

Fundamentals of Behavioural Economics

Behavioural Economics · Answer Key · 10 Questions

1. Which psychologist and Nobel laureate is widely considered a founding father of behavioural economics for his work on prospect theory?

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

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

- A) The Endowment Effect**
- B) The Sunk Cost Fallacy
- C) Anchoring Bias
- D) Loss Aversion

3. In behavioural economics, what does the term 'nudge' refer to?

- A) A financial penalty for bad choices
- B) A physical push to increase productivity
- C) A subtle policy shift that alters behavior without forbidding options**
- D) A mandatory tax increase

4. Which book, written by Richard Thaler and Cass Sunstein, popularized the concept of 'nudge' theory?

- A) The Wealth of Nations
- B) Thinking, Fast and Slow
- C) Nudge: Improving Decisions About Health, Wealth, and Happiness**
- D) Freakonomics

5. What is the 'Status Quo Bias' in decision-making?

- A) A preference for change
- B) A preference for the current state of affairs**
- C) An obsession with social status
- D) A dislike for technology

6. The concept that people feel the pain of a loss more intensely than they feel the joy of an equivalent gain is known as what?

- A) Prospect Theory
- B) Loss Aversion**
- C) The Framing Effect
- D) Confirmation Bias

7. What is meant by 'Bounded Rationality'?

- A) The idea that humans make perfectly logical decisions
- B) The idea that decision-making is limited by information and cognitive capacity**
- C) The belief that emotions are irrelevant to money
- D) The theory that all markets are efficient

8. What is the 'Anchoring Effect'?

- A) The tendency to rely too heavily on the first piece of information offered**
- B) The habit of saving money for the future
- C) The practice of setting high prices for luxury goods
- D) The fear of making a decision

9. Which term describes the phenomenon where people's choices are influenced by the way information is presented?

- A) The Framing Effect**
- B) The Availability Heuristic
- C) Social Proof
- D) Hindsight Bias

10. In behavioural economics, a 'choice architecture' refers to:

- A) The physical building design of banks
- B) The process of organizing the context in which people make decisions**
- C) The study of architectural costs
- D) The legal structure of contracts