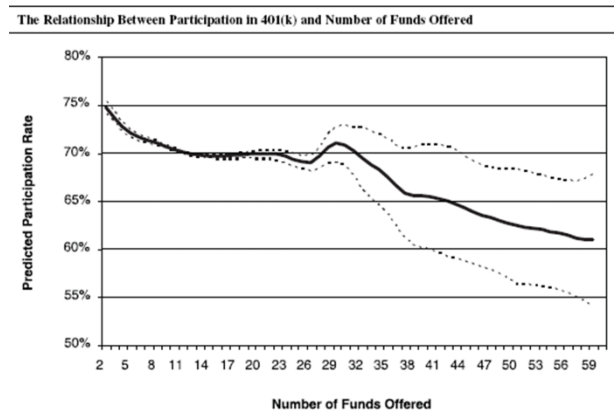


Gedragseconomie vragen 1

1) 401 pension funds en participation rate: waarom komt hier niet overeen met standard economics?

While the employer is responsible for establishing a 401(k) plans, employees must decide what percentage of their paycheck will be deducted for their plans. Employees can legally contribute up to 25% of their annual earnings as long as the amount does not exceed the legal cap.



2 pension plans: participation rate = 75%. However in companies where they offer something like 60 pension plans, the participation rate drops to 61%. ♦ Evidence of decision paralyzes.

Standard economics: more choice is better. This example proves that more choice can lead to less welfare.

2) Anchoring, consumer ethnocentrism en country of origin (grafieken met placebo effect van goedkope en duurdere painkillers, samen met grafiek van non asiens en asiens kunnen uitleggen)

Country of origin: Country with which good/service is associated

Consumer Ethnocentrism: Buyers are disinclined to purchase foreign products because they believe buying imported products results in job losses and hardship at home

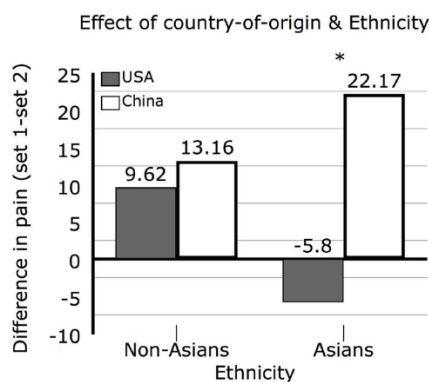
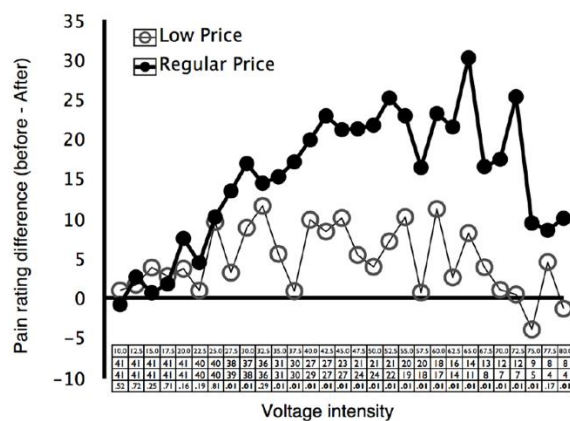


Figure 3: Country of origin has no effect on pain for non-Asians, but the China condition is significantly better than the American condition among Asians.



Zowel prijs als plaats zijn externe factoren omtrent placebo effects. Mensen die een pil kregen met een hogere waarde rapporteerden minder pijn. Dit indiceert dat prijs = kwaliteit van de pil. In het algemeen zien we dat de pil van China het beste werkt. Echter wat eruit springt is dat chinezen die een pil uit de VS kregen hogere pijnlevels constateerden dan ervoor. Dus Voor niet aziaten heeft de COO geen effect, maar de Chinese pil is significant beter dan de Vs pil bij chinezen zelf.

3) arbitrary coherence, tabel met 5 verschillende producten en anchors according to ssn, uitleggen adhv die tabel wat arbitrary coherence is

Anchoring experiment waar studenten moesten aangeven of ze een object wouden kopen tegen de prijs van hun laatste 2 digits van hun social security nummer. Ze werden eraan herinnerd dat het een random nummer was, maar degene met een hogere anchor wilden meer bieden voor producten dan mensen met een lagere anchor = arbitrary want mensen weten niet wat een goed waard is. (slide 59 les 3) we zien echter in de tabel dat relatief gezien mensen meer willen betalen voor een cordless keyboard dan een cordless trackball (voor 5 de quintilen) het zelfde is waar voor average wine en rare wine. De relatieve prferenties zijn dus samenhangend (coherent). Dit is coherent arbitraryness

4) dishonesty: grafiek met de 3 stadia van dishonesty dajе moest uitleggen (internal reward mechanism not activated, internal reward mechanisms exerts max pressure, external rewards prevail)



5) dispository effect in verband leggen met hold-more en price-pressure effect

Disposition effect : investors believe in mean reversion + the tendency for individuals to be risk averse over gains, but risk seeking over losses.

On average individual investors hold on to winning stocks for 20 days, losing stocks for 43 days

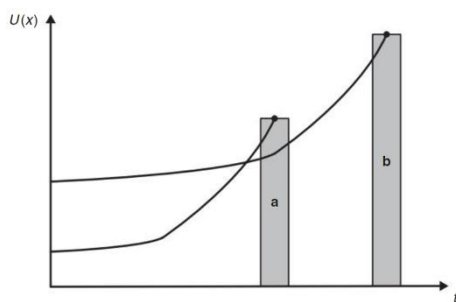
Investors are 50% more likely to realize gains instead of losses!

Good news: Winners will sell (seeking pride), temporarily depress the stock, Investors underreact to news, Post announcement drift in winner stocks

Bad news: Losers will not sell (avoiding regret), underreacting to negative news

6) save more tomorrow en hyperbolic discounting

Hyperbolic discounting: Typically, when we are making plans about what we would do in the future, we are patient, Our discount rates are low, But when the future finally arrives, we become impatient and succumb to temptation, Our discount rates spikes.



link met save met ik niet zeker maar denk dat het iets in deze aard is.

We make plans to put a lot of money aside for the future, but when the paycheck eventually comes, we spend more money on things and have less money to save.

