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GIET UNIVERSITY, GUNUPUR – 765022

M. B. A (Fourth Semester) Examinations, May' 2021

MB 402 B- BEHAVIOURAL FINANCE

Time: 2 hrs

Maximum: 50 Marks

The figures in the right hand margin indicate marks.

PART – I: (Multiple Choice Questions)**(1 x 10 = 10 Marks)**Q. 1 Answer ALL questions

- a. You buy stock in XYZ Corp. and, after several earnings reports, find it's down 25% from what you paid for it. Which is the best course of action?
- (i) Reassess the stock as though it were a prospective investment (ii) Hold on to the stock until it gets back to at least the price you paid
- (iii) wait for long time (iv) do not hold
- b. A year after buying two particularly promising stocks, one has surged while the other has slumped. How do you rate your performance?
- (i) You congratulate yourself on your stock-picking acumen (ii) You acknowledge you're only one for two
- (iii) Feel bad (iv) do not acknowledge
- c. Your investment advisor suggests a number of new stocks to replace several long-held, albeit underperforming, investments. How should you react?
- (i) You hold on to the old stocks because they've long been a trusted part of your portfolio (ii) do not hold
- (iii) do not listen to your advisor (iv) You listen to your advisor's reasoning and consider the new stocks over the old
- d. You inherit Rs 100,000 in cash. What's your next step
- (i) You hold the inheritance in cash while you evaluate and re-evaluate possible investments (ii) You invest the money according to the asset allocation in your existing retirement plan
- (iii) don't do anything (iv) wait for some time
- e. After the recent stock market correction, you review your investment plan. Which is the best course of action?
- (i) Maintain your current allocation because your long-term goals remain unchanged (ii) Maintain your current allocation because your short-term goals remain unchanged
- (iii) Reduce your exposure to equities in an effort to insulate your portfolio against future shocks (iv) Increase your exposure to equities in an effort to insulate your portfolio against future shocks
- f. Your portfolio gains 10% for two consecutive years, before losing half of those profits in year three. How do you react to the ups and downs
- (i) You did not alter your investments to help minimize future losses (ii) You don't fret the loss and remind yourself that your portfolio is still up overall
- (iii) You're upset and alter your investments to help minimize future losses (iv) You're happy and alter your investments
- g. Although technology stocks have helped your portfolio achieve double-digit annual growth, your

financial advisor now believes the sector to be overvalued. What do you do?

- (i) No Diversification (ii) Diversification
(iii) You explore other industries with an eye toward diversification (iv) You downplay your advisor's concerns and redouble your research on technology trends
- h. You see a TV interviewer praising a CEO for several new products her company has developed. Should you buy the stock based on the segment
(i) Yes, because of potentially market-moving news from a trusted source (ii) No, because multiple factors determine a stock's performance
(iii) Both i and ii are correct (iv) None of the above
- i. If a person gives too much weight to recent information compared to prior belief, they would make ----- errors.
(i) framing (ii) selection bias
(iii) over confidence (iv) forecasting
- j. Conventional theories presume that investors-----and behavioural finance presumes that they
(i) Are irrational, are irrational (ii) Are rational, may not be rational
(iii) Are rational, are rational (iv) may not be rational, may not be rational

PART – II: (Short Answer Questions)

(2 x 5 = 10 Marks)

Q.2. Answer ALL questions

- a. Concept of behavioural finance
- b. Elements of Risk
- c. Fear in investment decision
- d. Corporate finance
- e. Effect of Sentiments

PART – III: (Long Answer Questions)

(6 x 5 = 30 Marks)

Answer any **FIVE** questions.

3. Explain the nature and significance of Behavioural Finance
4. Comment on Expected Utility theory
5. What is Risk attitude? Explain
6. How would you deal with rationality in investment decisions
7. What is the impact of investors sentiments in taking investment decisions
8. Briefly explain about Financial markets
9. What is the impact of external factors on investors behaviour
10. Explain the statistical methodology for capturing the effects of external influence onto stock market returns.

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