

Fundamentals of Behavioural Economics

Behavioural Economics · Answer Key · 18 Questions

1. Which field of study combines psychology and economics to explain why people do not always make rational financial decisions?

- A) Behavioural Economics**
- B) Macroeconomics
- C) Classical Physics
- D) Game Theory

2. What is the term for the tendency of people to overvalue an item simply because they own it?

- A) The Endowment Effect**
- B) Anchoring Bias
- C) Loss Aversion
- D) Confirmation Bias

3. Who is often referred to as the 'father of behavioural economics' and won a Nobel Prize for his work on prospect theory?

- A) Daniel Kahneman**
- B) Adam Smith
- C) John Maynard Keynes
- D) Milton Friedman

4. What does the concept of 'Loss Aversion' state about human psychology?

- A) People feel the pain of a loss more intensely than the joy of an equivalent gain**
- B) People prefer losing small amounts to gaining large amounts
- C) People avoid making any financial decisions at all
- D) People only care about long-term savings

5. Which bias refers to the tendency to rely too heavily on the first piece of information offered when making decisions?

- A) Anchoring Bias**
- B) Availability Heuristic
- C) Hindsight Bias
- D) Bandwagon Effect

6. In behavioural economics, what is a 'nudge'?

- A) A subtle change in how choices are presented to influence behaviour**
- B) A forced legal requirement to save money
- C) A government tax on unhealthy snacks
- D) A direct bribe to encourage spending

7. The 'Bandwagon Effect' describes a phenomenon where:

A) People do something primarily because others are doing it

- B) People ignore the majority opinion
- C) People make decisions based on historical data
- D) People choose the cheapest option available

8. What is 'Mental Accounting' in the context of consumer behaviour?

A) The tendency to treat money differently depending on where it came from

- B) The process of calculating compound interest
- C) The habit of keeping a strict paper budget
- D) The act of saving money in a bank account

9. Which bias explains why people think events are more likely to happen if they can easily recall similar examples from memory?

A) Availability Heuristic

- B) Sunk Cost Fallacy
- C) Framing Effect
- D) Optimism Bias

10. What is the 'Sunk Cost Fallacy'?

A) Continuing an endeavour because of past investment, even if it is no longer beneficial

- B) Only spending money that has been earned recently
- C) Assuming that costs will always rise over time
- D) The fear of losing money in the stock market

11. The 'Framing Effect' suggests that people's choices are influenced by:

A) How information is presented to them

- B) The total cost of the item
- C) The colour of the advertisement
- D) The brand name of the product

12. What is 'Hyperbolic Discounting' in behavioural economics?

A) Valuing immediate rewards much more highly than future rewards

- B) The process of discounting goods in a supermarket
- C) Buying items only when they are on sale
- D) Predicting future inflation rates

13. Which concept describes the difficulty people have in making a choice when presented with too many options?

A) Choice Overload

- B) Decision Fatigue
- C) Information Symmetry
- D) Opportunity Cost

14. What is the 'Confirmation Bias' in economic decision-making?

A) Searching for information that supports one's existing beliefs

- B) Changing one's mind based on new evidence
- C) Asking a bank for financial advice
- D) Comparing prices between two different shops

15. What is 'Present Bias'?

A) Prioritizing current satisfaction over future benefits

- B) The habit of buying gifts for others
- C) The tendency to save money for retirement
- D) Investing only in local businesses

16. What does 'Bounded Rationality' suggest about human decision-making?

A) Humans have limited time and information to make perfectly rational choices

- B) Humans are always perfectly rational actors
- C) Humans only make decisions based on emotion
- D) Humans are incapable of mathematical reasoning

17. The 'Default Effect' occurs when:

A) People stick to the pre-set option because it requires less effort

- B) People always choose the most expensive option
- C) People refuse to make any choice at all
- D) People choose based on random selection

18. What is the main goal of using 'Nudge Theory' in public policy?

A) To encourage better choices without restricting individual freedom

- B) To ban unhealthy products entirely
- C) To increase taxes on all goods
- D) To force citizens to invest in the stock market