Understanding Behavioural Economics

Behavioural Economics · Answer Key · 20 Questions

1. What is behavioural economics?

A) A study of how people spend money on luxuries
B) A way to predict everyone's financial future
C) The study of how psychology affects people's economic decisions
D) A system for making only rational choices

2. When people make a decision, they don't always think logically. What is this called?

A) Rational thinking
B) Predictable behaviour
C) Irrational behaviour
D) Economic forecasting

3. What is 'anchoring' in behavioural economics?

A) Fixing a price too high
B) Using the first piece of information to make a decision
C) Avoiding risk at all costs
D) Waiting for the best deal

4. If a shop advertises a T-shirt for $30, but then offers a 'special deal' for $20, what psychological trick might they be using?

A) Loss aversion
B) Framing
C) Anchoring
D) Herding

5. What does 'framing' mean in behavioural economics?

A) Setting a limit on spending
B) How the way information is presented affects a choice
C) Buying only what you need
D) Ignoring emotions when spending

6. Imagine a sign saying '90% fat-free' versus '10% fat'. Which framing might make a food seem healthier?

A) 10% fat
B) Both are the same
C) 90% fat-free
D) Neither makes a difference

7. What is 'loss aversion'?

A) Wanting to make a profit
B) Disliking losses more than we like gains
C) Avoiding any kind of change
D) Being happy with what you have

8. If you are offered a choice between losing $10 or having a 50% chance of losing $20, what might loss aversion suggest you would do?

A) Take the 50% chance to lose $20
B) Definitely lose $10
C) Flip a coin to decide
D) Ask for advice

9. What is 'herding behaviour'?

A) Making decisions independently
B) Following the actions of a larger group
C) Carefully researching every option
D) Trying to be unique

10. Why might someone buy a popular toy that's advertised everywhere, even if they didn't originally want it?

A) Because it's logically the best choice
B) Due to herding behaviour
C) They enjoy being alone
D) It's a rational decision

11. What is 'present bias'?

A) Thinking about future rewards only
B) Valuing immediate rewards more than future rewards
C) Planning for retirement early
D) Saving money for a long-term goal

12. If you have a choice between eating a healthy salad now or a chocolate bar now, but you know you'll be healthier if you eat the salad, what does present bias suggest you might choose?

A) The salad, because it's healthier
B) The chocolate bar, because it's a treat now
C) A mix of both
D) You would wait to decide

13. What does it mean to be 'bounded rational'?

A) Always making perfect decisions
B) Making decisions based on limited information and time
C) Having unlimited money to spend
D) Ignoring all feelings when deciding

14. When a person decides to buy a product after only looking at a few options because they are tired, they are demonstrating:

A) Unlimited rationality
B) Bounded rationality
C) Perfect memory
D) Future-planning skills

15. What is the 'endowment effect'?

A) Giving things away for free
B) Overvaluing something once you own it
C) Buying things you don't need
D) Sharing your possessions

16. If you get a free sample of a drink and then feel you can't give it away, this might be an example of:

A) Extreme generosity
B) The endowment effect
C) Rational evaluation
D) Future planning

17. What is 'default bias'?

A) Choosing the most expensive option
B) Sticking with the pre-selected option
C) Always making a new choice
D) Avoiding any settings

18. When signing up for a service, if you are automatically enrolled unless you actively choose not to be, this uses the principle of:

A) Active choice
B) Default bias
C) Rational decision-making
D) Informed consent

19. What are 'nudges' in behavioural economics?

A) Forcing people to make specific choices

B) Subtle suggestions that influence behaviour without restricting options

C) Punishing people for bad decisions

D) Making complex choices easier

20. Placing healthy food options at eye-level in a cafeteria is an example of a:

A) Mandate

B) Nudge

C) Penalty

D) Restriction