

UNIVERSITY OF WARWICK

Summer Examinations 2015/2016

**Behavioural Economics: Theory and Applications**

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Time Allowed: 2 hours.

Answer **ALL FOUR** questions from **Section A** (18 marks each) and **ONE** question from **Section B** (28 marks). Answer Section A questions in one booklet and Section B questions in a separate booklet.

Approved pocket calculators are allowed.

Read carefully the instructions on the answer book provided and make sure that the particulars required are entered on each answer book. If you answer more questions than are required and do not indicate which answers should be ignored, we will mark the requisite number of answers in the order in which they appear in the answer book(s): answers beyond that number will not be considered.

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**Section A: Answer ALL FOUR Questions**

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1. Describe the standard model of inter-temporal preferences and illustrate by way of examples when key assumptions are violated **(18 Marks)**  
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  2. Illustrate the main difference between Expected Utility Theory and Prospect Theory and describe in brief what the latter is capturing that is omitted in standard Expected Utility Theory **(18 Marks)**  
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  3. In standard models of policy design for the delivery of public services, emphasis is often placed on resource-based (e.g. financial) incentives. If status in society matters, how might this affect policy design? Answer with reference to at least one field experiment. **(18 Marks)**  
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  4. Describe a model in which consumption of an addictive good with known detrimental longer-term consequences is compatible with rationality. **(18 Marks)**
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**Section B: Answer ONE Question**

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5. Illustrate the different findings in the literature concerning the relationship between GDP and Life Satisfaction and how to reconcile the differences **(28 marks)**
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6. Explain the Hyperbolic model of time discounting using the theory that in the brain two different systems interact. **(28 Marks)**
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7. In developing policies to address certain behaviours, it has been suggested that *cues* may work to *nudge* people in desirable directions. Discuss in relation to a model of consumption how cue effects may work. In your answer provide a brief example of policy (actual or hypothetical) motivated by cue effects in consumption. **(28 Marks)**
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8. In the World Development Report 2015 it was stated: “Sharing and reciprocity among group members and the other-regarding behaviour of those who take on social roles such as “group leader” can contribute to the well-being of a community.” What evidence does the World Bank draw on to suggest people are often *conditional co-operators*? What lessons for policy does the World Bank present in regard of thinking socially? **(28 Marks)**
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