

BEE3049

UNIVERSITY OF EXETER

BUSINESS SCHOOL

JANUARY 2009

BEHAVIOUR, DECISIONS AND MARKETS

Module Convenor: Dr Miguel Fonseca

Duration: TWO HOURS

Answer any FOUR questions. All questions carry equal marks.

Approved calculators are permitted. This is a closed note paper.

1. Consider the following game:

	Left	Right
Top	80, 80	75, 30
Bottom	30, 75	100, 100

- a) What are the pure strategy Nash equilibria of this game? (20%)
- b) What criteria can one use to select between equilibria? What equilibrium would each criterion select? (35%)
- c) What is the empirical support for each of the criteria you mentioned? (45%)

2. a) Define the terms “herding” and “informational cascade” as they are used in the economic literature. (50%)
- b) Discuss how the pricing of assets can undermine herding in a financial market and restore full efficiency. Discuss the experimental evidence for this. (50%)

3. You are in a job interview for a Human Resources position in a major bank. The interviewer mentions the greatest challenge facing the company is the restructuring of the incentive structure it offers to employees. Give an overview of the available contracts to the bank, whilst stating, based on existing empirical evidence, advantages and disadvantages of each type of contract.

4. How do theories of inequality aversion explain the observed behaviour in trust games? Review some experimental evidence on these games.

5. a) List and describe the three main components in Social Identity Theory. (35%)
- b) Critically discuss the empirical evidence regarding the impact of group membership on individual behaviour. (65%)

6. Discuss the statement: Theoretical and applied economics can by and large ignore experimental economics because subjects are paid peanuts and make errors they would avoid if serious money were involved.

End of Paper