

Foundations of Behavioural Economics

Behavioural Economics · Answer Key · 8 Questions

1. In Prospect Theory, what is the term for the observation that losses loom larger than equivalent gains, typically by a factor of 1.5 to 2.5?

A) Loss aversion

- B) The endowment effect
- C) Hyperbolic discounting
- D) Framing bias

2. Which heuristic, identified by Tversky and Kahneman, describes the tendency for people to estimate the probability of an event based on the ease with which examples come to mind?

A) Representativeness heuristic

B) Availability heuristic

- C) Affect heuristic
- D) Anchoring and adjustment

3. What concept describes the phenomenon where individuals place a higher value on an object simply because they own it?

- A) The sunk cost fallacy
- B) The status quo bias

C) The endowment effect

- D) The decoy effect

4. According to Dual Process Theory, which system is characterised as being fast, automatic, frequent, emotional, and subconscious?

A) System 1

- B) System 2
- C) The reflective system
- D) The analytical system

5. Which economic model is explicitly challenged by behavioural economics for its assumption that individuals act as perfectly rational, self-interested agents?

A) Keynesian model

B) Rational Choice Theory

- C) Game Theory
- D) Supply-side economics

6. What is the 'sunk cost fallacy' in the context of decision-making?

- A) Overestimating future benefits
- B) Continuing a behaviour as a result of previously invested resources**
- C) Ignoring the opportunity cost of time
- D) Choosing the first option presented

7. In the context of intertemporal choice, what does 'hyperbolic discounting' describe?

- A) The tendency to prefer larger rewards later
- B) The preference for smaller, immediate rewards over larger, delayed ones**
- C) A linear decrease in the value of future rewards
- D) The inability to calculate interest rates

8. Which term refers to the deliberate design of the environment in which people make choices, aimed at influencing them in a predictable way without forbidding options?

- A) Coercion
- B) Libertarian paternalism**
- C) Default manipulation
- D) Rational nudging