

## HOW TO APPLY BEHAVIOURAL ECONOMICS TO YOUR DAILY LIFE Quiz

Online students

Read the text carefully and then answer the following questions. **Your answers should be based on the text.**

Possibly, the first thing we can take from economics is the importance of doing a cost-benefit analysis when making big decisions. Comfortable though we may be with making a list of pros and cons, we should recognise that it is actually a rather ineffective tool. Just one of the cons might easily outweigh all of the pros. A cost-benefit analysis is something altogether more sophisticated, **which** allows you to be more objective. For example, let's say that you have to decide whether to make a journey by train or aeroplane. The financial cost of each journey is obvious, but there are also other costs to take into account, such as the cost in your time, the cost in terms of how tired you'll be on arrival, the environmental cost and so on. Give each of these a score out of five, and then weigh them up against the potential benefits, scored in the same way, and the choice becomes much easier.

Another trap many people fall into is the sunk-cost fallacy. A fallacy is an idea that is often believed to be true, but which is, in fact, false. The sunk-cost fallacy is the idea that because you have already invested time or money in something, you should persist with it no matter what. One study which demonstrated this tendency asked people to imagine they were at a birthday celebration and that they were offered chocolate cake. The researchers told some people this was from a local supermarket, and others that it was an expensive handmade cake from a shop almost an hour away. Having been told the cake had required a significant investment of time and money seemed to make people much more likely to eat it all, even though they felt uncomfortably full, or weren't that keen on chocolate cake. The sunk-cost fallacy often leads us to do things which are really against our best interests. For example, maintaining a friendship with someone we don't really like anymore, because we have known them a long time, and feel that nothing can be done about it. Or persisting with a business idea, even when it's clear that it isn't working and is actually losing us money. Our decision-making ability can be dramatically improved by recognizing when we may be falling prey to this fallacy.

1. The text states several costs should be considered while travelling by train or plane. Write down two of them.
2. What is the fallacy?
3. The text states two examples of the sunk- cost fallacy. Write them down.
4. Write the sentence which indicates how should use the pros and cons list to apply the cost-benefit analysis.
5. what does the underlined pronoun refer to?
6. Economics is not all about money. Think of this statement, and in two sentences, write down your point of view.

Best of Luck ..Ala'a Al Sharif 

Answers:

- 1- The financial cost of each journey is obvious - costs to take into account, such as the cost in your time -the cost in terms of how tired you'll be on arrival, the environmental cost.
- 2- A fallacy is an idea that is often believed to be true, but which is, in fact, false.
- 3- maintaining a friendship with someone we don't really like anymore, because we have known them a long time, and feel that nothing can be done about it. Or persisting with a business idea, even when it's clear that it isn't working and is actually losing us money.
- 4- Give each of these a score out of five, and then weigh them up against the potential benefits, scored in the same way, and the choice becomes much easier.
- 5- a cost- benefit analysis