7) begrippen hindsight basis, market discipline en backward contrast effect kunnen uitleggen

Hindsight bias: after an event has occurred, people see the event as predictable, but prior to this event, there was no objective basis for predicting it.

Market discipline en backward contrast niet in sv.

8) loss aversion lambda is 2,25, wat betekent dat + geef een voorbeeld van een gamble met 50/50 kans waartussen iemand met een lambda van 1,8 onverschillig zal zijn

Staat hier wel iets van in de sv over lambda maar denk niet dat we dit gezien hebben. En als dit wel zo is dan heb ik geen idee.

9) CRT low high uitleggen + prospect theory

Prospect theory: people will be more willing to take risks to avoid losses than to achieve gains. (risk seeking -> risk aversion if you go from negative to positive)

Slide 58 en 59 les 1

10) cab taxi driver loon vb, uitleggen + verschil SE, teken value theorie

Cab drivers set themselves a target each day and when the target is reached they return the cab to the company.

Substitution effect: Increase in employee wage of a kind of labor increases price of leisure relative to consumption. Creates incentive for people to substitute consumption for leisure by working more hours and earning more income

Income effect: Increase in employee wage of a kind of labor allows people who work that kind of labor to reduce their hours but still earn more income than before, enjoy more leisure and consumption. When the wages increases, people will supply less labour. Because they still earn more income in the end than before.

Weet niet goed wat SE en value theorie = value function?.

11) BF, twinshare royal... volledig uitleggen + 1 vd vier risks

The case of Royal Dutch Petroleum and Shell

- They agreed to merge on a 60:40 basis: cash flows split in the proportion of 60:40, creating a 'twin-company'
- Royal Dutch and Shell remained as separate entities

- Royal Dutch and Shell trade on nine exchanges in Europe and USA. Royal Dutch primarily in the Netherlands and USA, Shell in the UK.

Hypothesis: If prices are equal to fundamental value, the market value of Royal Dutch equity should be 1,5 times the market value of Shell equity. If not, there is a potential arbitrage opportunity.

Limits to arbitrage (risks)

1. Fundamental risk

- Risk of a shock in the fundamental value of an asset
- Eliminated through hedging
 - Go short in a substitute security. This protects you against sectorial risk, but not against firm-specific (Ford) risks

Hard to find a perfect hedge!

2. Noise trader risk

The risk that the mispricing worsens in the short run

- If an asset is mispriced, this demonstrates that there are noise traders in the market.
- Noise traders can become even more pessimistic, sending the stock price even lower.
- The lower price can force arbitrageurs to liquidate their positions, because they have short

horizon obligations (e.g. a fund manager to his investors), pushing the stock price even lower.

3. Implementation Costs

All costs to exploit the mispricing

- Transaction costs such as bid-ask spreads and brokerage commissions
- Regulatory constraints (e.g. short sale constraint on a stock, pension funds that are not allowed to go short,...)
- Costs of finding and learning about a mispricing

4. Model risk

Is it really mispricing?

- Different models could be used by rational investors to estimate the value of a company, which
- leads to different fundamental values
- Wrong forecasts of dividends
- Wrong discount factor for the risk of an asset

Hier : noise trader risk ->

- Sentiment causing mispricing can worsen
- Arbitrageurs can be risk averse and have short term horizons

12) Anchoring index berekenen + interpretatie anchoring index =1

Anchoring Index= *(difference between two mean estimates)/(difference between two anchors)*

Interpretatie index=1: people are fully influenced by the initial anchor

Gedragseconomie vragen 2

1.A. Pension funds offered (grafiek gegeven): vertel waarom die tegenstrijdig is met de standard economics theory

1.B. Onlangs is er een theorie gevonden die de positive attributes of alternatives bevestigt: verklaar?

2.A. Placebo's: grafiek, uitleggen

2.B. Country of origin uitleggen + Consumer ethnographic uitleggen adhy. de grafiek

3.A. Dishonesty grafiek: 3 stappen uitleggen (activation treshold)

3.B. Hoe kunnen we dishonesty verlagen

3.C. Categorization and dishonesty: wat is de invloed ervan

4. Wat betekent een lambda van 2,25

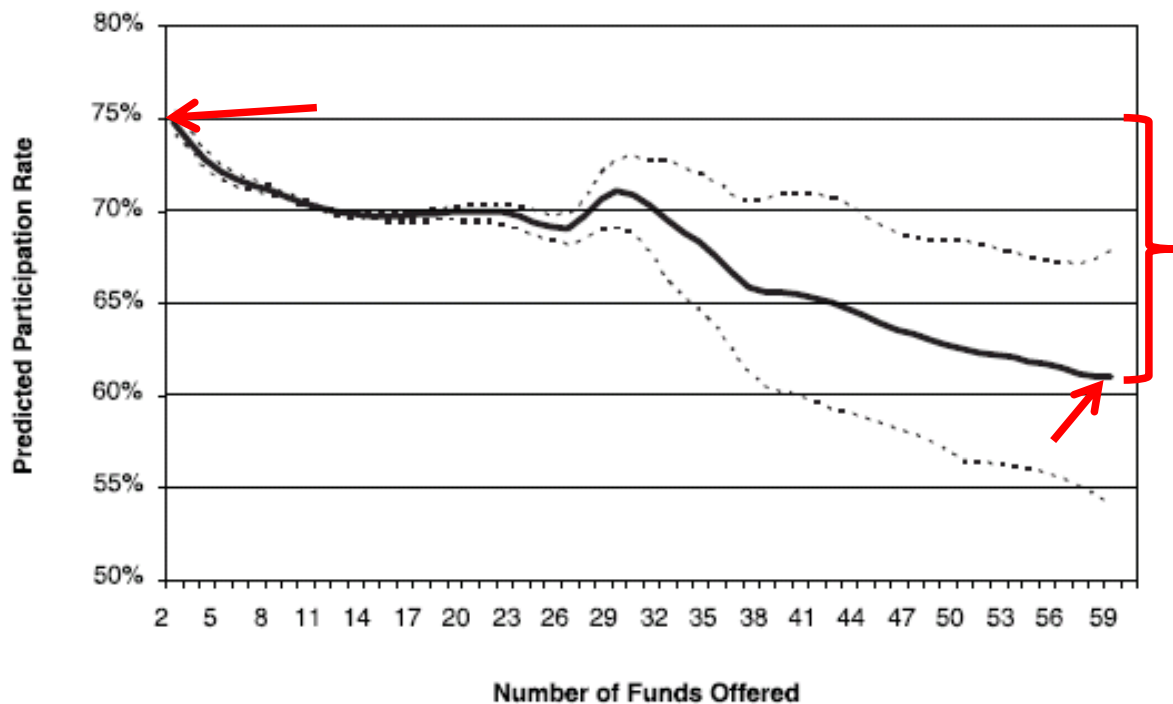
5. (Finance): holding hand and price pressure

