Fundamentals of Behavioural Economics

Behavioural Economics · Practice Test · 20 Questions

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