Advanced Behavioral Economics

Behavioral Economics · Practice Test · 10 Questions

1. In Prospect Theory, what does the 'reflection effect' describe regarding risk preferences?

A) Risk aversion in the domain of losses and risk seeking in the domain of gains
B) Risk seeking in the domain of losses and risk aversion in the domain of gains
C) Risk neutrality regardless of the domain of outcomes
D) Uniform risk aversion across all probabilistic outcomes

2. Which phenomenon explains why individuals value an object more highly simply because they own it?

A) The Anchoring Effect
B) The Framing Effect
C) The Endowment Effect
D) The Hedonic Adaptation

3. According to the research of Gneezy and Rustichini (2000), what occurred when a fine was introduced for late pickups at Israeli daycare centers?

A) Lateness decreased due to the financial deterrent
B) Lateness increased because the fine replaced the social norm with a market price
C) Lateness remained constant as parents were indifferent to the price
D) Lateness fluctuated randomly based on economic cycles

4. In Intertemporal Choice, what does the 'hyperbolic discounting' model suggest about human behavior?

A) Discount rates are constant over time
B) People discount future rewards at a rate that is inversely proportional to the delay
C) People utilize only exponential discounting for all time horizons
D) Individuals prefer large delayed rewards over small immediate ones regardless of time

5. What does the 'Law of Small Numbers' fallacy lead individuals to believe?

A) That large samples are less representative of a population than small ones
B) That small samples are highly representative of the population from which they are drawn
C) That the mean of a sample will always regress to the mean of the population
D) That probability distributions are irrelevant to small sample sets

6. Which psychological trait identified by Kahneman and Tversky describes the tendency to rely on the first piece of information offered when making decisions?

A) Availability Heuristic
B) Representativeness Heuristic
C) Anchoring Bias
D) Confirmation Bias

7. What is the core finding of the 'Ultimatum Game' in experimental economics?

A) Responders always accept any non-zero offer to maximize utility
B) Proposers always offer the minimum possible amount
C) Responders frequently reject 'unfair' offers even at a cost to themselves
D) The game results in a Pareto optimal outcome in all iterations

8. The 'Peak-End Rule' states that individuals judge an experience largely based on which two moments?

A) The duration and the intensity of the experience
B) The most intense point and the final moment
C) The beginning and the midpoint
D) The average intensity and the starting moment

9. According to the 'Dual Process Theory' proposed by Stanovich and West, what characterizes System 2 thinking?

A) It is fast, automatic, and associative
B) It is slow, effortful, and logical
C) It is driven primarily by emotional arousal
D) It functions independently of cognitive load

10. What is the primary scientific implication of the 'Preference Reversal' phenomenon found by Lichtenstein and Slovic?

A) Preferences are stable and invariant under different elicitation methods
B) The method of elicitation (e.g., choice vs. pricing) can change the revealed preference order
C) Individuals consistently choose the option with the highest expected value
D) Utility functions are always linear in probability