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Total Number of Pages : 02

MBA

15MNG404I

4<sup>th</sup> Semester Regular Examination 2018-19

BEHAVIORAL FINANCE

BRANCH : MBA

Max Marks : 100

Time : 3 Hours

Q.CODE : F459

Answer Question No.1 (Part-1) which is compulsory, any EIGHT from Part-II and any TWO from Part-III.

The figures in the right hand margin indicate marks.

Part- I

Q1 Only Short Answer Type Questions (Answer All-10)

(2 x 10)

- What is the formula for computing risk and return of a portfolio consisting of 3 assets?
- What is optimal portfolio?
- What is house money effect?
- What is confirmation bias?
- Explain the concept of regret in connection with investment decision making.
- What is EMH? State its forms.
- Explain familiarity bias.
- How do you avoid behavioral mistakes in investment?
- Explain restraint bias.
- How do you explain the bandwagon effect in investment in shares?

Part- II

Q2 Only Focused-Short Answer Type Questions- (Answer Any Eight out of Twelve)

(6 x 8)

- What methods are used to evaluate a portfolio?
- What is the need for evaluating investments in a portfolio periodically?
- What are Ellsberg's paradoxes?
- Explain the external factors influencing investor's behavior.
- Explain through example the overconfidence bias.
- Explain the prospect theory.
- Illustrate graphically how CAPM can be used for assessing whether the security is underpriced, overpriced or correctly priced?
- Given the risk free rate is 12% and the expected return on the market portfolio is 18%. The following are the expected returns for 3 stocks with their betas:

	Expected Return (%)	Expected Beta
Stock A	19	1.5
Stock B	18.5	0.75
Stock C	22	1.4

Based on the expectations, find out which stock is undervalued and which is overvalued?

- i) What is anchoring bias? Explain its characteristics.
- j) Differentiate Risk aversion and Loss aversion.
- k) What is Mental Accounting? How does it work?
- l) Home bias has a potential information based explanation. Discuss.

### Part-III

#### Only Long Answer Type Questions (Answer Any Two out of Four)

- Q3** Discuss the different strategies for portfolio revision with suitable examples. **(16)**
- Q4** Describe the nature, scope and significance of behavioral finance. What are your views about the prospects of behavioral finance as an important tool for investment decisions? **(16)**
- Q5** Write a note on Behavioral Corporate Finance. **(16)**
- Q6** Explain through a suitable diagram the Markowitz model with its assumptions and limitations. **(16)**

Registration No :

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Total Number of Pages : 02

MBA  
15MNG404I

4<sup>th</sup> Semester Regular Examination 2017-18

BEHAVIORAL FINANCE (BF)

BRANCH : MBA

Time : 3 Hours

Max Marks : 100

Q.CODE : C315

Answer Question No.1 and 2 which are compulsory and any four from the rest.  
The figures in the right hand margin indicate marks.

Q1. Answer all questions. Fill in the blanks with appropriate answer : (2 x 10)

- a) Behavioral Finance tries to explain the ----and ----existing in the real world.
- b) Micro Behavioral Finance deals with the behavior of ----investors
- c) Macro Behavioral Finance with the drawbacks of ----.
- d) Fluctuation in the mindset and strategies of investors are likely to cause ----  
----fluctuations
- e) In passive investment strategy, the investors invest in ----.
- f) Prospect theory is used in measuring the ----.
- g) The loss aversion tendency of investors signifies ----is more important  
than ----.
- h) Noise traders earn high return as they bear-----market risk.
- i) EUT stands for-----
- j) Satisfice is the combination of two words-----and ----

Q2. Explain the following terms : (2 x 10)

- a) Risk aversion and risk neutrality
- b) Strong form of market efficiency
- c) Weak form of market hypothesis
- d) Value and growth stock
- e) Cognitive heuristics
- f) Recency effects
- g) Better than average effect
- h) Self-attribution bias
- i) Anchoring
- j) Herding

Q3. You are considering whether to invest in two stocks, Stock A and Stock B. (15)  
Stock A has a beta of 1.15 and the standard deviation of its returns has been estimated to be 0.28. For Stock B, the beta is 0.84 and standard deviation is 0.48.

- (a) Which stock is riskier?
- (b) If the risk free rate is 4% and the market risk premium is 8%, what is the expected return for a portfolio that is composed of 60% A and 40% B?
- (c) If the correlation between the returns of A and B is 0.50, what is the standard deviation for the portfolio that includes 60% A and 40% B?



- Q4. Discuss the need for portfolio revision and analyse the approaches for revision. (15)
- Q5. Discuss five important biases in behavioral Finance. (15)
- Q6. Discuss the Prospect Theory by giving suitable example. (15)
- Q7. What is overconfidence? What are the implications of overconfidence for financial decision making? (15)
- Q8. **Write Short notes on any THREE :** (5 x 3)
- a) Bubble Creation
  - b) Fear and Greed in Financial Markets
  - c) Loss aversion Theory
  - d) Behavioral Finance as a science