

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE IN MASTER OF SCIENCE IN  
FINANCE**

**MSCF 814: BEHAVIOURAL FINANCE**

**STREAMS:**

**TIME: 3 HOURS**

**DAY/DATE: THURSDAY 08/04/2021**

**2.30 P.M – 5.30 P.M**

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**INSTRUCTIONS:**

**Answer all questions**

**QUESTION ONE**

- (i) Explain the prospect theory developed by Daniel Kahneman and Amos Tvesky in 1979, illustrating the concept of loss aversion, expectation concept (at origin and current) and risk aversion/ seeking concept. [10 marks]
- (ii) Cognitive Heuristic can lead to a range of cognitive biases that may impact in the effectiveness of decision making. Explain. [10 marks]
- (iii) Briefly describe strategies to minimize heuristic bias. [10 marks]

**QUESTION TWO**

- (i) A market anomaly is a price action that contradicts the expected behaviour of the stock market. Some financial anomalies appear only once and disappear, but others appear consistently through out historical chart analysis. Identify and explain any five market abnormalities. [10 marks]
- (ii) Describe the concept of money illusion and discuss why it exists. [10 marks]

**QUESTION THREE**

- (i) Clearly explain the concept of efficient markets hypothesis. [4 marks]
- (ii) There are three variations of the hypothesis which represent different levels of market efficiency. Discuss. [6 marks]
- (iii) Explain the arguments for and against efficient market hypothesis. [10 marks]

**QUESTION FOUR**

- (i) Compare and contrast the paradigm of behavioral finance versus the traditional finance paradigm. [10 marks]
  - (ii) Discuss any four major trade policy practices that government should scrutinize in order to improve the efficiency of customs. [10 marks]
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