

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA-SEMESTER-III-EXAMINATION-WINTER-2024

Subject Code: 1539512

Date: 19/12/2024

Subject Name: Behavioural Finance

Time: 10:30 AM TO 01:30 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.1 Explain the following terms with appropriate examples

14

- (a) Hindsight bias
- (b) Mental Accounting
- (c) Anchoring
- (d) Herd behaviour
- (e) Fraud Triangle
- (f) MICE
- (g) Prospect Theory

Q.2 (a) How behavioral finance explains bubbles? Explain in detail various causes of bubbles. **07**

(b) Do mood, emotion and sentiment influence the mental frame and behaviour of investor behaviour? If yes/no, then explain with the help of suitable example. **07**

OR

(b) 'Overconfidence is the root cause of various other biases'. Do you agree? Explain your answer with reference to investment behavior. **07**

Q.3 (a) Discriminate between traditional finance and neuro finance. **07**

(b) Analyze the various approaches to Behavioural Corporate Finance. **07**

OR

Q.3 (a) Discriminate between classical finance and behavioural finance and explain them in detail. **07**

(b) What is an anomaly? Discuss the various calendar anomalies. **07**

Q.4 (a) Relate the neural functions during financial decision making. **07**

- (b) Explain the value investing and importance of value investing in debiasing. 07

OR

- Q.4 (a) 'Heuristics evolved in order to bring ease to the decision-making processes.' Comment. 07

- (b) How do biases interact? Explain various ways through which one can overcome biases. 07

- Q.5 Emma, a 35-year-old tech professional, had invested \$80,000 in a diversified portfolio before the COVID-19 pandemic. By February 2020, her portfolio was performing well, showing steady growth. However, as the pandemic escalated globally in March 2020, markets plunged rapidly, and Emma saw her portfolio lose nearly 35% of its value in just a few weeks.

Panic gripped financial markets as lockdowns were enforced, businesses closed, and global uncertainty increased. Emma had to decide between holding onto her investments or selling to minimize her losses. The news was filled with grim predictions about economic depression and prolonged market instability.

Emma's financial advisor urged her to remain calm and not make emotional decisions, citing previous crises like the 2008 financial crash, which eventually saw a market recovery. However, influenced by her friends, many of whom were cashing out their investments, Emma felt pressure to sell before the market fell further.

Emma decided to liquidate 50% of her portfolio, locking in losses, and waited for a clearer picture before reinvesting. By mid-2020, the markets began recovering, driven by stimulus packages, and by late 2020, most of her previously held stocks had returned to pre-pandemic levels. Emma regretted her decision to sell, as she missed out on significant gains.

- (a) What role did herd behavior play in Emma's decision to sell her investments? 07

- (b) How did loss aversion affect Emma's decision-making during the market crash? 07

OR

- Q.5 (a) What is recency bias, and how did it influence Emma's actions during the crash? 07

- (b) What could Emma have done differently to avoid making an emotionally charged decision during the market crash? 07
