

**Course name:** Economics of Psychology  
**Course code:** EC7205  
**Examiner:** Lennart Erixon  
**Number of credits:** 7,5 credits  
**Date of exam:** Saturday 14 January, 2012  
**Examination time:** 3 hours

Write your name, Swedish personal number and the number of the question on every cover sheet. Use one cover for question I and another cover for question II. Write clearly, readable answers will only be accounted for Do not write answers for more than one question in the same cover sheet. Explain notions/concepts and symbols. You can answer either in English or in Swedish. No aids or dictionaries are allowed!

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The exam consists of 8 questions for each student, 50 points in total. For the grade E 20 points are required, for D 25 points, C 30 points, B 37 points and A 45 points.

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If you think that a question is vaguely formulated: specify the conditions used for solving it.

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Results will be posted on mitt.su.se, February 6 at the latest

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**Good luck!**

## **I. Short questions**

Answer 7 of 8 questions only! Approximately 1/2 page per answer (max 5 point per question).

1. Which axiom of optimization is violated by the regret theory?
2. The notion “cognitive inaccessibility” is central in neuroeconomics. What is meant by this notion in Camerer et al. (2005)?
3. The distinction between risk aversion and loss aversion is crucial in economic psychology. Describe the difference between the two forms of aversion.
4. Robert Shiller emphasizes that speculators on financial markets are governed by magical thinking. What does Shiller mean by magical thinking?
5. There are three approaches to evaluating happiness in economic psychology. Describe briefly the three approaches.

6. Galasso & Simcoe (2010) is based on two hypotheses about overconfidence. Which are the two hypotheses and how do they define overconfidence?
7. Kahneman et al. (2003) deny the so called Easterlin Paradox in the literature on happiness. What is the Easterlin Paradox and which are the objections by Kahneman et al?
8. What does the psychological literature say about the effects of time pressure on the quality of decisions? Describe the general conclusion but also the results from some contradicting studies.

## **II. Essay question**

Choose one of the questions only! Approximately 2-3 pages (max 15 points)

1. Present the psychological arguments for the Phillips curve in Akerlof (2007) and Graham & Snower (2008). Make comments also on the validity of their psychological explanations of the Phillips curve.
2. Discuss the importance of incomes (or wealth) and status for people's happiness using Ahuvia (2008), Di Tella et al. (2010) and McBride (2010) as starting points.