

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA-SEMESTER-III-EXAMINATION-SUMMER-2025

Subject Code: 1539512

Date: 12/06/2025

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.

Q. No.	Answer the Following (2*7=14)	Marks
Q.1	(a) Behaviour Finance (b) Heuristics (c) Biases (d) Emotions (e) Neurofinance (f) Forensic Accounting (g) Value Investing	14
Q.2	(a) Discuss the reasons behind the evolution of Behavioural finance. What are the major milestones in the development of the discipline of Behavioural Finance?	07
	(b) Explain "herding behavior" in financial markets and how it can lead to market bubbles or crashes.	07
OR		
	(b) Describe how human mind works with the two systems.	07
Q.3	(a) Analyze the role of emotions in investment decisions. How do fear and greed influence market dynamics and investor behavior? Provide real-world examples to support your argument.	07
	(b) Measure the influence of behavioural biases on individual investment decision making.	07
OR		
Q.3	(a) Identify, describe, and explain different behavioural traits and their implication for the individual decision process, as well as their relevance for financial economics.	07
	(b) Can you explain the primary functions and objectives of forensic accounting? Origin and growth of forensic accounting.	07
Q.4	(a) Write the important contributions of Daniel Kahneman and Amos Tversky, Richard Thaler, Robert J. Shiller.	07
	(b) Discriminate between a behavioural finance perspective and a traditional finance perspective.	07
OR		
Q.4	(a) "Bubbles are created because of investor rationality". Discuss bubbles in financial history with their reasons and outcomes.	07
	(b) What is "heuristics," and how do they impact financial decision-making? Provide two examples	07

Q.5

Bambino Co is an IT company which was established by three friends ten years ago. It was listed on a local stock exchange for smaller companies nine months ago. Bambino Co originally provided support to businesses in the financial services sector. It has been able to expand into other sectors over time due to the excellent services it has provided and the high quality staff whom its founders recruited. The founders have been happy with the level of profits which the IT services have generated. Over time they have increasingly left the supervision of the IT services in the hands of experienced managers and focused on developing diagnostic applications (apps). The founders have worked fairly independently of each other on development work. Each has a small team of staff and all three want their teams to work in an informal environment which they believe enhances creativity. Two apps which Bambino Co developed were very successful and generated significant profits. The founders wanted the company to invest much more in developing diagnostic apps. Previously they had preferred to use internal funding, because they were worried that external finance providers would want a lot of information about how Bambino Co is performing. However, the amount of finance required meant that funding had to be obtained from external sources and they decided to seek a listing, as two of Bambino Co's principal competitors had recently been successfully listed. 25% of Bambino Co's equity shares were made available on the stock exchange for external investors, which was the minimum allowed by the rules of the exchange. The founders have continued to own the remaining 75% of Bambino Co's equity share capital. Although the listing was fully subscribed, the price which new investors paid was lower than the directors had originally hoped.

The board now consists of the three founders, who are the executive directors, and two independent non-executive directors, who were appointed when the company was listed. The non-executive directors have expressed concerns about the lack of frequency of formal board meetings and the limited time spent by the executive directors overseeing the company's activities, compared with the time they spend leading development work. The non-executive directors would also like Bambino Co's external auditors to carry out a thorough review of its risk management and control systems. The funds obtained from the listing have helped Bambino Co expand its development activities. Bambino Co's competitors have recently launched some very successful diagnostic apps and its executive directors are now afraid that Bambino Co will fall behind its competitors unless there is further investment in development. However, they disagree about how this investment should be funded. One executive director believes that Bambino Co should consider selling off its IT support and consultancy services business. The second executive director favours a rights issue and the third executive director would prefer to seek debt finance. At present Bambino Co has low gearing and the director who is in favour of debt finance believes that there is too much uncertainty associated with obtaining further equity finance, as investors do not always act rationally.

- (a) Explain the insights which behavioural finance provides about investor behaviour **07**
 - (b) What are the most common heuristics and biases markets are riddled with? **07**
- Or**
- (a) Assess which behavioural factors may affect the share price of Bambino Co **07**
 - (b) Brokers recommendations in capital markets can create good opportunity for investment bets. Discuss **07**
