

Enrollment No./Seat No.:

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

Subject Code: MB03095041

Date: 22-12-2025

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.**

	Marks
Q.1 ALL 7 Questions must be Compulsory.	14
(a) Bounded Rationality	
(b) Loss aversion	
(c) Availability Bias	
(d) Illusion of Knowledge	
(e) Barnewell two way model	
(f) Anchoring Bias	
(g) MICE	
Q.2 (a) What are the foundations of standard finance? Identify the difference between rational finance and behavioural finance and explain them in detail.	07
(b) Discuss the assumptions underlying the Markowitz modern portfolio theory. Explain Markowitz modern portfolio theory in detail.	07
OR	
(b) what are the building blocks in Behavioural finance?	07
Q.3 (a) What is representativeness? Discuss the following: Innumeracy, Probability matching, Conjunction fallacy and Base rate neglect.	07
(b) Discuss the two systems in the mind, System 1 and System 2.	07
OR	
(a) What do you understand by biases? How does cognitive and emotional biases affect to individual investment decision making?	07
(b) If You have been appointed as an external investigating officer for one of the frauds in bank, which instruments you will use to detect the scam?	07
Q.4 (a) Discuss the following tenets or ideas: Mr. Market and Mr. Value, contrary thinking, margin of safety, Bottomup approach	07

- (b) Discuss the strategies for overcoming psychological biases. 07

OR

- (a) Mr. Akash has selected Reliance stocks for investment, based on technical and fundamental analysis explains his behavior. 07

- (b) Elaborate the various tools of forensic accounting. 07

Q.5 Richa, 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 Richa 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. Richa 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. Richa'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, Richa felt pressure to sell before the market fell further. Richa 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. Richa regretted her decision to sell, as she missed out on significant gains.

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

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

OR

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

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