6. Hyperbolic discounting en smart, invloed? En hoe hebben ze dit kunnen beperken

7. Begrippen verklaren (3): handsight bias, market discipline, ...(?)

1A → Hoe meer fondsen aangeboden, hoe minder participatie (choice paralysis). Dit is in strijd met SET omdat rationele personen bij een breder aanbod een betere match zullen vinden. Maar door de brede waaier aan keuze dus keuzeverlamd raken

The Relationship Between Participation in 401(k) and Number of Funds Offered



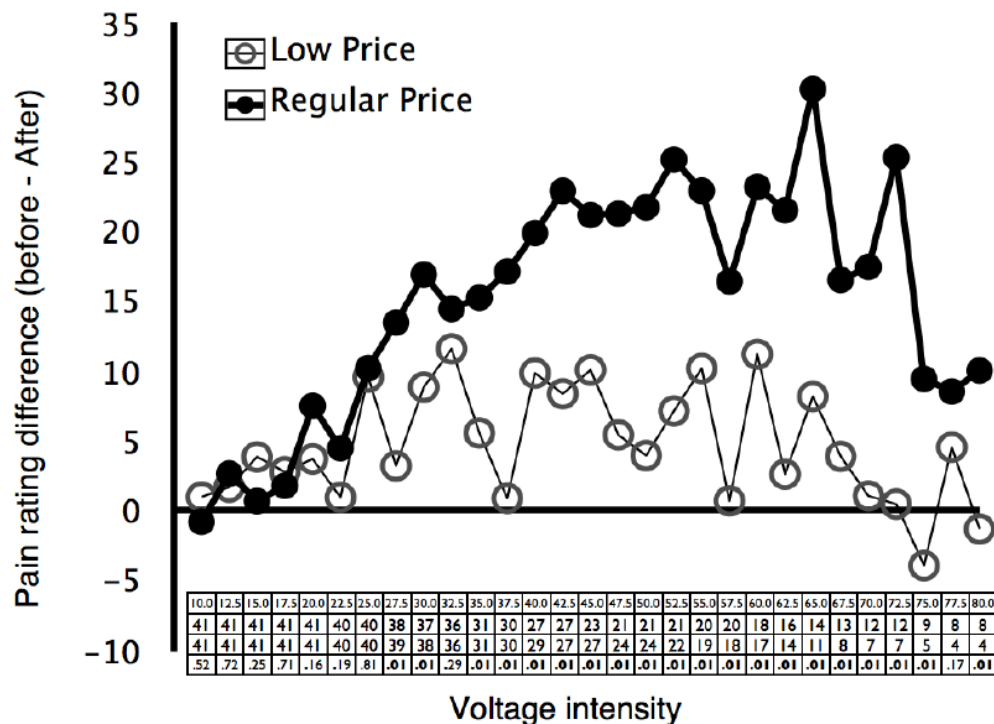
S. Botti (Cornell) & S. S. Iyengar (Columbia), 2006, The dark side of choice: When choice impairs social welfare. *Journal of Public Policy and Marketing*, 25(1), 24-38.

1B → regret is proportional to the difference between the value of the alternative chosen and the value of the **union** of the positive attributes of the alternatives rejected.

Regret kan stijgen door een grotere decision set (unie vergroot) of door de diversity of de alternatieven. (Enige theorie da ik kan bedenken)

2A → Voorbeeld: Hier wordt onderzocht of prijs een placebo effect heeft. Hier zie je dus dat een product met een hogere prijs zogezegd betere resultaten levert. Tzit dus int koppeke

Does price have a placebo effect for pain?



2B → COO = land van herkomst kan een effect hebben op de resultaten die jij toewijst aan een product. Vb gsm uit china is slecht ten opzichte van gsm uit VS
 Consumer ethnographic vindk nergens
 Ethnocentrism wel → consumers willen geen buitenlandse producten kopen omdat ze denken dat dit tot jobverlies etc lijdt in hun land.

Does place have a placebo effect?

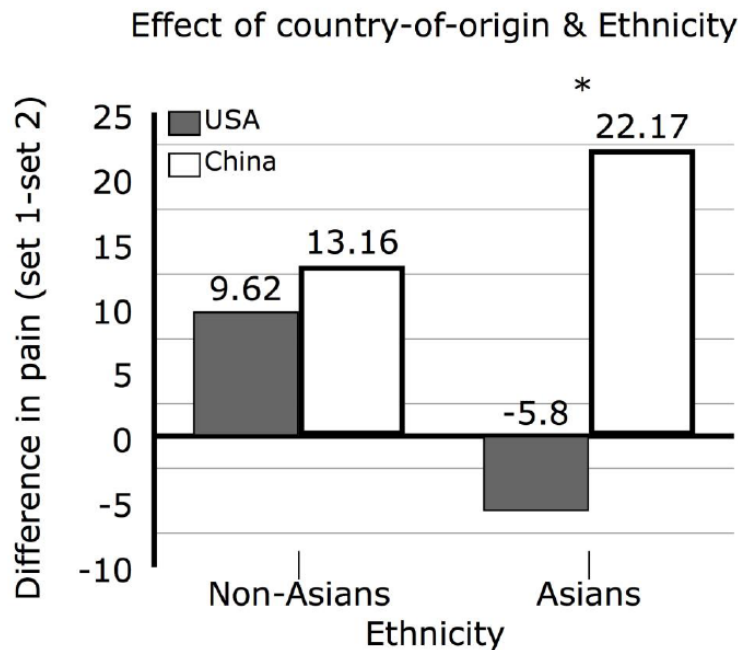


Figure 3: Country of origin has no effect on pain for non-Asians, but the China condition is significantly better than the American condition among Asians.

