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PRESIDENCY UNIVERSITY

Presidency University Act, 2013 of the Karnataka Act No. 41 of 2013 | Established under Section 2(f) of UGC Act, 1956
Approved by AICTE, New Delhi | Approved By BCI
Bengaluru

Even Semester Mid Term, March 2026

Date: 12/03/2026

Time: 09:30 AM - 11:00 AM

Course Code: MBA4074

Course Name: Behavioural Finance

Semester: Fourth Semester

Max. Marks: 50

Weightage: 50%

CO - Levels	CO1	CO2
Marks	35	35

Part A: Answer Following Questions. 15 M

Qn.No	Questions	M	CO	BT
1	Classical finance proclaims that, investors are rational, but Behavioural finance advocates that investors are normal and influenced by emotions and cognitive limitations. Distinguish between the nature of "traditional finance" and "behavioural finance" regarding investor rationality.	3	CO1	BT2
2	List out the key stages of the "Investment Decision Cycle" from a behavioural perspective and explain which stage is crucial and why?	3	CO1	BT2
3	Following a market crash, investors panic and start selling shares even though company fundamentals are strong. Identify the phenomenon behind this scenario and justify your answer.	3	CO1	BT2
4	A financial advisor suggests her client that Traditional finance assumes investors are rational, but behavioural finance assumes investors are normal. Explain with example, what the advisor means by the investor being "normal" rather than "rational" in their investment decisions.	3	CO1	BT2
5	A bank presents two options for mutual fund: Option A has a 90% success rate, while Option B has a 10% failure rate. Investors overwhelmingly choose Option A, despite the probabilities being identical. Describe how the "framing" of quantitative information influences the investors' perception of risk and their final decision	3	CO1	BT2

Part B: Answer Any 1 Following Questions. 10 M

Qn.No	Questions	M	CO	BT
6	<p>Rahul received an unexpected tax refund of ₹50,000. He considers this "found money" and decides to spend it on a luxury vacation. However, he is simultaneously struggling to repay a credit card debt of ₹50,000 that is charging him 36% annual interest.</p> <p>Questions:</p> <p>1.Explain the concept of "Mental Accounting" based on this scenario.</p> <p>2. How would a "rational" investor handle this situation?</p>	10	CO1	BT2
7	<p>Ms. Priya, a novice investor made a 50% profit on a stock purchased last month. As a result, she believes she has superior market knowledge and starts trading daily, spending excessive time monitoring charts.</p> <p>She ignores the fact that the entire market was in a bull phase, crediting her success solely to her skills.</p> <p>Questions:</p> <p>1.Identify and discuss the two related behavioural biases demonstrated by Ms. Priya.</p> <p>2.Explain how these biases often lead to lower net returns for investors in the long run.</p>	10	CO1	BT2

Part C: Answer Any 1 Following Questions. 10 M

Qn.No	Questions	M	CO	BT
8	<p>During a market boom, several fund managers invest huge amounts in a specific sector just because their peers are investing, despite declining fundamental indicators.</p> <p>Apply the concept of 'Herding Behaviour' and 'Social Influence' to explain this, and construct a risk management framework to prevent such herd behaviour in an asset management firm.</p>	10	CO2	BT3
9	<p>TechNova Solutions announced a major breakthrough in AI technology on Monday morning. The stock, which was trading at ₹500, immediately surged by 20% within the first hour of trading to ₹600. By Wednesday, the stock price reached ₹650 due to heavy buying. However, research reports indicate that, considering the technology implementation delays and completion, stock may have fundamental value worth Rs 560 and the stock gradually moved to ₹550 over the next six</p>	10	CO2	BT3

months.

Questions: 1. Analyse this scenario in the context of the Semi-Strong Form of EMH. Did the market behave efficiently on Monday? 2.Explain the stock price movement from Monday to Wednesday and its eventual drift to ₹560 using the concepts of Overreaction and Correction

Part D: Answer Following Questions. 15 M

Qn.No	Questions	M	CO	BT
10	<p style="text-align: center;">CASE STUDY</p> <p>Mr.Sangeeth bought 100 shares each of two companies namely Jay Prakash Associates and Zee Telefilms at ₹290 and ₹185 respectively on December 2007. On September, 2008, he was in need of approximately ₹20,000. He had no other investment other than these two shares.</p> <p>He decided to liquidate a part of his portfolio consisting of two shares. He checked the prices of both the shares in the stock market a that time, i.e., September 2008. He found that Jay Prakash Associates registered a significant fall in in its value and it was traded around ₹80 per share at that time and Zee Telefilms was traded at ₹300 per share.</p> <p>He had sold Jay Prakash Associates, he would have booked a short- term capital loss (since it would be sold within one year) of ₹210 per share which could have set off against the profit/income from other sources and he could have substantially reduced his tax liabilities. This would been the rational decision. But he sold his holdings in the other company, i.e., Zee Telefilms. He sold 70 shares of Zee Telefilms, booked a short- term capital gain and accordingly short -term capital gain tax had been levied on it.</p> <p>Later on in November 2016 when it was seen that Jay Prakash Associates fell down to ₹8 per share and Zee Telefilms went up to ₹500 per share, if he would have sold Jay Prakash Associates share at that time, he could have avoided further loss in his wealth.</p> <p>Questions:</p> <p>1.Which specific behavioural biases caused Mr. Sangeeth to sell Zee Telefilms in September 2008 instead of the underperforming Jay Prakash Associates?</p> <p>2.How did Mr. Sangeeth’s reluctance to realize a loss in 2008 result in a greater destruction of wealth by November 2016?</p> <p>3.From a tax-planning perspective, how could Mr. Sangeeth</p>	15	CO2	BT3

have utilized the capital loss from Jay Prakash Associates in 2008 to reduce his tax liability?			
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