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Total No. of Pages: 03

Total No. of Questions: 10

MBA (Sem. – 4)
BEHAVIOURAL FINANCE

Subject Code: MBA-913-18

M Code: 77812

Date of Examination : 12/1/2023

Time: 3 Hrs.

Max. Marks: 60

INSTRUCTIONS TO CANDIDATES:

1. SECTION-A is COMPULSORY consisting of EIGHT questions carrying TWO marks each.
2. SECTIONS-B consists of FOUR Sub-sections : Units-I, II, III & IV. Student has to attempt
3. any ONE question from each Sub-section carrying EIGHT marks each.
SECTION-C is COMPULSORY carrying TWELVE marks.

SECTION-A

1. Discuss the concepts (Briefly):

- a) Reasoned emotions
- b) Gamblers fallacy
- c) Excessive volatility
- d) Arbitrage opportunity
- e) Expected utility
- f) Hindsight bias
- g) Attitude to risk
- h) Loss aversion

SECTION-B

UNIT-I

2. "Financial decision-making is related to investor emotions". Discuss this statement in detail.
3. Discuss the reasons behind the evolution of Behavioural finance. What are the major milestones in the development of the discipline of Behavioural Finance?

UNIT-II

4. What are the most common heuristics and biases markets are riddled with?
5. Write a note on the behavioural aspects of investing.

UNIT-III

6. "Bubbles are created because of investor rationality". Discuss bubbles in financial history with their reasons and outcomes.
7. Write notes on:
 - a) reversal and momentum
 - b) market noise

UNIT-IV

8. Brokers recommendations in capital markets can create good opportunity for investment bets. Discuss
9. Elaborate the role and utility of understanding sentiments and herding behavior among investors.

SECTION-C

10. Reply based on case study following the questions:

a) Explain the insights which behavioural finance provides about investor behaviour. b) Assess which behavioural factors may affect the share price of Bournelorth Co. Bournelorth 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. Bournelorth 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 Bournelorth 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 Bournelorth 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 Bournelorth Co's principal competitors had recently been successfully listed.

25% of Bournelorth 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 Bournelorth 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 Bournelorth 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 Bournelorth Co expand its development activities. Bournelorth Co's competitors have recently launched some very successful diagnostic apps and its executive directors are now afraid that Bournelorth 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 Bournelorth 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 Bournelorth 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.

NOTE : Disclosure of Identity by writing Mobile No. or Marking of passing request on any paper of Answer Sheet will lead to UMC against the Student.