

# Fundamentals of Behavioural Economics

Behavioural Economics · Answer Key · 20 Questions

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**1. What term describes the tendency to rely too heavily on the first piece of information offered when making decisions?**

- A) Anchoring bias**
- B) Confirmation bias
- C) Availability heuristic
- D) Hindsight bias

**2. In prospect theory, what concept explains why the pain of losing is psychologically about twice as powerful as the joy of gaining?**

- A) Loss aversion**
- B) Sunk cost fallacy
- C) Framing effect
- D) Endowment effect

**3. What is the phenomenon where individuals value an object more simply because they own it?**

- A) The endowment effect**
- B) The halo effect
- C) The paradox of choice
- D) Social proof

**4. What concept suggests that people are more likely to choose an option if it is presented as the 'default' choice?**

- A) The default effect**
- B) The scarcity principle
- C) The reciprocity norm
- D) The peak-end rule

**5. Which bias involves the tendency to search for, interpret, and recall information in a way that supports one's pre-existing beliefs?**

- A) Confirmation bias**
- B) Self-serving bias
- C) Dunning-Kruger effect
- D) Fundamental attribution error

**6. What is the name of the cognitive bias where people overestimate the importance of information that comes to mind quickly?**

- A) Availability heuristic**
- B) Representativeness heuristic
- C) Affect heuristic
- D) Base rate fallacy

**7. Which term refers to the human tendency to focus on the immediate rewards of a decision rather than long-term consequences?**

- A) Present bias**
- B) Projection bias
- C) Optimism bias
- D) Planning fallacy

**8. The 'sunk cost fallacy' refers to the tendency to continue an endeavor once an investment in money, effort, or time has been made, even if:**

- A) The current costs outweigh the benefits**
- B) The outcome is guaranteed
- C) The person is happy with the progress
- D) The decision was made by a group

**9. What theory, developed by Daniel Kahneman and Amos Tversky, describes how people choose between probabilistic alternatives that involve risk?**

- A) Prospect theory**
- B) Game theory
- C) Utility theory
- D) Efficient market hypothesis

**10. Which term describes the tendency to underestimate the time required to complete a future task?**

- A) Planning fallacy**
- B) Negativity bias
- C) Outcome bias
- D) Survivorship bias

**11. What describes the tendency for people to assume that their own current preferences will remain the same in the future?**

- A) Projection bias**
- B) Empathy gap
- C) Bandwagon effect
- D) Contrast effect

**12. Which social phenomenon occurs when individuals conform to the actions of others, assuming those actions are correct?**

- A) Social proof**
- B) Authority bias
- C) In-group bias
- D) False consensus effect

**13. What is the 'framing effect' in decision-making?**

- A) Drawing different conclusions based on how information is presented**
- B) Preferring the first option presented
- C) Ignoring information that contradicts a belief
- D) Overestimating the likelihood of rare events

**14. The 'Dunning-Kruger effect' is a cognitive bias where people with low ability at a task:**

- A) Overestimate their competence**
- B) Underestimate their competence
- C) Accurately assess their competence
- D) Refuse to perform the task

**15. Which concept describes the mental shortcut that helps people make decisions by comparing a situation to a known prototype?**

- A) Representativeness heuristic**
- B) Anchoring
- C) Framing
- D) Priming

**16. What is the term for the influence of the order of presentation on memory or judgment?**

- A) Serial position effect**
- B) Bystander effect
- C) Placebo effect
- D) Observer effect

**17. The 'halo effect' is a bias where:**

- A) A positive impression of a person in one area influences opinion in another**
- B) People follow the majority regardless of their own beliefs
- C) The last information received is remembered best
- D) People focus only on negative information

**18. What is the term for the tendency to believe that random events are influenced by previous outcomes, even when they are independent?**

**A) Gambler's fallacy**

B) Illusion of control

C) Clustering illusion

D) Base rate neglect

**19. 'Bounded rationality' suggests that human decision-making is limited by:**

**A) Information, cognitive capacity, and time**

B) Unlimited access to data

C) Perfect emotional stability

D) External market pressures only

**20. Which bias describes the tendency to interpret past events as having been more predictable than they actually were?**

**A) Hindsight bias**

B) Recall bias

C) Focusing illusion

D) Misattribution