

STOCKHOLM UNIVERSITY
Department of Economics

Course name: Economics of Psychology
Course code: EC7205
Examiner: Lennart Erixon
Number of credits: 7,5 credits
Date of exam: 13 January 2011
Examination time: 3 hours

Write your identification number on each paper and cover sheet (the number stated in the upper right hand corner on your exam cover).

Do not write answers to more than one question in the same cover sheet. Explain notions/concepts and symbols. Only legible exams will be marked. No aids are allowed. You can answer either in English or in Swedish.

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.

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

Results will be posted on the notice board, House A, floor 3, by ? February 2010 at the latest.

I. Short questions

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

1. How can the equity-term puzzle be explained in terms of habits?
2. In the study by Curşeu et al (2007) on organizational decision making the distinction between group variety and group disparity is important. What is the difference between the two notions and which group will make the best decisions?
3. In the theory of transformation pressure companies are governed by variations in *current* profits (see Erixon, 2007 and Erixon & Johannesson, 2010). What are the underlying psychological mechanisms?
4. Describe at least two of the main principles of the so-called prospect theory.
5. Assume that person A will receive a larger increase in nominal wages than person B but experience a lower increase in real wages. What is George Akerlof's explanation for why most people think that person A would be happier than person B?
6. Mention at least two of the indicators of overconfidence in the empirical study of entrepreneurship by Koellinger et al. (2007).
7. There are two perspectives on anchoring effects in the psychological literature. What are the two perspectives?
8. What kind of investments will be made by people with hyperbolic (time-inconsistent) preferences and how will they finance consumption to satisfy their immediate needs in Laibson et al (2001)?

II. Essay question

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

1. Why will higher incomes not necessarily make us happier according to Frey and Stutzer (2003)? What are the underlying psychological mechanisms?
2. Classify different psychological biases considered on the course in terms of the two dimensions of neural function in Camerer et al (2005).