52 THE BEHAVIORAL BIASES OF INDIVIDUALS

1. Which of the following statements best describes the availability bias? An investor:
   (A) bases a decision on how the information is presented.
   (B) only notices information that agrees with their perceptions or beliefs.
   (C) associates new information with an easily recalled past event.

2. Which of the following are considered emotional biases?
   (A) Confirmation, control, and availability biases.
   (B) Anchoring and adjustment bias.
   (C) Status quo and endowment biases.

3. Which of the following cognitive errors are best described as belief persistence biases?
   (A) Mental accounting, framing, and availability biases.
   (B) Illusion of control, confirmation, and anchoring and adjustment biases.
   (C) Conservatism, representativeness, and hindsight biases.

4. Evidence that investors hold portfolios that are less diversified than traditional finance would suggest may be best explained by:
   (A) anchoring.
   (B) fear of regret.
   (C) overconfidence.

5. Which of the following are considered biases due to cognitive errors?
   (A) Loss aversion, self-control, and regret-aversion biases.
   (B) Conservatism, hindsight, and framing biases.
   (C) Representativeness, mental accounting, and overconfidence biases.

6. Which of the following statements would most likely be classified as a cognitive error? The investor:
   (A) acts defensively when asked why he made a poor investment decision.
   (B) has a tendency to place information into categories.
   (C) tends to take more risk rather than sell a stock at a loss.

7. Which of the following behavioral biases is most likely related to information processing?
   (A) Status quo.
   (B) Anchoring and adjustment.
   (C) Loss aversion.

8. With respect to asset "bubbles":
   (A) anchoring may cause investors to mitigate bubbles by reducing their market exposure.
   (B) hindsight bias can fuel overconfidence.
   (C) behavioral finance provides an overall explanation.