Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

Each answer shows the steps, then the **result**.

2.1

any two: consistent preferences; perfect information; consumers aim to maximize utility

2.2

people have limited self-discipline, so they do not always act on plans that are in their long-run interest; e.g. planning to go to the gym but not going / overeating / not saving

2.3

this is a default choice (nudge); people often stay with the default because of inertia / bounded rationality: deciding takes time and effort; bounded self-control means people would otherwise delay joining; workers can still opt out, so freedom of choice remains while the saving rate rises

2.4

the first price ($250) acts as an anchor / reference point; the $150 price then looks like a bargain, compared with the anchor; the buyer may pay more than the jacket is worth to them, or buy something they do not need: not utility-maximizing

2.5

corporate social responsibility: acting ethically towards suppliers, workers and the environment; satisficing: making enough profit to satisfy owners while following other aims; CSR may also build reputation and customer loyalty, raising long-run profit / market share

3.1

(a) the way in which choices are presented to people; which affects the decisions they make

(b) examples: water as the default drink in school meals, healthy drinks at eye level, smaller cups, warning labels; they use bounded rationality: people take the easiest option; low cost to government, and freedom of choice remains; limits: effects may be small or short-lived; strong habits and advertising remain; critics see nudges as manipulation / paternalism; judgement: useful as part of a mix with a sugar tax and education, but probably not enough on their own

3.2

default choice: the paid plan applies unless the customer acts; bounded self-control and inertia mean many forget or delay cancelling; so the firm earns revenue from people who would not have chosen to pay; governments may require reminders or easy cancellation to protect consumers, because the choice is not fully informed