SL No of QP : 6213
Unique Paper Code : 2923100013
Name of the Paper : Behavioural Economics
Name of the Course : BBE
Semester : VI
Duration: **3 hours** Maximum Marks: 90

Instructions for candidates:

(i) Write your Roll No. on the top immediately on receipt of this question paper:
(ii) Attempt any five questions in all.
(iii) All questions carry equal marks.
(iv) Use of simple calculator is allowed.

Question 1

(a) Behavioural economics challenges the assumptions of rationality in neoclassical economics. Discuss this statement by explaining bounded rationality, heuristics, and mental accounting. **(10)**

(b) Behavioural economists often rely on experimental methods. Describe a simple behavioural experiment and explain how it reveals deviations from rational behaviour. **(8)**

Question 2

(a) A supermarket introduces a third, less attractive option to influence consumers to choose a more expensive product. Explain the decoy effect using this case. **(10)**

(b) A company gives free samples of a product to consumers and later asks if they want to buy it. Explain this using the endowment effect. **(8)**

Question 3

(a) A person is offered two options:

Option A: ₹50 for sure

Option B: 50% chance of ₹100, 50% chance of ₹0

Calculate the expected value and explain the choice using risk aversion. **(10)**

(b) If 1% of a population has a rare disease, and a test has a 99% sensitivity (meaning how well a test identifies those who do have the disease) and 95% specificity (meaning the accuracy of a test in correctly identifying those who do not have the disease), calculate the probability that a person who tested positive actually has the disease.

(8)

Question 4

(a) Define confirmation bias. How does it affect decision-making in political or financial contexts? **(10)**

(b) Describe a real-life situation where heuristics like availability or representativeness led to a systematic error in judgment. **(8)**

Question 5

(a) Two firms in a market must choose whether to advertise or not. Advertising brings in more customers but is costly. Construct a payoff matrix and identify the Nash equilibrium. **(10)**

(b) How do concepts like trust and reciprocity modify outcomes in strategic games compared to classical game theory assumptions? **(8)**

Question 6

(a) How does behavioural economics explain deviations from self-interest in decisions involving fairness, justice, or inequality aversion? **(10)**

(b) In the Dictator Game, one participant (the "dictator") is given a sum of money (e.g., ₹100) and must decide how much, if any, to give to another anonymous participant who has no influence over the decision. Explain how this game illustrates altruism and fairness preferences in economic decision-making. What do typical outcomes of the game tell us about human behaviour? **(8)**

Question 7

(a) Define nudge theory and explain how it leverages cognitive biases and heuristics to influence behaviour without restricting choices. Discuss the role of choice architecture in designing effective nudges. **(10)**

(b) What ethical concerns arise with the use of nudges in public policy? How can they be addressed? **(8)**

Question 8

(a) How do behavioural factors like overconfidence, loss aversion, and herd behaviour challenge the Efficient Market Hypothesis? **(10)**

(b) An investor refuses to sell a declining stock in hopes it will recover, even though fundamentals suggest otherwise. Explain this using prospect theory. **(8)**