**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FIFTH TRIMESTER (Batch 2020-22)**

**END TERM EXAMINATION, JAN-2022**

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| Course Name | **Behavioral Economics** | Course Code | **ECO501** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**Note: All Questions are mandatory**

**Q: 1 [4 + 2 = 6 Marks]**

**A. “**We hate to lose more than we love to win”. Assess this statement in the light of theory proposed by Kahneman and Tversky in 1979, citing the basic elements of the theory.

**B.** Consider the mug trading experiment by Knetsch (1989). In this experiment subjects were endowed with a mug and had to fill out a questionnaire. Afterwards they got a chance to exchange the mug for a Swiss chocolate bar and 89 percent of subjects decided to keep the mug. Which effect are we discussing here? Explain in detail.

**Q: 2 [4 + 1 + 4 = 9 Marks]**

**A.** Assess the advantages and disadvantages of “Libertarian Paternalism”. Cite a few examples where the government / companies have positively nudged the decision makers.

**B.** Maria and Smith had joined a large health care company as behavioral consultant. The organisation wanted them to influence the employees to opt for a savings plan: SAV040, which is beneficial for the employees in long run. The management told Maria and Smith that they do not want to force any of their employees. What solution can you provide to Maria and Smith for increasing the participation in the SAV040 plan?

**C.** Appraise the MINDSPACE framework with examples that may influence the human behavior.

**Q:3 [5 \* 3 = 15 Marks]**

**A.** Assess a few biases that may lead to irrational behavior of investors in terms of financial decision making.

**B.** Examine the George Soros theory of reflexivity for capital markets.

**C.** Critically examine the behavioral biases displayed by investors, banks, regulators and rating agencies which led to the asset bubble i.e., the sub-prime crisis. How “Animal Spirits” explain what happened in the global financial crisis.

**Q:4** Analyse the bias/effect the following examples refer to. **[5 \* 2 = 10 Marks]**

1. “This movie is terrible but since I have already paid a lot of money for the ticket I should sit and watch the whole thing.”
2. “That family has had three girl babies in a row. The next one is bound to be a boy.”
3. Police in US who are looking for a suspect in a crime focusing on Black people more in their search.
4. Program A will save 200 people. Program B has ⅓ chance of saving 600 and ⅔ chance of saving none.
5. If you first see a T-shirt that costs $1,200 – then see a second one that costs $100 – you're prone to see the second T-shirt as cheap.

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