Uitleg grafiek → hier zie je dat de non asians groep een minder pijn voelt bij het innemen van usa pijnstillers. De pijn is groter bij de chinese pijnstillers. Asian group toont hetzelfde resultaat maar veel sterker. Dus dit is niet altijd chauvinistisch dit heeft vooral met de reputatie van het land te maken (denk ik)

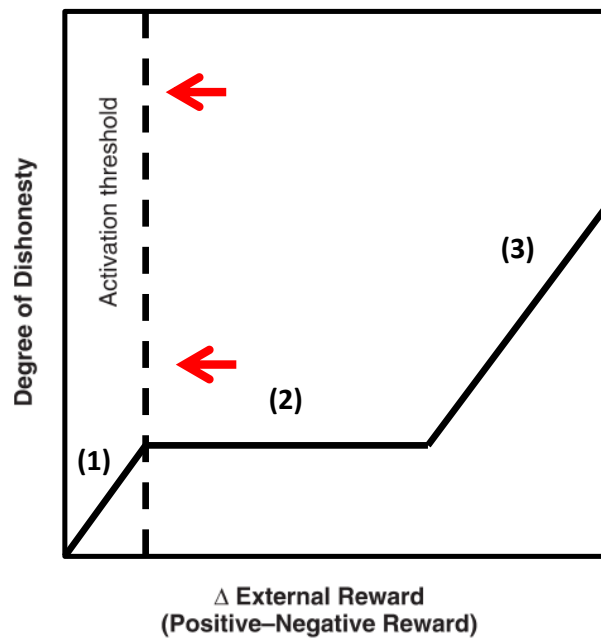
3A → fase 1 is eigenlijk de fase dat je stijgt naar je maximaal activation threshold. Internal reward system is nog niet geactiveerd. De threshold is een lijn waarbij je internal reward system begint te werken. Vanaf dat je de threshold bereikt hebt mag de external reward blijven stijgen maar zal je niet valser worden tot je in fase 3 zit waar de external reward zo groot wordt dat je valser zal worden omdat ze zo tempting is.

3B → je kan mensen eerlijker maken door hen vooraf op hun waarden en normen te wijzen.

→ Increase likelihood of being caught.

3C → Mensen gaan hun acties gaan indelen in groepen, ze relativeren. Excuses vinden voor hun eigen acties. (Denk ik) Invloed hiervan is dat je ondanks acties je self concept hoog houdt. Dit verschilt met internal standards waar acties worden weerspiegeld op uw self concept.

Changing the activation threshold

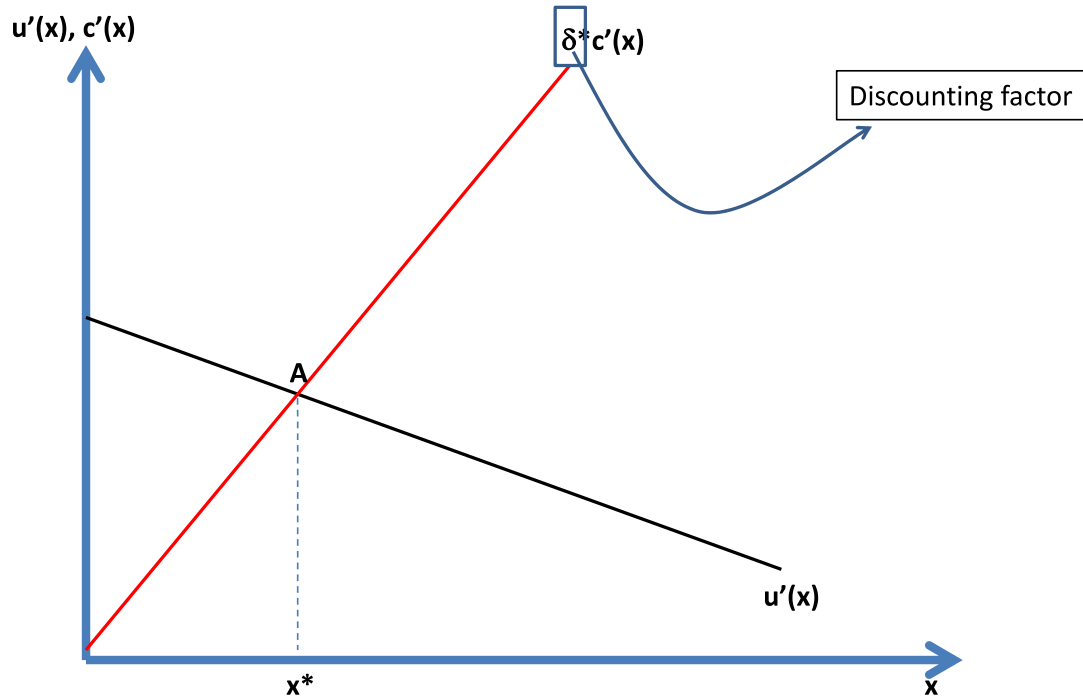


Mazar, Nina, On Amir, and Dan Ariely (2008), "The Dishonesty of Honest People: A Theory of Self-Concept Maintenance," *Journal of Marketing Research*, Vol. 45, No. 6, pp. 633-644.

4 → lamda 2,25

Geen idee of het deze is, ook geen idee wat het juist is

The Loss of Experienced Utility with Time Inconsistent Preferences



C. Benesch (U. of Zurich), B. Frey (U. Zurich), & A. Stutzer (U. Basel), 2006, TV Channels, Self Control and Happiness, *Working Paper - Institute for Empirical Research in Economics, University of Zurich*

Equity premium puzzle – Explanation 2

(Behavioral Explanation)

- Suppose the value function is defined as follows:

$$V(x) = x \quad \text{if} \quad x > 0$$

$$V(x) = 2.25x \quad \text{if} \quad x < 0$$

- For this function and **one bet**, the expected prospective value of the hypothesized value function is:

$$E[V(x)] = 200 \times 0.5 - 2.25 \times 100 \times 0.5 = -12.5$$

27

Benartzi, S., & Thaler, R. H. (1995). Myopic loss aversion and the equity premium puzzle. *The Quarterly Journal of Economics*, 110(1), 73-92.

Kan ook deze lamda zijn

Hier is da gewoon omdat een loss meer doorweegt dan een winn. Bij de Value functie.

