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BA 17230 F 1

BINA CHOWDHURY CENTRAL LIBRARY  
(GIMT & GIPS)  
Azara, Hatkhovapara  
Gurukul - 781017

Roll No. of candidate

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7/2/22 2021

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MBA 3<sup>rd</sup> Semester End-Term Examination

BUSINESS ADMINISTRATION

BEHAVIOURAL FINANCE

(New Regulation and New Syllabus)

Full Marks – 70

Time – Three hours

The figures in the margin indicate full marks for the questions.

Answer question No.1 and any four from the rest.

1. Fill up the blanks: (10 × 1 = 10)
- A \_\_\_\_\_ is a series of wealth outcomes with well-defined probabilities associated with them.
  - Utility theory is used to describe \_\_\_\_\_.
  - Expected Utility Theory is a \_\_\_\_\_ model of economic behaviour that is based on a rigorous axiomatic treatment.
  - Peoples' valuation of prospects depends on gains and losses relative to a \_\_\_\_\_.
  - \_\_\_\_\_ is not only reconstructive but also variable in intensity.
  - The \_\_\_\_\_ heuristic suggests that people in general like to try a bit of everything when choices are not mutually exclusive.
  - \_\_\_\_\_ is related to overestimation of the number of favourable outcomes in comparison to unfavourable ones.
  - If a company has high-quality management, a strong image and consistent growth in earnings, it must be a good investment.' It's a notion stemming from \_\_\_\_\_ bias.
  - \_\_\_\_\_ is a rational, self-interested decision-maker.
  - The study and application of neuroscience to investment activity is \_\_\_\_\_.

[Turn over

2. (a) Elaborate the three fundamental assumptions neoclassical economics makes about people. (5)
- (b) Differentiate between Expected Utility Theory and Prospect Theory. (5)
- (c) 'Allais paradox is the documented contradiction of Expected Utility Theory.' Elaborate. (5)
3. (a) What do you mean by 'prospect'? (3)
- (b) Now consider a person with the following value function under prospect theory
- $$v(w) = w^{0.8} \quad \text{if } w \geq 0$$
- $$= -3(-w)^{0.8} \quad \text{if } w < 0$$
- (i) Which one of the following prospects would he choose?  
 P1(0.001, -2000)  
 P2 (-2)
- (ii) Repeat the calculation, but using probabilities instead of weights. What does this illustrate?
4. (a) What do you mean by overconfidence? Discuss the pros and cons of overconfidence in investment decisions. (2 + 3 = 5)
- (b) 'Overconfidence does not quickly dissipate via learning because of the existence of contributing biases.' Explain. (5)
- (c) Do you think people are equally and consistently overconfident? Justify your answer. (5)
5. (a) What is availability heuristic? Explain the two factors that abet availability. (2 + 3 = 5)
- (b) What are the six observable features that can be used to define emotions?(5)
- (c) 'Familiarity induces people to exhibit preferences.' Elaborate. (5)
6. Discuss the terms 'fairness', 'reciprocity' and 'trust' with reference to Ultimatum, Dictator and Trust Games. (5 + 5 + 5 = 15)
7. Write notes on (any three) (3 × 5 = 15)
- (a) Fourfold pattern of risk attitudes
- (b) House money effect and break-even effect
- (c) Type I and Type II heuristics
- (d) Anchoring
- (e) Neurofinance