

### Task 3 - Selected answers

1. *What is the article generally about? (1 sentence)*

- The article is about if people can apply the cost-benefit rules of microeconomic theory to their everyday decisions and if it can be taught.
- The article is on examining whether people use abstract rules in making choices and whether these principles can be taught so that people will use them across a wide range of situations – generally speaking – are people rational and is it possible to improve it.

2. *What three decision rules were investigated in the paper? (list 3)*

Greatest net benefit principle

sunk cost principle

opportunity cost principle

3. *What was the purpose of including the question about owning a microwave in Study 1? (1 sentence)*

- Microwave is time saving machine that allow people to prepare meal quicker so they wanted to check weather people think about opportunity cost when they make decisions.
- To find out if respondents think about opportunity cost of time in they everyday life, so if their behaviour is consistent with the normative principles.

4. *In what way study participants felt that they were being uneconomical in choosing the answer actually preferred by economists? (1 sentence)*

- That untrained subjects were more likely to prefer the normative answer for themselves than they were to pick it as the economist's answer.
- They thought that economist would rather use the "waste not, want not" rule to not waste resources, and their decision to forget about sunk cost seem to them as wasting money a thus uneconomical.
- Study participants were more likely to prefer the normative answer for themselves than they were to pick it as the economist's answer what proves that they would feel that they were being uneconomical in choosing the answer actually preferred by economists.

5. *Why did the authors of the article conduct and report 3 studies instead of for example just one? (max. 2 sentences)*

- The authors conducted 3 studies instead of 1, because each study adds more insight into the problem considered in the article. First one took people already trained in different domains (economical and non-economical), second one took regular people and trained part of them (financial, non-financial) and the third one checked if the training was successful over time.

- Conducting 3 different studies on different populations allowed authors to provide strong arguments for their claims and prove that received results were significant enough to prove their thesis.

6. *Imagine that after passing the 4<sup>th</sup> semester of university studies (in total 6-semester-long) your friend realizes that she/he is not satisfied with them and asks you for the advice regarding quitting these studies.*

a) *What principles described in the article might be used to develop a right decision? (max 2 sentences)*

- To make a right decision they should use the sunk cost principle and the opportunity cost principle. The time they already spend studying the course that they didn't like should not be taken into the consideration and should consider only the benefits and costs of quitting the studies or staying.
- *Answers indicating all principles were also fine. I was glad to read a bit of justification.*

b) *Would it be wise in to advise quitting studies by stating that 4 semesters already spent at the university is just a sunk cost? (max 2 sentences)*

- It depends, because even though we should state that 4 semesters already spent at the university is just a sunk cost that doesn't mean that it is wise to leave now because we should also consider the benefit of obtaining degree from current studies in one year. Maybe the benefit of starting earlier the other studies vs finishing the current one and having any degree is too small.
- Well, 'wise' might be understood in a number of ways, but I think that probably not, it would not be very wise - if the person has already spent 4 semesters on the university, they may as well spend 2 more and get a degree which might be very useful in the future. Additionally, the feeling of lack of satisfaction might simply be temporary, most of us have a crisis from time to time and tend to doubt decisions taken.

7. *Does the article indicate that rational decision making can be taught? Justify your answer. (max. 2 sentences)*

- Article indicates that people can learn to make more rational decisions, but not only economical principles should be taught - we should also take into consideration moral principles and learn to balance between these rules to make rational choices.
- All three studies indicate that decision making can be taught. With specialized training or general economic education people can make more normative choices and think in accordance with decision rules in every domain.
- Yes, it does indicate such possibility, not only in the conclusion, but it can also easily be seen when analysing the results provided on our own. Looking at those, both the people well-trained in economy and those who received at least a brief training were more likely to answer the questions in a rational way than those who have never had such training – not only that, but they also were likely to transfer the reasoning to everyday life.