5 → price pressure is dat noise traders de prijs naar beneden halen door mispricing. Holding hand vindk niet.

6 → hyperbolic discounting is dat je goede dingen plant in de toekomst maar als de toekomst daar is je bezwijkt aan temptation en toch andere minder goeie dingen doet. Smart??? Ik veronderstel een vb fzo

7→

Hindsight bias → na dat iets gebeurd is, denken mensen dat ze dit hadden voorspelt. Terwijl er eigenlijk geen enkele aanwijzing was dat dit zou gebeuren.

Market discipline →

Gedragseconomie examen 2016-2017

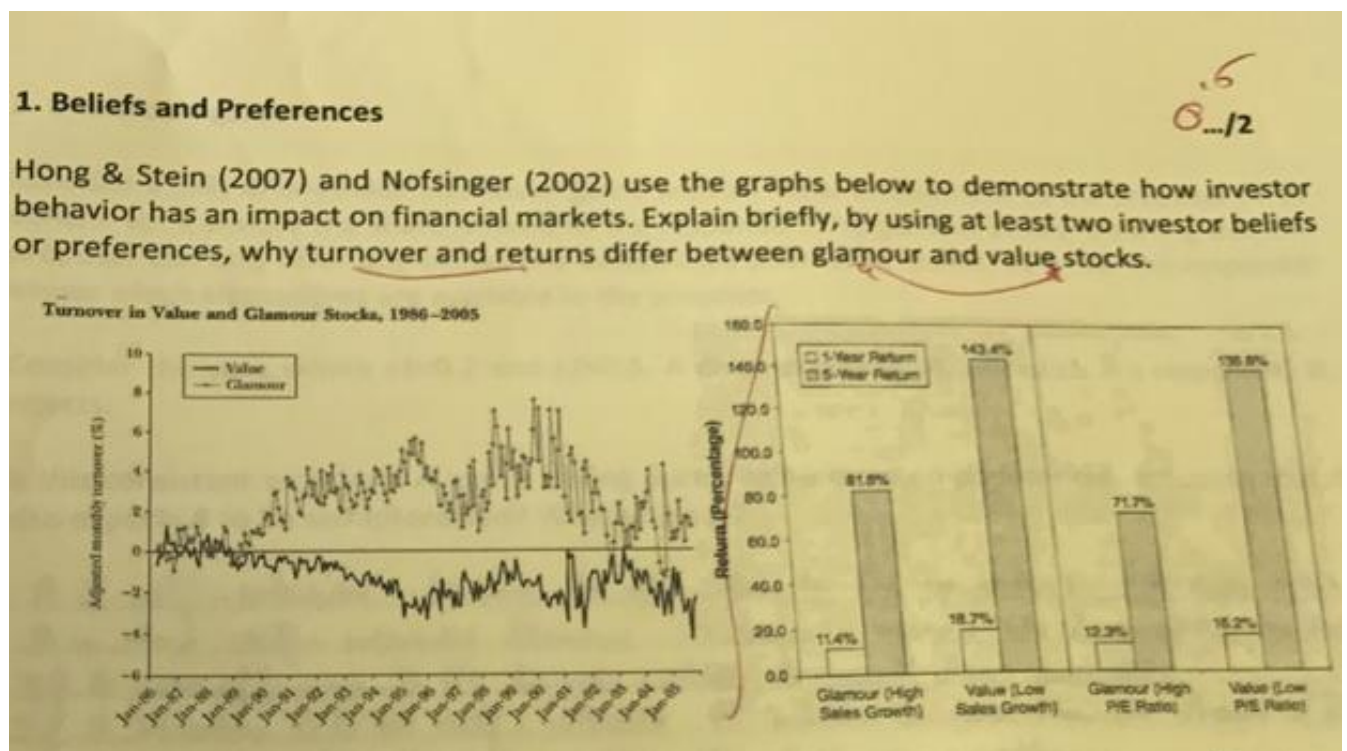
01 Onlangs is er een theorie gevonden die de positive attributes of alternatives bevestigt: verklaar?

⇒ iemand antwoord hier op?

ik vermoed dat het te maken heeft met dat er niet 1 perfect alternatief is voor een keuze maar dat ieder alternatief op 1 of ander vlak het perfect alternatief is (da voorbeeldje met de perfecte man)

dit slaat op het feit dat men bij keuzes met verschillende mogelijkheden alle positieve attributen van de alternatieve keuzes (diegene die je dus niet koos) als een som bekijkt.

EXAMEN GEDRAGSECONOMIE 1^{STE} ZIT 2016-2017



Vraag 1:

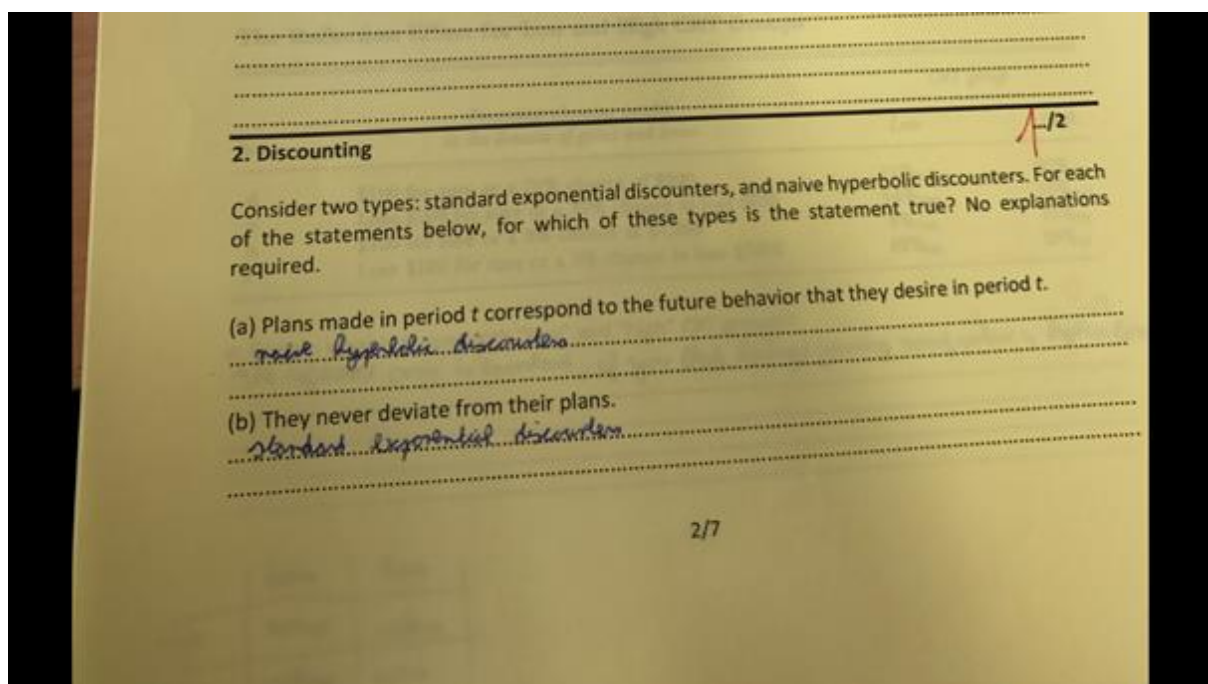
This is overconfidence? People believe that they will have a big return if they invest in glamour stocks. But in reality:

