Fundamentals of Behavioural Economics

Behavioural Economics · Practice Test · 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