

	UNIVERSITY OF RUHUNA FACULTY OF MANAGEMENT AND FINANCE	No. of Pages : 02 No. of Questions: 05 Total Marks : 70
	BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE 4000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2025	<i>Three Hours</i>
FIN 41303 – BEHAVIORAL FINANCE		Academic Year 2024/2025
Instructions: ➔ Answer all (05) questions.		

QUESTION 1

- (A) What is Behavioral Finance? *(2 marks)*
- (B) Briefly explain the difference between Micro and Macro Behavioural Finance. *(2 marks)*
- (C) Briefly explain the two decision-making approaches in Behavioural Finance. *(2 marks)*
- (D) List three fundamental assumptions about people under neoclassical economics. *(3 marks)*
- (E) Explain why the Expected Utility Theory is different from “positive” theories? *(3 marks)*

(Total 12 marks)

QUESTION 2

- (A) Define market anomaly. *(2 marks)*
- (B) Briefly explain four types of calendar or seasonal anomalies. *(4 marks)*
- (C) Explain how two common mistakes in investor judgment can lead retail and institutional investors to become overly excited about growth stocks compared to value stocks. *(4 marks)*
- (D) "Extreme earnings announcements, whether very positive or very negative, are only incompletely reflected in prices, leading to a period of delayed reaction". Briefly discuss this statement. *(4 marks)*

(Total 14 marks)

QUESTION 3

- (A) What is the Endowment Effect? *(2 marks)*
- (B) Briefly explain three advantages of Prospect Theory. *(3 marks)*
- (C) Explain and graphically illustrate the loss aversion using an example. *(5 marks)*
- (D) "People are sometimes risk-averse and sometimes risk-seeking, depending on the nature of the prospect." Discuss this statement using an example. *(6 marks)*

(Total 16 marks)

QUESTION 4

- (A) What is sentiment analysis in the stock market? *(2 marks)*
- (B) Explain the "Animal Spirit Theory" in market sentiment. *(4 marks)*
- (C) "Memory is not only reconstructive, but also variable, in intensity." Briefly explain this statement using examples. *(4 marks)*
- (D) "When managers invest in a project and it does not perform well, they are often reluctant to stop the project even though they would lose more money by continuing it". Discuss this statement using three reasons. *(6 marks)*

(Total 16 marks)

QUESTION 5

Explain the following concepts in terms of behavioural science using examples.

- (i) Contrast effect *(3 marks)*
- (ii) Primacy and Recency effects *(3 marks)*
- (iii) Illusion of control *(3 marks)*
- (iv) Better-than-average effect *(3 marks)*

(Total 12 marks)