Glamour stocks are stocks who are expected to have a lot of growth potential, but in reality glamour stocks are overvalued but the returns of the same stocks are lower.

Value stocks are stocks who are expected to have less growth potential because they are already very large.

2 investor beliefs? Base rate neglect and Sample size neglect?? iemand bevestiging?

Dit lijkt mij idd over deze twee neglects te gaan.



Vraag 2: eerste vraag is beide (je maakt plannen voor t in t , dus KT, beide houden zich aan de plannen die ze nu maken voor 'straks'). Tweede is exponential.

is dit niet gewoon allebei standard exponential? zou echt niet weten waarom dat eerste beide zou zijn (zou je dan ook niet 1.5/2 krijgen ipv 1 / 2)? -> neen je krijgt niet 1,5 als je bij beide "standaard exponential" schrijft (ik heb dat gdn op mijn examen en ik kreeg maar 1)

Aangezien ik de vraag juist had, veronderstel ik dat mijn uitleg klopt.

WAT IS HET NU? -> eerste vraag beide, tweede vraag standaard.

3. Ultimatum game

0.../2

Consider a fully anonymous ultimatum game with an initial endowment to the proposer of 10 dollars. Let s denote the share offered to the responder. The game is binary, meaning that the proposer can only offer one of two pre-determined alternative shares, s_1 or s_2 . The responder knows which alternatives are available to the proposer.

Consider the case where $s_1=0.2$ and $s_2=0.5$. A given proposer, A , offers s_1 . A 's responder, B , rejects.

Is this consistent with both A and B having purely self-interested preferences, assuming that A also expects B to be self-interested? Why/why not?

Vraag 3: B is not self-interested because he doesn't accept?

the threat of rejection from the proposer produces larger offers. theory says the proposer will offer a tiny fraction and the receiver will accept. studies have shown that a lot of responders reject very low offers. so A would actually offer s_2 to decrease the chance of rejection.

4. Prospect theory

0.../3

The following table of Frederick shows the responses of the low and high CRT groups for each of the four items.

The Reflection Effect for Low and High CRT Groups

Item	Percentage choosing gamble in the domain of gains and losses	CRT group	
		Low	High
d	\$100 for sure or a 75% chance of \$200	19% ₈₄₅	38% ₄₇₅
o	Lose \$100 for sure or a 75% chance to lose \$200	54% ₃₃₉	31% ₁₄₁
h	\$100 for sure or a 3% chance of \$7,000	8% ₁₃₀	21% ₇₀
r	Lose \$100 for sure or a 3% chance to lose \$7,000	63% ₆₈	28% ₅₇

0.../1

Vraag 4a: Explain what is meant for 'low' and 'high' CRT groups?

High: personen die 3/3 scoren voor de cognitieve tests (lake, baseball,...)

Low: personen die laag scoren voor de tests.

Cognitive reflection, the way of thinking: high crt groups think using system 2 (effort), low crt groups think using system 1 (quickly, without reflection)

Cognitive ability?

High cognitive ability: Less risk seeking if they can lose something. (63%-28%)

Low cognitive ability: More risk seeking if they can gain more. (21%-8%)

Vraag 4b: For both low and high CRT groups, interpret the results in terms of the prospect theory.

Prospect theory: People tend to be risk averse over gains, and risk-seeking over losses.

o,r: Losses: More people choose r than o, because they are risk seeking

d,h: Gains: More people choose d, because they are risk averse over gains.

Hoog CRT is een hoge score op de Cognitive Reflection Test (een soort IQ-test). Mensen die daar hoog op scoren gaan meer risiczoekend denken als het om pure winst gaat en meer risicomijdend denken als het om puur verlies gaat in vergelijking met de mensen die Laag CRT hebben en dus een lage score op die test halen.

Daarom zie je bij Low CRT dan ook hogere percentages bij de items over verlies dan de High CRT. En omgekeerd geldt er dat er bij items over winst hogere percentages zijn bij High ivg met Low

5. Anchoring

4/5

a. Consider two groups (A and B) of respondents who answered the following two questions:

Group A:

- Is the German automobile manufacturing company BMW more or less than 200 years old?
- How old is the German automobile manufacturing company BMW? (the average answer for this question was equal to 150)

Group B:

- Is the German automobile manufacturing company BMW more or less than 100 years old?
- How old is the German automobile manufacturing company BMW? (the average answer for this question equaled to 125)

Calculate the Anchoring Index:

2/2

Vraag 5 a: $(150-125)/(200-100) = 0.25$

b. Explain what is meant by 'coherent arbitrariness' by using the information in the following table of Ariely, Loewenstein and Prelec (2003):

2.../3

Quintile of SS# distribution	Cordless trackball	Cordless keyboard	Average wine	Rare wine	Design book	Belgian chocolates
1	\$ 8.64	\$16.09	\$ 8.64	\$11.73	\$12.82	\$ 9.55
2	\$11.82	\$26.82	\$14.45	\$22.45	\$16.18	\$10.64
3	\$13.45	\$29.27	\$12.55	\$18.09	\$15.82	\$12.45
4	\$21.18	\$34.55	\$15.45	\$24.55	\$19.27	\$13.27
5	\$26.18	\$55.64	\$27.91	\$37.55	\$30.00	\$20.64

