Seat No.: _____   Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA– SEMESTER - III-EXAMINATION- SUMMER-2023

Subject Code: 4539282   **Date: 30/06/2023**
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.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

			Marks
Q.1		Explain the following: (2 marks each)	**14**
		a. Heuristics	
		b. Biases	
		c. Loss Aversion	
		d. Overconfidence Bias	
		e. Emotions	
		f. Efficient Market Hypothesis	
		g. Prospect theory	
Q.2	**(a)**	How does heuristics and biases influence investor behavior, explain with an example.	**07**
	(b)	Why study of Behavioral finance is needed? Explain the difference between Traditional Finance and Behavioral Finance?	**07**
		OR	
Q.2	**(b)**	State the approaches of Behavioral Corporate Finance with significance.	**07**
Q.3	**(a)**	EMH states that investors are rational. Behavioral finance states they are not. Justify the statement.	**07**
	(b)	What do you understand by Market anomaly? What are different market anomalies as per behavioral finance?	**07**
		OR	
Q.3	**(a)**	Differentiate cognitive and emotional bias. Explain some the important emotional biases in detail.	**07**
Q.3	**(b)**	What is value investing? Write the value investment behaviour of Warren Buffet.	**07**
Q.4	**(a)**	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**
	(b)	How behavioral finance explains bubbles? Explain in detail various causes of bubbles.	**07**
		OR	
Q.4	**(a)**	Explain in detail the prospect theory in behavior finance?	**07**
Q.4	**(b)**	What is Forensic accounting? What are the fraud theories and tools of forensic accounting?	**07**

Q.5 Mrs. Smith is a single, sixty-five-year-old with a modest lifestyle and no income beyond what her investment portfolio of $1,000,000 generates. Her primary investment goal is to not outlive her assets; she does not, under any circumstances, want to lose money because she recalls that her relatives lost money in the crash of 1929. Mrs. Smith exhibits these behavioral biases: • loss aversion (the tendency to feel the pain of losses more than the pleasure of gain), • anchoring and adjustment (the tendency to believe that current market levels are "right" by unevenly weighting recent experience), and • selective memory (the tendency to recall only events consistent with one are understanding of the past). CASE B: Mr. Jones is a single fifty-year-old pharmaceutical executive earning $250,000 per year. He lives extravagantly, occasionally spending more than his income, but has saved approximately $1,500,000. His primary investment goal is to donate $3,000,000 to his alma mater, but cannot obtain life insurance. Mr. Jones exhibits the following biases: • loss aversion • overconfidence (the tendency to overestimate one's investment savvy), and • self-control (the tendency to spend today rather than save for tomorrow). CASE C: The Adams family includes a financially well-informed couple, both aged thirty-six, and two children aged four and six. They are financially sound, but were not in the market during the bull market of the 1990's as many of their neighbors were. The couple's total income, $120,000, is, like the family itself, not expected to grow significantly. They have saved $150,000, which they hope will be the financial foundation from which they will send their children to college and retire comfortably. The Adams's suffer from: • loss aversion • regret (the tendency to feel deep disappointment for having made incorrect decisions), and • availability bias (the tendency to believe that what is easily recalled is more likely)*. Further assume that it is 2001; capital markets are off their highs (for stocks) and lows (for bonds), but not yet at the extremes of the recent market cycle. After you, the practitioner, administer a risk tolerance questionnaire, the mean-variance optimizer yields the following allocations for each of the three investors: a) Mrs. Smith: 75% bonds, 15% stocks, 10% cash b) Mr. Jones: 85% stocks, 10% bonds, 5% cash c) The Adams family: 70% stocks, 25% bonds, 5% cash.

(a) What effect do a client's biases have on the asset allocation decision? 07
(b) Should you moderate or adapt to these biases? 07

OR

Q.5 (a) What is the best practical allocation for each investor? 07
(b) How does behavior impact finance? 07

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