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University Examinations 2024/2025

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION AND MASTER OF SCIENCE IN FINANCE

BFS 5153/BFA 3113: BEHAVIOURAL FINANCE

DATE: JANUARY 2025

TIME: 3 HOURS

INSTRUCTIONS: Answer question *one* and any other *three* questions

QUESTION ONE (30 MARKS)

- a) While going for a walk, the financial analyst lamented to the finance manager: "For me, behavioral finance is the same as traditional finance." Discuss the foregoing argument by the analyst. (8 marks)
- b) Identify and evaluate an individual's behavioral biases (6 marks)
- c) Evaluate how behavioral biases affect investment policy and asset allocation decisions and recommend approaches to mitigate their effects (4 marks)
- d) Discuss how behavioral factors affect analysts' forecasts and recommend remedial actions for analyst biases. (6 marks)

QUESTION TWO (12 MARKS)

“The behavioural asset pricing model incorporates a sentiment premium when valuing assets. For example, the more strongly analysts feel about a security, the greater the sentiment premium and the higher the price” Discuss giving relevant examples (12 marks)

QUESTION THREE (12 MARKS)

At dinner, two managers discuss their recent experiences. One complains that despite the assumptions of Efficiency Market Hypothesis, it is extremely difficult if not impossible to gather and analyze all relevant available information before trading. He admits that often he just "goes with the information he has". Determine the behavioral bias most likely indicated by his actions and explain your choice. (12 marks)

QUESTION FOUR (12 MARKS)

- a) Define cognitive errors and emotional bias (2 marks)
- b) Discuss commonly recognized behavioral biases and their implications for financial decision making (10 marks)

QUESTION FIVE (12 MARKS)

- a) Identify and evaluate an individual's behavioral biases (6 marks)
- b) Evaluate how behavioral biases affect investment policy and asset allocation decisions and recommend approaches to mitigate their effects (6 marks)