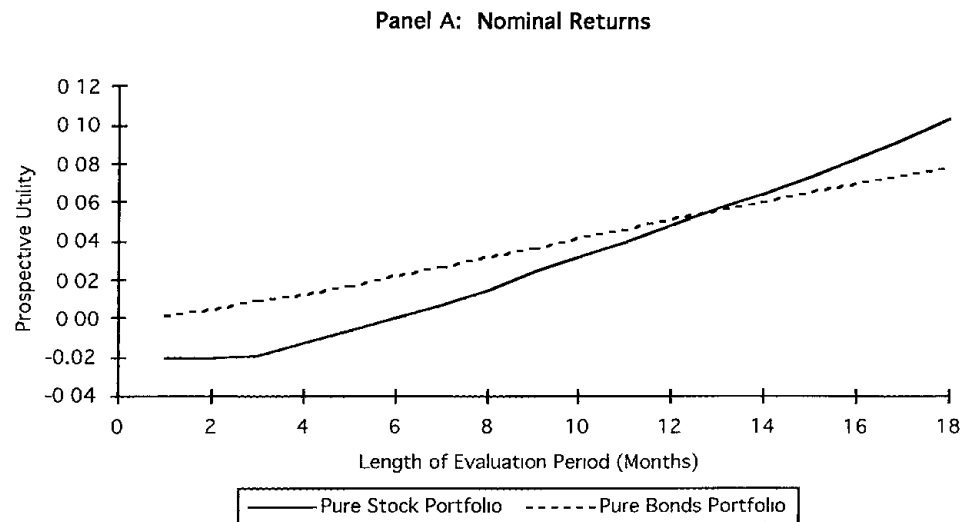
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URL: www.bbf.uni-hamburg.de

3 Behavioral Aspects of Investment Decisions 15 points

a) Benartzi and Thaler (1995)

- a1) Please explain the main insight from the figure by Benartzi and Thaler (1995) shown below. Briefly discuss the plausibility of this result. (4 points)



- a2) Please discuss the following statement:
“Myopic loss aversion is higher today than it was in 1995 when Benartzi and Thaler published their study” (4 points)

b) Stango and Zinman (2009)

- b1) Briefly explain whether the *exponential growth bias* is more severe for long-term or for short-term credit. (3 points)
- b2) Please discuss the following statement:
“Due to today’s low interest rate level, the exponential growth bias is no longer relevant for investment decisions” (4 points)



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4 Retirement Savings

15 points

- a) Briefly define the terms *Defined Benefit* and *Defined Contribution* in the context of retirement savings. (4 points)
- b) Briefly explain the three main issues to enhance 401(k) decisions and discuss which of these issues could be affected by the *exponential growth bias*. (6 points)
- c) Briefly explain two behavioral factors which are considered in the design of the *Save More Tomorrow (SMarT)* program. (5 points)



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