Reg. No. | | | | | | | | | | | | |

MBAS 553

IV Semester M.B.A. Degree Examination, July/August 2023
(Regular and Repeater)
BUSINESS ADMINISTRATION
Behavioural Finance

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any two** questions. **Each** question carries **10** marks. Answer to **each** question should **not** exceed **5** pages. **(2×10=20)**

1. What is behavioral finance and what are its assumptions ? How is it different from traditional finance ?

2. Discuss the evolution of random walk and efficient markets hypothesis.

3. Discuss the implications of overconfidence for investment decisions.

SECTION – B

Answer **any three** questions. **Each** question carries **12** marks. Answer to **each** question should **not** exceed **6** pages. **(3×12=36)**

4. A stock has a beta of 1.2 and the standard deviation of its returns is 25%. The market risk premium is 5% and the risk-free rate is 4%.

   What is the expected return for the stock ?

   What is the expected return and standard deviation for a portfolio that is equally invested in the stock and the risk-free asset ?

   A financial analyst forecasts the return of 12% for the stock. Would you buy it ? Why or why not ?

5. What do you understand by Expected Utility Theory ?

6. Explain the following with examples.
   a) Loss aversion
   b) Risk aversion.

7. 'Home bias in investment has a potential information-based explanation'. Discuss in detail.

8. How do emotions contribute to the enhancement of the decision-making process and what are the key factors that influence the impact of emotions on decision outcomes ?

SECTION – C

(Compulsory)

Answer to this question should **not** exceed **6** pages. **(1×14=14)**

9. Background : Emily is an individual investor who resides in the United States. Despite having a globally diversified investment portfolio, she consistently maintains a significant allocation to U.S. stocks. Even when presented with opportunities to invest in international markets, Emily shows a strong preference for U.S. equities.

   a) What behavioural bias is Emily exhibiting in this case ?

   b) What are some potential reasons for home bias in portfolio allocation ?

   c) What are the potential drawbacks of home bias in portfolio allocation ?
