Seat No.: _____          Enrolment No._____

# GUJARAT TECHNOLOGICAL UNIVERSITY
## MBA – SEMESTER –III-EXAMINATION – SUMMER-2022

**Subject Code: 4539282**                    **Date: 13-07-2022**
**Subject Name: Behavioural Finance**
**Time: 02:30 PM TO 05:30 PM**                **Total Marks: 70**

**Instructions:**

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

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|---|---|---|---|
| **Q.1** | | Explain briefly below given terms : | **14** |
| | | (a) Herding | |
| | | (b) Biases | |
| | | (c) Mental Accounting | |
| | | (d) Loss Aversion | |
| | | (e) Prospect theory | |
| | | (f) Noise Trading | |
| | | (g) MICE | |
| **Q.2** | **(a)** | Why study of Behavioral finance is needed in 21$^{st}$ century? Explain the difference between Standard Finance and Behavioral Finance? | **07** |
| | **(b)** | How does herding tendencies of investors affect the stock market? Explain it in details with examples. | **07** |
| | | **OR** | |
| | **(b)** | Do you think Market Bubble does have impact on global economy? State any two market bubble of past with their impact on economy. "Bubbles are created because of investor rationality". Discuss three bubbles in financial history with their reasons and outcomes. | **07** |
| **Q.3** | **(a)** | Explain the Hindsight bias, Endowment effect and Anchoring? | **07** |
| | **(b)** | Explain in details that why people use heuristics and provide some of the reasons with suitable examples. | **07** |
| | | **OR** | |
| **Q.3** | **(a)** | Differentiate cognitive and emotional bias. Explain some the important emotional biases in detail | **07** |
| | **(b)** | 'A positive and a negative frame of the same situation may lead to completely opposite decisions'. Discuss this statement in the light of the survival frame and the mortality frame given by Tversky and Kahneman (1981) with the real life example of your knowledge. | **07** |
| **Q.4** | **(a)** | What is Forensic Accounting? Explain the various tools of applied in Forensic Accounting. | **07** |
| | **(b)** | Discuss the basic ingredients of a sound investment philosophy, focusing on the Warren Buffet way of Investing. | **07** |
| | | **OR** | |
| **Q.4** | **(a)** | State the approaches of |Behavioural Corporate Finance with significance. | **07** |
| | **(b)** | Do mood, emotion and sentiment influence the mental frame and behaviour of an investor? If yes, then explain how with help of suitable example. | **07** |

**Q.5** **CASE STUDY:**

Deepika is scared of investing in the stock market because of the risks associated with it. Therefore, she invests in "safe" avenue such as Treasury notes. She puts Rs. 50,000 in a 1-year T-Bills and the same amount in a 10 year T-bills. She is satisfied that her money is safe with these investments. However, her friend Aliya analyses her financial performance only to find that the results are not as satisfactory as she thinks. The 1 year T-bill is making money which is only enough to buy her a coffee while the earnings on 10-year T-bill would not even take care of her weekly grocery expenses. Thus she suggest to Deepika to take risk and invest in other investment avenue which can provide high return like securities, mutual funds, liquid funds etc but Deepika is very skeptical about high return investment choices. Based on past year experience and financial lose in family she completely avoid risky investment.

| | | |
|---|---|---|
| **(a)** | Which behavioral mistake do you think Deepika has made? | **07** |
| **(b)** | As a financial advisor for Deepika what kind of investment choices you recommend to her? | **07** |

**OR**

| | | | |
|---|---|---|---|
| **Q.5** | **(a)** | Which Behavioral Biases dominating Deepika's investment choices? State those biases. | **07** |
| | **(b)** | Provide debiases strategy to Deepika to overcome her behavioral biases. | **07** |

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