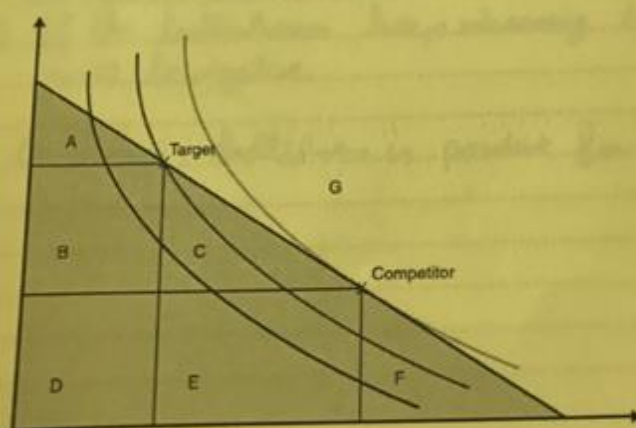
Vraag 5b:

People were asked to value some goods without knowing the real value. Their answers depends on different anchors and some external factors. F.e. welfare.... (Quintile of distribution)

People are not good in guessing the real value, but they know how to rank the goods. F.e. a keyboard has a bigger value than a trackball.

6. Decoy effects

0.../1



If you are in charge of marketing the Target product, in what area should you position the inferior product (=decoy)?

E

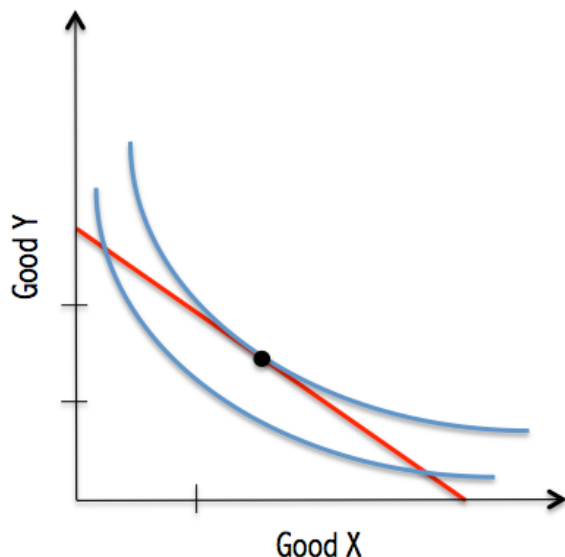
5/7

Vraag 6: ik denk B (Volgens mij is het A, het punt waar de nieuwe curve de lijn raakt.)

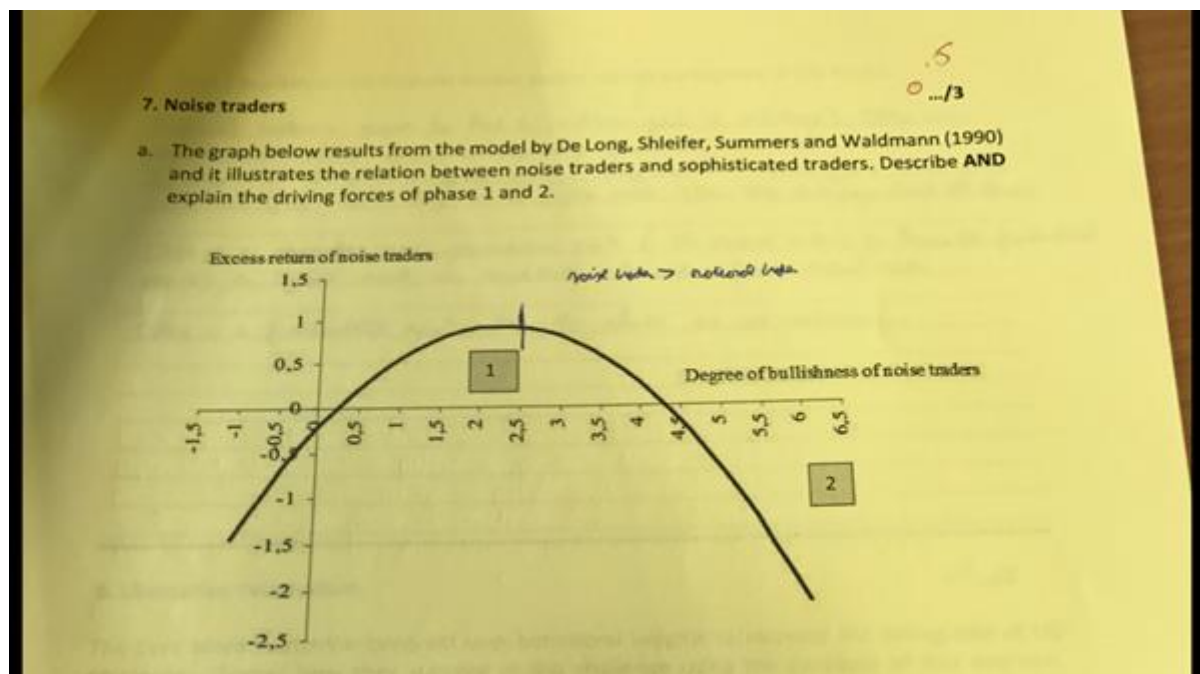
Het is G, heb het gezien in feedback, want zo wordt de competitor in het midden gezet dus geen snijpunt met de budgetlijn?

Het is zeker niet G, dit was verkeerd op de feedback :)

De inferior moet altijd zowel een lagere x als y waarde hebben dan uw target en tegelijkertijd een hogere x of y waarde hebben dan uw competitor. Ook moet het op een lagere indifferencecurve liggen. **⇒ B**. Het kan even goed ook G zijn maar dan is het geen “inferieur” product, immers inferior betekent “lower in rank”.



The new best point of consumption will be where the new budget line meets the identical indifference curve. Remember that indifference curves show combinations between 2 goods for a certain level of income, so when the “budget line” moves, we can change the volume of goods to match. As preferences are still the same, the shape of the curve will be identical, but because we are buying *more*, the curve will be higher up. This applies for income decreasing, as well.



Vraag 7a:

1: Noise traders will enter the market because there is is high excess return. They will bullish because they want to earn a high excess return. At a certain point the price will become volatile. At this point the excess return will drop.

