



UNIVERSITY OF AGDER

FACULTY OF ECONOMICS AND SOCIAL SCIENCES

EXAM

Course code: **ORG419**

Course name: **Judgment and Decision Making**

Date: December 11, 2013

Duration: 09.00-13.00 (4 hours)

Number of pages incl. front page: 2

Resources allowed: Dictionary

Notes: The exam consists of questions about four main topics, which will be weighted according to the percentages in parentheses. Make sure you allocate sufficient time to all the questions. You may answer in Norwegian or English or both.

1. Probability judgments (20%)

- a. What do we mean by "the representativeness heuristic" and how does it influence probability judgments?
- b. What do we mean by "the gambler's fallacy"?
- c. What do we mean by the "availability heuristic" and how may this heuristic influence probability judgments?
- d. Studies show that people do not insure against risk in accordance with the normative model. Why is it necessary to impose regulations to avoid inadequate insurance (for example liability insurance)?



2. Decisions under uncertainty (30%)

- a. How does prospect theory differ from expected-utility theory?
- b. How can we use the value function to explain loss aversion?
- c. An analysis of how we spend money on risk reduction shows that behaviour deviates from the normative theory. How may the perceived differences between
 - 1) voluntary versus involuntary risks,
 - 2) individual versus statistical risks, and
 - 3) omission versus commissionhelp explain this discrepancy?

3. Decisions about the future (30%)

- a. Explain the economic theory of discounting (the discounted utility model).
- b. Sometimes it seems like subjective discount rates increase as the time of a reward approaches (the discount rate being a function of time). How can this affect behaviour?
- c. A basic problem in conflicts between the present self and the future self is that we are biased in favour of our present selves. How can we try to avoid behaving impulsively or dynamically inconsistent?

4. Choice architecture (20%)

- a. What are the main characteristics of a "nudge", as defined by Thaler and Sunstein?
- b. Explain shortly the main six groups of nudges.
- c. Why is the choice of the default option so important for choice architects? How can we increase organ donation by varying the default option.

Good luck!