

A Book Review of two, short, books on Behavioral Economics

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Abstract

(1) John Tomer. *Advanced Introduction to Behavioral Economics (BE)*. Edward Elgar, 2017. ISBN (Paperback): 978-1- 78471-993-7.

(2) Michelle Baddeley. *Behavioural Economics. A Very Short Introduction*. Oxford University Press, 2017. ISBN: 978-19-875499-2.

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My review of these two books is with the teaching of a class in behavioral economics in mind. More specifically, I teach an undergraduate class in behavioral economics in which the students are majoring in either Economics or Psychology. Almost all are Juniors or Seniors. I also teach M.A. students in Economics, but not in a class on behavioral economics. The University is San Diego State University which is a large publicly funded University. It is in this context that I am evaluating these two, short, books.

(1) John Tomer. *Advanced Introduction to Behavioral Economics (BE)*

The book is 167 pages including index and references. It contains 14 chapters and a conclusion.

In Chapter 2, “Scientific Practices of Economics and the Emergence of Behavioral Economics”, John Tomer discusses economic science and scientific methods such as deduction, and introspection. He discusses paradigms and the scientific revolution, and BE as a possible paradigm shift. He compares BE and Neoclassical Theory (NCT) along six dimensions: rigidity, mechanicalness, intolerance, separateness, narrowness, and individualism. Not surprisingly Tomer, who has been a member of SABE since the earliest days, concludes that BE is a better research paradigm on all six dimensions. BE, as compared to NCT, is less rigid, mechanical, narrow, and intolerant. It separates itself less from other disciplines, and includes social elements and individual factors in human behavior. He also speaks about first generation behavioral economists such as Simon, Katona, Leibenstein, and Nelson & Winter. He includes Akerlof. I consider Akerlof to be part of the second generation group along with Kahneman and Tversky, and Thaler.

Chapter 3, “The Practices and Content of the Bounded

Rationality Strand”, is devoted to the behavioral economics of Herbert Simon including Simon’s concept of procedural vs substantive rationality, and ecological rationality. The chapter is only eight pages. Chapter 4, “The Basics of the Psychological Economics Strand”, discusses Kahneman and Tversky’s prospect theory, and the heuristics and biases program. As part of Kahneman and Tversky’s contribution Tomer talks about the status quo bias, anchoring, framing, availability, and the endowment effect, to name some of the concepts. In Chapter 5, “Psychological Economics: Important Further Developments”, Tomer discusses the research of those who came after the second generation in the sense that several of those mentioned in chapter 4 began writing in the mid-1980s and after, as opposed to Kahneman, Tversky, and Thaler who began in the mid-1970s. Some of these “third generation” behavioral economists include George Lowenstein, Colin Camerer, Erik Angner, and Mathew Rabin. Looking at chapters 2 through 5 we have the pre and post Kahneman and Tversky behavioral economics research of the 1970s. My only comment is that psychological economics was first written about extensively by George Katona in the 1950s.

Chapters 6 through 9 and 12, focus on applications of behavioral economics theory: finance (Ch. 6), public policy and nudging (Ch. 7), law and economics – socio-economics compared with BE (Ch. 8), macro – Akerlof, gift exchange, and animal spirits (Ch. 9), neuroeconomics – brain functions (Ch. 12). Each of these chapters are approximately 10 (small) pages in length, so the content is limited. Chapter 10 is about empirical methods in BE, such as experiments and laboratory economics. Chapter 11 inquires whether mainstream economics (ME) is open minded enough to incorporate BE or narrow-minded enough leading to resisting BE. Tomer concluded that ME has resisted BE but is becoming more accepting of it.

Tomer's book is accessible to undergraduates majoring in economics, psychology, and other majors. It would not be as useful to the M.A. students in Economics at SDSU because the book does not go into enough details for an M.A. student. But for undergraduates it is a very useful book, probably used in conjunction with other readings since 167 pages are not enough for a 15 week semester of approximately 45 hours in total class time.

(2) Michelle Baddeley. *Behavioural Economics. A Very Short Introduction*

The book is 148 pages including index and references. It contains 9 chapters.

Chapters 1–7 covers some basic principles of BE. Chapters 8 and 9 are about macro and public policy. Chapters 1–7 are, Economics and Behavior; Motivation and Incentives; Social Lives; Quick Thinking; Risky Choices; Taking Time; and; Personalities, Moods, and Emotions. In Chapter 1 Michelle Baddeley discusses rationality as seen in the writings of Simon, Gigerenzer, Vernon Smith, and Leibenstein. She also discusses experimental and neuroscientific data, neuroeconomics, RCTs, and natural experiments. She does all of this in 7 pages. In Chapter 2, Baddeley discusses intrinsic and extrinsic motivations and how the extrinsic may crowd out the intrinsic: this occurs on one page, page 10. Baddeley doesn't waste any time in showing us her very academic side. Baddeley's book takes an approach which is at a level of analysis too high for undergraduate students at SDSU. For our M.A. students the book is accessible but it must be supported by other readings because 148 pages on BE is just not enough for an entire 15 week semester. In Chapter 3, Social Lives, Baddeley discusses two types of inequality aversion without enough explanation to be very useful for undergraduates at SDSU. She also discusses trust, reciprocity, and group identity. She is an expert on herding behavior and that is another part of our social lives which is included in the chapter. She says that herding is antediluvian. I looked it up on google and learned that it means the time before the Biblical flood. All of this in only 14, very tiny, pages. Chapter 4, Quick Thinking is all about heuristics, including the conjunction fallacy. Chapter 5, Risky Choices, discusses prospect theory. It includes Allais Paradox and Ellsberg Paradox games, and the certainty, reflection, and isolation effects. Yes for the M.A. students, not for the undergrads. She also talks about the marshmallow experiments which work well with SDSU undergrads. Chapter 7 delves the most into our inner environment. It discusses affect, visceral factors, somatic markers, dual-system or dual-self models, hot and cold states, emotions and neuroeconomics, and the use of fMRI in behavioral research. Chapters 8 and 9 are about macro theory, and then public policy. Chapter 8 talks about the behavioral macro theories of Keynes, Katona, and Minsky; animal spirits, and the movie *The Big Short*. Chapter 9 deals a great deal with nudging, in only 11 (tiny) pages. Baddeley's book is at a higher academic level than Tomer's. Add on that many of the topics in Baddeley's book

are not, in my opinion, the most important ones to write about in a very short book. The result is that Baddeley's book is less accessible to undergraduate students who attend a large state University - SDSU - than Tomer's book, but more accessible to M.A. students. Both books have their own market, both are good books written by good behavioral economists.