

Advanced Behavioural Economics in a European Context

Behavioural Economics · Answer Key · 13 Questions

1. Which seminal European research paper first provided robust empirical evidence for the endowment effect, demonstrating that individuals overvalue goods they own compared to identical goods they do not possess?

A) Kahneman, Knetsch, and Thaler (1991) on the endowment effect in a controlled lab setting.

B) Ariely, Bracha, and Meier (2009) on the 'gift exchange' effect observed in online marketplaces.

C) Samuelson and Zeckhauser (1988) on the 'status quo' bias in consumer choice experiments.

D) Plott and Zeiler (2005) exploring inter-individual differences in endowment effects across cultures.

2. In the context of European public policy, the 'Save More Tomorrow' programme, designed to increase retirement savings, is a prime example of applying which specific behavioural economics concept?

A) Present bias and hyperbolic discounting.

B) Loss aversion and reference points.

C) Social norms and peer influence.

D) Availability heuristic and vividness.

3. Research by [European institution] has shown that framing the calorie information on menus with a 'healthier choice' label, rather than just the calorie count, significantly reduces the selection of high-calorie meals. This illustrates which principle?

A) Choice architecture and the power of defaults.

B) Priming and associative memory.

C) Anchoring and insufficient adjustment.

D) Heuristics and biases in decision-making.

4. The 'Nudge Unit' established by the UK government (Behavioural Insights Team) has conducted numerous experiments. One notable finding related to tax compliance involved making tax letters more personalized and showing recipients how their tax contribution compares to the average. This primarily leverages which behavioural driver?

A) Social comparison and descriptive norms.

B) Reciprocity and fairness.

C) Authority and obedience.

D) Scarcity and urgency.

5. A study conducted in Scandinavian countries found that displaying energy consumption data in kilowatt-hours (kWh) per inhabitant, alongside comparative benchmarks, led to a significant reduction in household electricity usage. This finding is most consistent with research on:

A) Social comparison and the 'rebound effect' mitigation.

- B) Framing effects and prospect theory.
- C) Cognitive dissonance and belief perseverance.
- D) Overconfidence bias and its impact on risk assessment.

6. The concept of 'mental accounting,' as explored by behavioural economists, helps explain why individuals might treat money differently depending on its source or intended use. European empirical studies on household finance have confirmed this by observing:

A) Differential spending patterns on 'windfall' gains versus earned income.

- B) The uniform allocation of funds across different savings goals.
- C) A consistent reduction in debt servicing for all types of loans.
- D) The negligible impact of tax rebates on discretionary spending.

7. Research from French public health initiatives shows that making organ donation an opt-out system (presumed consent) dramatically increases donation rates compared to opt-in systems. This is a powerful demonstration of:

A) The influence of default options in choice architecture.

- B) The salience of vividly presented information.
- C) The impact of social pressure on individual decisions.
- D) The 'hot-cold' empathy gap in long-term planning.

8. The 'planning fallacy,' where individuals tend to underestimate the time and resources needed to complete a future task, has been extensively documented in European project management and personal finance literature. Which of the following is a key characteristic of this fallacy?

A) A tendency to focus on optimistic scenarios while neglecting potential obstacles.

- B) An overestimation of future productivity due to anticipated motivation.
- C) A reliance on past experiences with similar tasks leading to accurate predictions.
- D) A systematic over-correction for unforeseen delays based on prior knowledge.

9. A series of experiments conducted at German universities on consumer trust in financial institutions revealed that individuals are more likely to perceive advice from advisors who share their own hypothetical risk tolerance as more trustworthy. This aligns with research on:

A) Homophily and the principle of 'similarity-attraction'.

- B) Cognitive load and decision fatigue.
- C) The endowment effect and ownership bias.
- D) Intertemporal choice and delayed gratification.

10. The concept of 'present bias,' a key element of hyperbolic discounting, posits that individuals have a stronger preference for immediate rewards over larger future rewards. European studies on unhealthy food consumption and procrastination consistently show:

A) A disproportionate weight given to immediate pleasure (e.g., eating junk food) over future health benefits.

- B) A rational calculation of long-term consequences influencing immediate choices.
- C) The absence of time inconsistency in decision-making processes.
- D) An equal valuation of rewards regardless of their temporal proximity.

11. The 'availability heuristic,' which describes the tendency to overestimate the likelihood of events that are more easily recalled, has been observed in European public perception of risks. For instance, after high-profile media coverage of airplane crashes, air travel accident statistics are often perceived as higher than they are in reality. This is due to:

A) The ease with which dramatic events are retrieved from memory.

- B) A thorough statistical analysis of historical accident data.
- C) Rational assessment of objective probabilities.
- D) The influence of factual reporting on individual risk perception.

12. In the domain of environmental policy in the EU, attempts to encourage recycling often employ framing that emphasizes the 'reduction of landfill waste' (loss aversion) rather than the 'creation of new resources' (gain framing). This strategic use of framing is based on which behavioural economic principle?

A) Prospect theory, where losses loom larger than equivalent gains.

- B) The anchoring effect, setting a fixed reference point for evaluation.
- C) The availability heuristic, making certain outcomes more salient.
- D) The endowment effect, overvaluing what one already possesses.

13. Research on charitable giving in the Netherlands has shown that when potential donors are presented with specific, vivid stories of individuals in need, rather than general statistics, the amount of donations increases. This phenomenon is a manifestation of:

A) The identifiable victim effect, driven by empathy and emotional connection.

B) The principle of utilitarianism, maximizing overall good.

C) Rational altruism based on cost-benefit analysis.

D) The 'mere exposure' effect, increasing familiarity and liking.