

**GUJARAT TECHNOLOGICAL UNIVERSITY****MBA - SEMESTER– III EXAMINATION – WINTER 2020****Subject Code:4539282****Date:02/01/2021****Subject Name:Functional Elective\_Behavioural Finance (BF)****Time:10:30 AM TO 12.30 PM****Total Marks: 47****Instructions:**

1. Attempt any **THREE** questions from Q1 to Q6.
2. **Q7 is compulsory.**
3. **Make suitable assumptions wherever necessary.**
4. **Figures to the right indicate full marks.**

**Q.1** Explain the following:

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|------------|---|-----------|
| <b>(a)</b> | (a) Hindsight bias<br>(b) Anchoring<br>(c) Endowment effect | <b>06</b> |
| <b>(b)</b> | (a) Loss aversion<br>(b) E-fraud<br>(c) Herd Behaviour      | <b>06</b> |

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|------------|---|-----------|
| <b>Q.2</b> | <b>(a)</b> Discuss the prospect theory given by Kahneman and Tversky. What are its implications regarding the financial behaviour of investors? | <b>06</b> |
|            | <b>(b)</b> “Bubbles are created because of investor rationality”. Discuss three bubbles in financial history with their reasons and outcomes.   | <b>06</b> |

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| <b>Q.3</b> | <b>(a)</b> What is an anomaly? Discuss the various financial market anomalies. | <b>06</b> |
|            | <b>(b)</b> Elaborate the behavioural aspects of fraud.                         | <b>06</b> |

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| <b>Q.4</b> | <b>(a)</b> Discuss the reasons behind the evolution of behavioural finance. What are the major milestones in the development of the discipline of Behavioural Finance? | <b>06</b> |
|            | <b>(b)</b> What are the foundations of Standard Finance?   | <b>06</b> |

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| <b>Q.5</b> | <b>(a)</b> Elaborate the various tools of Forensic Accounting.             | <b>06</b> |
|            | <b>(b)</b> Describe the neural functions during financial decision making. | <b>06</b> |

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|------------|---|-----------|
| <b>Q.6</b> | <b>(a)</b> Write in detail about the various approaches to Behavioural Corporate Finance. | <b>06</b> |
|            | <b>(b)</b> Describe about Value Investing and also discuss its application.               | <b>06</b> |

**Q.7**

**CASE STUDY:**

The UB Group of India, headed by Vijay Mallya, launched the Kingfisher Airlines (KFA) in 2005. After having earned the reputation of liquor baron, Vijay Mallya diversified into totally unrelated business of airlines. He entered the airline industry when the buzz word was 'low cost' and the aviation industry in India was booming. Vijay Mallya, a colorful and flamboyant person, is known for his fondness for "good things in life" such as IPL teams, cars, horses, private jets, yachts, and exotic villas. According to some sources, Vijay Mallya set up KFA in 2005 as a birthday gift for his son, Siddharth Mallya, on his 18<sup>th</sup> birthday. The UB Group, under the leadership of Vijay Mallya, built a successful liquor business and Mallya took great pride in building several powerful liquor brands. Fond of good things in life, Vijay Mallya conceived of KFA as a five star airline. He took special interest in building KFA as a premium airlines brand. KFA offered exotic cuisine, provided choice in flight entertainment, and employed model-like air hostesses. KFA won several awards. Among the more notables of them are: India's Second Buzziest Brand in 2008 by the Brand Reporter, Asia Pacific's Top Airline Brand, India's No. 1 Airline in customer satisfaction by Business World, Best Airline in India/Central Asia, at the Spytrax World Airline Awards 2010.

The image that it created enabled it to get the KFA brand valued by Grant Thornton at Rs 4100 Crore in 2011-12, even though the company was incurring losses. In March, 2016, this valuation was being probed by the Serious Fraud Investigation Office (SFIO). A Grant Thornton spokesperson said the firm fully stood by its brand valuation report on Kingfisher. He said, "We believe it was appropriate in the context of when it was done and the purpose for which it was done." By the way, RBSA Advisors, a global valuation and transaction advisory firm, carried out two valuation exercises of KFA brand in 2013 and 2015. In 2013, the KFA brand was valued at Rs.200 Crore and in 2015 it was valued at Rs. 100 Crore.

To the surprise of any, KFA which prided itself as a provider of premium services, acquired Air Deccan, a low cost carrier in 2007, changed its name to Simplify Deccan and subsequently to Kingfisher Red. Perhaps this acquisition was motivated by a desire to cross the legal hurdles of flying internationally quickly. KFA started its international operations in September 2008. On September 2011, Vijay Mallya announced that KFA would soon stop operations of Kingfisher Red as it did not believe in low-cost operation any longer.

Since its inception KFA never made money. It accumulated losses and debt. Even after two rounds of debt restructuring, it defaulted on its debt and other obligations. On 15<sup>th</sup> November 2011, KFA released poor financial results indicating the company was drowning in high interest debt and losing money. In 2012, KFA's operator permit was suspended and it was grounded.

In 2013, lenders began to recall loans. In 2014, KFA loan was treated as an NPA by lenders and United Bank of India declared KFA as a willful defaulter. In 2015, lenders began the recovery process. In 2016, SBI said they were trying to do everything possible to find a solution.

- (a) Discuss the behavioral factors that may led to the creation of KFA. **5.5**
- (b) Evaluate this case from the view point of Forensic Accounting. **5.5**

**OR**

- Q.7**
- (a) Discuss the behavioral factors that may led to the destruction of KFA. **5.5**
  - (b) Justify the diversification to the unrelated business and the reason for collapse in your own words. **5.5**

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