1.7 Behavioural Economics: Bounded Rationality and Biases in Decision Making: Test Pack

AQA 7136 · Calculators not allowed · about 15 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Use full sentences for questions worth 4 marks or more. Time guidance: 15 minutes. No calculator is required.

1 Define 'bounded rationality' as used in behavioural economics, naming one implication for consumer decision making in everyday markets such as shopping or saving.

(Total for Question 1 is 1 mark)

2 Define the 'availability' heuristic and state one way it can distort people's perception of risk in a public context such as travel or health.

(Total for Question 2 is 2 marks)

3 Define the term 'nudge' as used in Thaler and Sunstein's nudge theory and give one short example of a nudge used in a public policy context such as pensions or organ donation.

(Total for Question 3 is 2 marks)

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4 Explain what is meant by a 'default option' in choice architecture and give one brief example of how changing the default affects outcomes in pension saving or organ donation rates.

(Total for Question 4 is 2 marks)

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5 Identify the bias or nudge at work in the following scenario and name the single best fit: "A supermarket displays a prominent sign saying 'Most customers choose our eco-friendly bags' above the checkout, and sales of those bags rise noticeably over the next month."

(Total for Question 5 is 2 marks)

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Mark scheme · 1.7 Behavioural Economics: Bounded Rationality and Biases in Decision Making: Test Pack

Question 1

a limited ability to process information and compute optimal choices, so individuals use simplified rules or heuristics when making decisions — **B1**

Answer: Individuals have limited information-processing ability and so use simplified rules or heuristics rather than calculating fully optimal choices.

Question 2

the availability heuristic is judging the likelihood of events by how easily similar examples come to mind — **B1**

it can cause overestimation of rare but memorable risks, e.g. fearing flying after hearing about a plane crash — **B1**

Answer: Availability is judging probability by how easily examples are recalled, which can make rare but vivid events seem more likely, such as overestimating plane-crash risk after media coverage.

Question 3

a nudge is a feature of choice architecture that steers people in a predictable way without forbidding options or changing economic incentives significantly — **B1**

example: automatic enrolment in workplace pension schemes (default opt-in) that increases participation while preserving freedom to opt out — **B1**

Answer: A nudge is a change in choice architecture that steers behaviour predictably without restricting options, for example automatic enrolment into workplace pensions as a default option.

Question 4

the default option is the choice applied if an individual does not actively choose otherwise, influencing behaviour via inertia or status quo bias — **B1**

example: making pension enrolment the default increases participation rates, while making organ donation opt-in rather than opt-out reduces donor numbers — **B1**

Answer: The default option is the pre-set choice if no active decision is made, for example automatic pension enrolment raises participation because many stick with the default.

Question 5

identifies 'social norms' as the bias/nudge at work — **B1**

applies it to the scenario by linking the message about most customers' behaviour to conformity, increasing uptake — **B1**

Answer: Social norms; the sign uses information about other customers behaviour to create a conformity effect and increase sales of the eco-friendly bags.

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