

Fourth Semester MBA Degree Examination, September 2024
BUSINESS ADMINISTRATION
Behavioural Finance

Time: 3 Hours

Max. Marks: 70

Section – A
(Compulsory)

Sri Dharmasthala Manjunatheswara
 College of Business Management, Mangalore
 Post Graduate Centre for Management
 Studies and Research Library
(1X15=15)

Answer to this question should not exceed 6 pages.

1. What do you mean by Behavioural Finance? Explain the importance of this discipline. How will the knowledge of behavioural finance help the investors in making better investment choices?

Section – B

Answer any Five questions. Each question carries 8 marks. Answer to the question should not exceed 5 pages. **(5X8=40)**

2. Explain Efficient Market Hypothesis. State its assumptions along with the critical evaluation of the EMH.
3. Write a short note on: (a) Self Deception, and (b) Value Investing.
4. "Believing that all Asians are smart and good at mathematics". Explain the statement with reference to behavioural biases.
5. What do you understand by Anomaly? What are different market anomalies as per Behavioural Finance?
6. Briefly discuss the Modern Portfolio Theory and Expected Utility Theory with their assumptions and criticisms.
7. "Bubbles are created because of investor rationality". Discuss three bubbles in financial history with their reasons and outcomes.
8. What is Mental Accounting? Is it beneficial from financial perspective? Give reasons with the help of relevant example.

Section - C
(Compulsory)

Answer to this question should not exceed 6 pages.

(1X15=15)

9. The UB Group of India, headed by Vijay Mallya, launched the Kingfisher Airlines (KFA) in 2005. After having earned the reputation of liquor baron, Vijay Mallya diversified into totally unrelated business of airlines. He entered the airline industry when the buzz word was 'low cost' and the aviation industry in India was booming. Vijay Mallya, a colorful and flamboyant person, is known for his fondness for "good things in life" such as IPL teams, cars, horses, private jets, yachts, and exotic villas. According to some sources, Vijay Mallya set up KFA in 2005 as a birthday gift for his son,

Siddharth Mallya, on his 18th birthday. The UB Group, under the leadership of Vijay Mallya, built a successful liquor business and Mallya took great pride in building several powerful liquor brands. Fond of good things in life, Vijay Mallya conceived of KFA as a five star airline. He took special interest in building KFA as a premium airlines brand. KFA offered exotic cuisine, provided choice in flight entertainment, and employed model-like air hostesses. KFA won several awards. Among the more notables of them are: India's Second Buzziest Brand in 2008 by the Brand Reporter, Asia Pacific's Top Airline Brand, India's No. 1 Airline in customer satisfaction by Business World, Best Airline in India/Central Asia, at the Spytrax World Airline Awards 2010.

The image that it created enabled it to get the KFA brand valued by Grant Thornton at Rs 4100 Crore in 2011-12, even though the company was incurring losses. In March, 2016, this valuation was being probed by the Serious Fraud Investigation Office (SFIO). A Grant Thornton spokesperson said the firm fully stood by its brand valuation report on Kingfisher. He said, "We believe it was appropriate in the context of when it was done and the purpose for which it was done." By the way, RBSA Advisors, a global valuation and transaction advisory firm, carried out two valuation exercises of KFA brand in 2013 and 2015. In 2013, the KFA brand was valued at Rs.200 Crore and in 2015 it was valued at Rs. 100 Crore.

To the surprise of any, KFA which prided itself as a provider of premium services, acquired Air Deccan, a low cost carrier in 2007, changed its name to Simplify Deccan and subsequently to Kingfisher Red. Perhaps this acquisition was motivated by a desire to cross the legal hurdles of flying internationally quickly. KFA started its international operations in September 2008. On September 2011, Vijay Mallya announced that KFA would soon stop operations of Kingfisher Red as it did not believe in low-cost operation any longer.

Since its inception KFA never made money. It accumulated losses and debt. Even after two rounds of debt restructuring, it defaulted on its debt and other obligations. On 15th November 2011, KFA released poor financial results indicating the company was drowning in high interest debt and losing money. In 2012, KFA's operator perm

it was suspended and it was grounded.

In 2013, lenders began to recall loans. In 2014, KFA loan was treated as an NPA by lenders and United Bank of India declared KFA as a wilful defaulter. In 2015, lenders began the recovery process. In 2016, SBI said they were trying to do everything possible to find a solution.

Questions:

- (a) Discuss the behavioural factors that may lead to the creation of KFA.
- (b) Discuss the behavioural factors that may lead to the destruction of KFA.
- (c) Evaluate this case from the view point of Forensic Accounting.
- (d) Justify the diversification to the unrelated business and the reason for collapse.

Sri Dharmasthala Manjunatheshwara
College of Business Management, Mangalore
Post Graduate Centre for Management
Studies and Research Library