

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:** 20 February 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).

Explain notions/concepts and symbols. Only legible exams will be marked. No aids are allowed. You can answer either in English or in Swedish.

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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 the notice board, House A, floor 3, by 11 March 2010 at the latest.

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## **I. Short questions**

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

1. Which are the two main hypotheses about overconfidence in Galasso & Simcoe's article on the course?
2. In their article on neuroscience Camerer, Loewenstein & Prelec mention that individuals with high cognitive ability could be poor decision makers. What is their argument?
3. Which are the two central variables in Rabin & Schrag's paper on confirmatory bias?
4. Which are the three approaches (measurements) of experienced happiness in the economic-psychological literature?
5. What conclusion can be drawn about risk aversion and risk seeking in the prospect theory?
6. Economic psychologists often refer to the heuristic peak-end rule. In what sense do the peak-end rule breaks with theories of rationality?
7. Shiller mentions that speculators on financial markets have a tendency to put investments into separate mental compartments. Present Shiller's argument.
8. Will people become more alert under time pressure according to the empirical literature? Are the results from experiments in economic psychology unambiguous?

## **II. Essay question**

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

1. Why are people striving for higher incomes and wealth despite the fact that they will not be happier? Use Ahuvia (2008) as a starting point when you answer the question.
2. A common argument today is that economic-psychological theories and experiments can explain financial bubbles and crises. Which psychological biases in Shiller's article can be used to explain the current financial crisis?