Fundamentals of Behavioural Economics

Behavioural Economics · Practice Test · 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