**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

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

**END TERM IMPROVEMENT EXAMINATION, MARCH-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**  **[5 + 5 = 10 Marks]**

1. **“**In practice, people tend to follow the expected utility theory while making decisions as they are rational agents and not driven by behavioral biases.” Do you agree/ disagree. Give your justifications citing a few examples.
2. Consider the following table (There are two options for investment decisions)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Flow of Costs and Benefits** | | | | | | | |
| **OPTION I** | | | | **OPTION II** | | | |
| **Year** | **Cost** | **Benefit** | **Net** | **Year** | **Cost** | **Benefit** | **Net** |
| **1** | 100 | 0 | -100 | **1** | 40 | 50 | 10 |
| **2** | 10 | 0 | -10 | **2** | 40 | 50 | 10 |
| **3** | 10 | 150 | 140 | **3** | 40 | 50 | 10 |
| **Sum** | 120 | 30 | 30 | **Sum** | 120 | 150 | 30 |

Which option has a higher probability of being chosen. How behavioral aspects / biases can help explain this? Discuss the relevance of time preferences by consumers in this light.

**Q: 2 [5 + 5= 10 Marks]**

**A.** “Putting fruit at eye level vs. banning junk food” – would you consider any of these as nudge? Appraise how nudging works differently for the target group in their decision-making process. Is it same as being liberal or making things mandate for the target group? Quote a few examples of successful nudges to support your answer.

**B.** Discuss the MINDSPACE framework with examples that may influence the human behavior.

**Q:3 [5 Marks]**

It is said that most investors in stock market make decisions out of a lot of behavioral biases. Discuss a few with examples. Relate if these biases have ever led to any financial crisis.

**Q:4** Establish using examples how the following biases/effects may influence the decision making.

1. Sunk Cost Fallacy
2. Decoy Effect
3. Gambler’s Fallacy
4. Framing Effect
5. Anchoring Bias
6. Representative Bias **[6 \* 2.5 = 15 Marks]**

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