

Principles of Behavioural Economics

Behavioural Economics · Practice Test · 8 Questions

1. What does the 'Endowment Effect' describe in behavioural economics?

- A) The tendency to overestimate the value of an object simply because one owns it
- B) The tendency to purchase goods only when they are on sale
- C) The preference for immediate rewards over long-term gains
- D) The belief that past events dictate future outcomes

2. According to prospect theory, how do individuals typically perceive losses compared to equivalent gains?

- A) Losses are perceived as less significant than gains
- B) Losses are perceived as roughly twice as painful as gains are pleasurable
- C) Gains and losses are perceived with equal emotional intensity
- D) Gains are perceived as having more impact due to the optimism bias

3. What is the 'Availability Heuristic' primarily defined as?

- A) A mental shortcut relying on immediate examples that come to mind when evaluating a topic
- B) The preference for information that confirms pre-existing beliefs
- C) The tendency to rely on the first piece of information offered
- D) The systematic overestimation of one's own abilities

4. In the context of behavioural science, what is a 'Nudge'?

- A) A financial penalty for irrational behaviour
- B) An intervention that alters people's behaviour in a predictable way without forbidding options
- C) A mandatory regulation enforced by government policy
- D) A discount applied to encourage bulk purchasing

5. The 'Hyperbolic Discounting' model explains why humans often:

- A) Choose larger, later rewards over smaller, immediate ones
- B) Prefer smaller, immediate rewards over larger, later ones
- C) Ignore long-term financial planning entirely
- D) Calculate interest rates incorrectly

6. What does the 'Sunk Cost Fallacy' involve?

- A) Investing in a project because of the emotional attachment to the people involved
- B) Continuing an endeavour based on cumulative prior investment despite new evidence suggesting it is irrational
- C) The tendency to undervalue assets that have been held for a long time
- D) The psychological need to recover lost social status

7. Which bias explains the tendency for people to rely too heavily on the first piece of information they receive when making decisions?

- A) Framing effect
- B) Anchoring bias
- C) Hindsight bias
- D) Dunning-Kruger effect

8. What is 'Mental Accounting' as proposed by Richard Thaler?

- A) The habit of keeping a formal ledger of all daily expenses
- B) The psychological process where people treat money differently depending on its source or intended use
- C) The inability to distinguish between gross and net income
- D) The tendency to over-calculate the costs of luxury items