Roll No. | | | | | | | | | | | | | Total No. of Pages : 03

Total No. of Questions : 17

MBA(Sem.–4)

BEHAVIOURAL FINANCE

Subject Code : MBA-913-18

M.Code : 77812

Date of Examination : 07-07-22

Time : 3 Hrs. Max. Marks : 60

INSTRUCTIONS TO CANDIDATES :

1. SECTION-A contains EIGHT questions carrying TWO marks each and students have to attempt ALL questions.
2. SECTION-B consists of FOUR Subsections : Units-I, II, III & IV. Each Subsection contains TWO questions each carrying EIGHT marks each and students have to attempt any ONE question from each Subsection.
3. SECTION-C is COMPULSORY and consists of ONE Case Study carrying TWELVE marks.

SECTION-A

Write short note on the following :

1. Agency theory
2. Overreaction
3. Momentum
4. Mental Accounting
5. Risk appetite
6. Stock market bubbles
7. Noise trading
8. Efficient Market Hypothesis

SECTION-B

UNIT-I

9. "*Behavioural challenges have reduced the efficiency of traditional finance theories, hence, behavioural finance as a discipline has evolved and gaining importance in the present dynamic business environment*". Elucidate with suitable examples.

10. What is Prospect theory? Discuss the key tenets of prospect theory with suitable examples.

UNIT-II

11. What are stock market anomalies? Discuss various calendar anomalies prevalent in the stock market. Also, discuss the behavioural explanations for their presence.

12. What is Heuristic behaviour? Explain with suitable examples, how heuristic behaviour affects the decision making process of an investor?

UNIT-III

13. What areEmotions? Discuss the impact of emotions on investor's behaviour.

14. What is Value investing? Discuss the key tenets of value investing.

UNIT-IV

15. What isinformation asymmetry? Discuss the various capital budgeting distortions caused by information asymmetry between current and prospective shareholders.

16. What is a Halo effect? Discuss the role of Halo effect in understanding corporate performance.

SECTION-C

17. Case Study :

Warren Buffet, chairman and CEO of Berkshire Hathaway (Berkshire hereafter) a holding company is a quintessential value investor. Here is a sampling of his decisions:

a. When the price of Coca Cola stock crashed in 1988 in response to a disastrous roll out of Diet Coke, Warren Buffet started buying up Coca Cola like an addict. Within a few months, Berkshire acquired 7% of Coca Cola's stock for about \$ 1 billion. Within 3 years, Berkshire's Coca Cola holding was worth more than the entire value of Berkshire when the investment was made. When Coca Cola's price was depressed, buffet considered it as a compelling bargain for three reasons: First, consumers have a very strong brand preference for Coca Cola. Second, an average America, when he starts drinking Coca Cola, requires five bottles a day for the rest of his life. Third, 40% of Coca Cola is just fizz.

b. When the stock of China Petro was selling cheap, Warren Buffet invested $488 million. Subsequently he divested his holding for $ 4 billion.

c. In 2002, the 6.875% 2010 euro-denominated bonds of amazon.com were selling at 57% of par. These bonds were selling at a steep discount because they were priced as junk bonds, though they were anything but junk bonds. Perceiving them to be hugely underpriced, Berkshire purchased $ 310 Amazon.com bonds and later sold them at a gain of $ 246 million. He commented "Yes Virginia, you can occasionally find markets that're ridiculously inefficient - or at least you can find them everywhere except the finance department of leading business school",

d. In 2002, Berkshire purchased Brazillian real, which in Buffet's assessment was undervalued *vis-a-vis* the US Dollar. This proposition yielded a profit of $ 2.3 billion over a five year period.

e. In 2007, Berkshire sold put options on four stock indices (S&P 500 and three foreign indices). These puts had maturities of 15 or 20 years and were stuck at the market, meaning that they were exercisable at a price equal to what was prevailing in 2007. These contracts are exercisable only at their expiration dates, which-occur-between-2022 and 2027. This means that Berkshire will have to pay only if the index in question quotes at a level below the level that existed when the put was written. For writing these contracts, Berkshire received premiums of $ 4.5 billion. Buffet believed that these contracts, in aggregate, will be profitable. Further, Berkshire would receive substantial income from investment of the premiums over 15 to 20 years.

Comment on Warren Buffet's value picks.

NOTE : Disclosure of Identity by writing Mobile No. or Making of passing request on any page of Answer Sheet will lead to UMC against the Student.