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Department of Economics

Examination paper for SØK2012 – Behavioral economics

Examination date: 05.10.2020

Examination time (from-to): 5.10, 09:00 -12.10, 10:00.

Permitted examination support material: All support material is allowed

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OTHER INFORMATION

If a question is unclear/vague – make your own assumptions and specify in your answer the premises you have made. *Only reach out to academic contact in case of errors or insufficiencies in the question set.*

Cheating/Plagiarism: The exam is an individual, independent work. Examination aids are permitted. Inspera uses automatic plagiarism control, but assessments of plagiarism are conducted by the examiner. [Read more about cheating and plagiarism here.](#)

Notifications: If there is a need to send a message to the candidates during the exam (e.g. if there is an error in the question set), this will be done by sending a notification in Inspera. A dialogue box will appear. You can re-read the notification by clicking the bell icon in the top right-hand corner of the screen.

Weighting: The grade is based on an overall assessment, so the points are only indicative.

ABOUT SUBMISSION

- **Your answer will be submitted automatically when the examination time expires and the test closes**, if you have answered at least one question. This will happen even if you do not click “Submit and return to dashboard” on the last page of the question set. You can reopen and edit your answer as long as the test is open. If no questions are answered by the time the examination time expires, your answer will not be submitted.
- **Withdrawing from the exam:** If you wish to submit a blank test/withdraw from the exam, go to the menu in the top right-hand corner and click “Submit blank”. This cannot be undone, even if the test is still open.
- **Accessing your answer post-submission:** You will find your answer in *Archive* when the examination time has expired.

1 Rationality

Explain and discuss rationality, using a maximum of 120 words.

Fill in your answer here

Format | **B** | *I* | U | x_2 | x^2 | I_x |  |  |  |  |  |  |  |  |  | Σ | 

Words: 0/132

Maximum marks: 20

2 Smartphone decoy

The company Mango makes smartphones. Model B has a good battery, but not so good camera. Model C has a good camera, but not so good battery. Currently the customers prefer model B, but the company wants to sell more of Model C. They therefore introduce a new model to act as a decoy for model C. What properties should the phone have?

Select one or more alternatives

- Better battery than B
- Better camera than C
- Better camera than B
- Worse camera than C
- Worse battery than C

Maximum marks: 15

3 Loss function

In the following losses are negative numbers.

Assume you have the value function $v(x) = x/2$ for gains and $v(x) = 2x$ for losses.

You inherit an old painting of an unknown artist. It is supposed to be worth 1000 kr. When you get it evaluated by an expert, it is valued at 0 kr.

a. If your reference point was zero kr, how much did you lose in value terms? kr

b. If instead your reference point was 1000 kr, in value terms, how much did you lose? kr

Maximum marks: 10

4 bias

Discuss confirmation bias and its various aspects, including how it can be prevented. Try to come up with good examples. Use maximum 150 words.

Fill in your answer here

Format | **B** | *I* | U | x_2 | x^2 | \int_x |  |  |  |  |  |  |  |  |  | Σ | ABC | 

Words: 0/150

Maximum marks: 10

5 Talent

Suppose the following was true. One out of a 100 students is blessed with an exceptional talent (T). Students usually work hard (H), but say only 3 out of 10 with an exceptional talent work hard. Of those who do not have an exceptional talent, 8 of 10 work hard.

a. What is the probability that a randomly selected student will be exceptionally talented and work hard?

Answer with 3 decimals.

b. What is the probability that a randomly selected student will not be exceptionally talented and will work hard? Answer with 3 decimals.

c. What is the probability that a randomly selected student will work hard? Answer with 3 decimals.

d. What is the probability that a randomly selected student will be exceptionally talented, given that he or she work hard? Round off to three decimals.

Maximum marks: 20

6 uncertainty

Consider the following utility payoff matrix

	S1	S2
A	4	7
B	3	9
C	1	10

where actions can be A, B, or C, and states can be S1 or S2.

a. What action would you choose if you followed the maximin criterion?

b. What action would you choose if you followed the maximax criterion?

c. What action would you choose if you followed the minimax-risk criterion?

Maximum marks: 15