2: When the bullishness of noise traders is too high, other people will leave the market because of the volatility of the return. Prices and return will drop.

Vraag 7b: Give 2 implications for financial market and/or market participants of this model:

1. Noise traders do not necessarily die out.
2. The sophisticated traders interact with the noise traders.
3. Noise traders can create excess volatility on financial markets.
4. If we assume the misperception by noise traders ultimately revert to a mean (follow a stationary AR(1) process), asset prices revert to the mean also

Vraag 8: The Save More Tomorrow program uses behavioral insights to increase the saving rate of US employees. Discuss how they succeed in this challenge using the concepts of loss aversion, hyperbolic discounting and status quo bias.

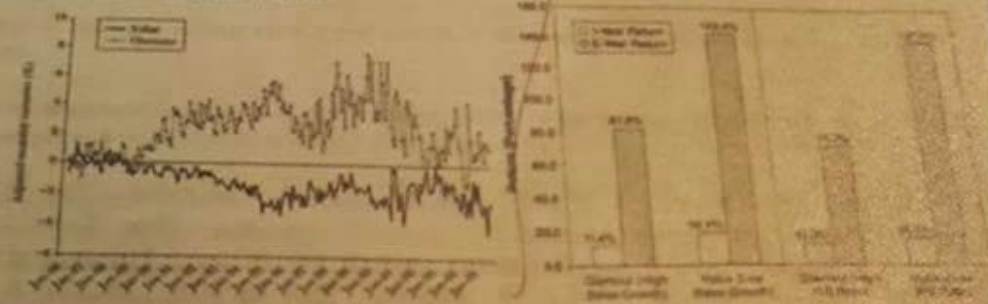
1. Increasing the saving rate is introduced a considerable time before their scheduled pay increase -> hyperbolic discounting
2. Contribution to the plan is increased beginning with the first pay check after a raise in salary -> loss aversion
3. The contribution rate continues to increase on each scheduled raise until the contribution reaches a present maximum. -> status quo bias

EXAMEN GEDRAGSECONOMIE 1^{STE} ZIT 2016-2017

1. Beliefs and Preferences

Hong & Stein (2007) and Nofsinger (2002) use the graphs below to demonstrate how investor behavior has an impact on financial markets. Explain briefly, by using at least two investor beliefs or preferences, why turnover and returns differ between glamour and value stocks.

Turnover in Value and Glamour Stocks, 1996-2000



raag 1:

2. Discounting

Consider two types: standard exponential discounters, and naive hyperbolic discounters. For each of the statements below, for which of these types is the statement true? No explanations required.

(a) Plans made in period t correspond to the future behavior that they desire in period t .

Naive Hyperbolic discounters

(b) They never deviate from their plans.

Standard Exponential discounters

2:

5. Anchoring

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Calculate the Anchoring Index:

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b. Explain what is meant by 'coherent arbitrariness' by using the information in the following table of Ariely, Loewenstein and Prelec (2003):

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Vraag 5b:

3. Ultimatum game

Consider a fully anonymous ultimatum game with an initial endowment to the proposer of 10 dollars. Let x denote the share offered to the responder. The game is binary, meaning that the proposer can only offer one of two pre-determined alternative shares, s_1 or s_2 . The responder knows which alternatives are available to the proposer.

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Is this consistent with both A and B having purely self-interested preferences, assuming that A also expects B to be self-interested? Why/why not?

Vraag 3:

4. Prospect theory

The following table of Frederick shows the responses of the low and high CRT groups for each of the four items.

The Reflection Effect for Low and High CRT Groups

Item	Percentage choosing gamble in the domain of gains and losses	CRT group	
		Low	High
d	\$100 for sure or a 75% chance of \$200	19% ₂₄₃	58% ₄₇₅
o	Lose \$100 for sure or a 75% chance to lose \$200	54% ₂₅₉	31% ₁₄₃
h	\$100 for sure or a 5% chance of \$7,000	8% ₁₃₀	21% ₇₀
r	Lose \$100 for sure or a 5% chance to lose \$7,000	63% ₄₀	28% ₅₇

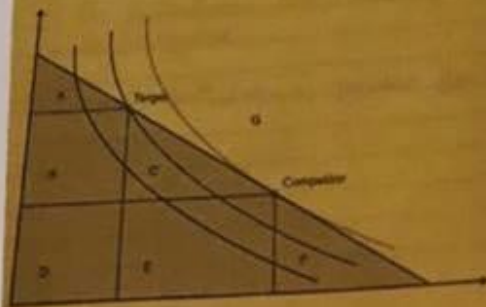
a. Explain what is meant with "low" and "high" CRT groups?

Vraag 4a: Explain what is meant for 'low' and 'high' CRT groups?

Vraag 4b: For both low and high CRT groups, interpret the results in terms of the prospect theory.

low sensitivity

6. Decoy effects



If you are in charge of marketing the Target product, in what area should you position the inferior product (=decoy)?

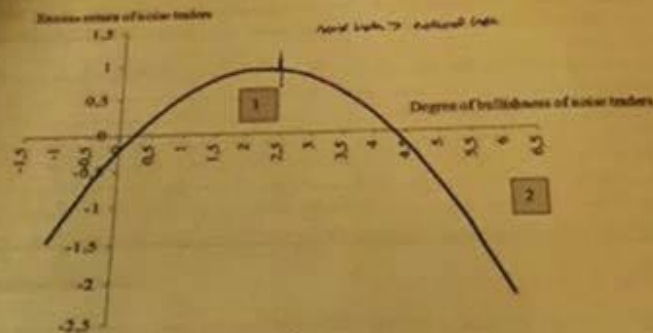
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5/7

Vraag 6: ik denk B

7. Noise traders

- a. The graph below results from the model by De Long, Shleifer, Summers and Waldmann (1990) and it illustrates the relation between noise traders and sophisticated traders. Describe AND explain the driving forces of phase 1 and 2.



Vraag 7a:

Vraag 7b: Give 2 implications for financial market and/or market participants of this model:

Vraag 8: The Save More Tomorrow program uses behavioral insights to increase the saving rate of US employees. Discuss how they succeed in this challenge using the concepts of loss aversion, hyperbolic discounting and status quo bias.