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(Following Paper ID and Roll No. to be filled in your Answer Books)	
Paper ID : 270424	Roll No.

M.B.A.

Theory Examination (Semester-IV) 2015-16

BEHAVIORAL FINANCE

Time : 3 Hours *Max. Marks : 100*

Section-A

1. Answer the following questions in not more than 30 words each. (2×10=20)

(a) What is an investor profile?

(b) What is the significance of behavioral study in finance?

(c) What is an average Investor?

(d) What is an arbitrageur?

(e) What is market efficiency?

(f) What is belief bias?

(g) What is noise-trader risk?

(h) Differentiate between risk aversion and loss aversion?

(i) What is overconfidence?

(j) What is Mental accounting?

Section-B

2. Answer any five questions from this section. (10×5=50)

(a) What is a market anomaly? Give examples of several market anomalies.

(b) Define the role of arbitrage in market efficiency and also explain the economic and cultural factors that can allow market inefficiencies to persist.

(c) Describe the biases that can affect investor decision making and also explain how framing errors can influence investor decision making.

(d) Explain the factors that encourage investor fraud in an asset bubble.

(e) Provide an overview of the traditional finance versus the behavioral finance perspectives of risk.

(f) Discuss Daniel Kahneman and Amos Tversky Prospect theory with assumptions.

(g) Explain the Ellsberg Paradox and ways the Ellsberg Paradox inhibits decisionmaking.

(h) "Behavioral finance posits that investors possess behavioral biases". Discuss the importance of behavioral biases then list and explain the four behavioral biases.

Section-C

This section will have 3 questions of 15 marks each. The candidates should attempt any two questions of 15 marks each. **(15×2=30)**

3. A security has a standard deviation of 4%. The correlation coefficient of the security with the market is 0.8 and market deviation is 0.8 and market standard deviation is 3.5%. The return on risk free securities is 12 % and from the market portfolio is 16%. What is the required rate of return of the portfolio?

4. If risk rate is 6% and market risk premium is 12% and beta of the security is 1.5. What is the expected return of the security under CAPM? What would be the expected return if beta was 2.

5. The following portfolios are available. How should the investor take a decision for making an investment?

Portfolio	Expected Return	Risk(q)
A	12%	2%
B	16%	5%
C	35%	7%

The risk free interest rate is 6%, return of the market portfolio is 16% and the risk of the market portfolio is 4%.