SASTRA DEEMED UNIVERSITY

(A University under section 3 of the UGC Act, 1956)

End Semester Examinations

May 2025

Course Code: **MGT222**

Course: **BEHAVORIAL ECONOMICS**

QP No. **:U265-6**

Duration: **3** hours

Max. Marks:**100**

PART – A

Answer all the questions **10 x 2 = 20 Marks**

1. How does behavioural economics help in policymaking?
2. What is the hot-hand fallacy?
3. How does hyperbolic discounting affect financial planning?
4. Explain the Allais paradox.
5. Define the gambler's fallacy.
6. What is probability distortion?
7. Infer the 'decoy effect'.
8. What is a dominant strategy in game theory?
9. Interpret the sunk cost fallacy.
10. Relate an example of an intertemporal choice problem.

PART – B

Answer all the questions **4 x 15 = 60 Marks**

11. Examine the role of cognitive biases in decision-making and provide relevant examples of common biases observed in consumer behavior.

(OR)

12. Explain the concept of "prospect theory" and its impact on how people make decisions under uncertainty.

13. Analyse how social preferences, like fairness or reciprocity, influence individual decision-making.

(OR)

14. Discuss how concepts like "nudging" or behavioural interventions influence choices without restricting the freedom of choice.

15. Determine how the real-world examples of irrational decision-making, challenge the predictions of the neoclassical model in marketing.

(OR)

16. Analyse the effect of bounded rationality and social influence on consumer behavior.

17. Explain the use of game theory in strategic business decisions. (or)

(OR)

18. Discuss how time-inconsistent preferences affect economic planning.

PART - C

Answer the following **1 x 20 = 20 Marks**

19. The Retirement Savings Dilemma.

How much do you need to save for retirement and where should you invest it? Financial research recommends drawing only 3%-4% annually from your retirement funds to be relatively confident of not running out of funds before you run out of life. This necessitates accumulating an amount most people would consider quite daunting.

Anjali, a 30-year-old software engineer working in Hyderabad, earns ₹15 lakh per annum. She is financially independent, enjoys traveling, and frequently spends on luxury items. She has started thinking about her financial future after witnessing a close friend struggle financially after losing a job. Her employer offers an Employee Provident Fund (EPF) plan, but contributions are optional beyond the statutory minimum. She also has access to mutual funds and insurance-based retirement plans. However, Anjali faces a dilemma regarding how much to save and where to invest. She is considering the following investment options:

Option A: Conservative Approach

- Invests 70% of her savings in a low-risk government bond with a guaranteed 5% annual return.
- Keeps 30% in a fixed deposit, which earns 6% but is taxable.
- This provides stability but might not keep up with inflation.

Option B: Balanced Approach

- Invests 50% in government bonds and 50% in an index fund with historical returns of 10-12% but market fluctuations.
- This offers better growth potential while keeping some stability.

Option C: Aggressive Growth Approach

- Invests 80% in equity mutual funds (expected return: 12% but with high volatility).
- Allocates 20% in gold and real estate for diversification.
- This could generate high returns but comes with a risk of market downturns.

a) Anjali's decision a classic case of choice under uncertainty. Justify, how Expected Utility Theory (EUT) and Prospect theory apply to Anjali's choices.

b) Examine the consequences of delaying investment and suggest suitable measures to Anjali to overcome the present bias.

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