

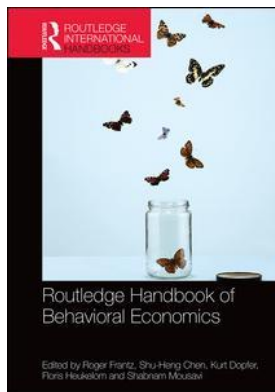
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RICHARD THALER'S BEHAVIORAL ECONOMICS

Floris Heukelom

Introduction

It is safe to say Richard Thaler (b. 1945) has been a key actor, if not the principal protagonist of the Kahneman and Tversky-inspired behavioral economics that emerged in the 1980s, and which arose as the most important alternative to mainstream economics in the 2000s. Building on Heukelom (2014), and complementing Thaler (2015), this chapter seeks to describe and explain Thaler's behavioral economics. I do so by discussing his work chronologically, and by showing which themes appeared when. The upcoming second section illustrates Thaler's economic thinking before he became acquainted with the work of Kahneman and Tversky, and what this reveals regarding the better known papers and theories that followed later. Section three will then discuss Thaler's documenting of descriptive fallacies of mainstream economics, which was the principal focus of the 1980s. The fourth section shows how this gathering of descriptive fallacies gradually developed into a program of designing actions and programs to make people behave more in accordance with the normative theory of mainstream economics in the 1990s, and how this eventually led to the formulation of a new overall program of libertarian paternalism, or nudging.

The normative power of mainstream economics

Richard Thaler (b. 1945) conducted an MA and PhD in business administration at the University of Rochester. His dissertation, entitled *The Value of Saving a Life: A Market Estimate* (1974) was supervised by Sherwin Rosen (1938–2001), a labor economist. Although both equally turned to the question of how economics may explain the actual empirical phenomena observed in the economy, there does not seem to be an overly clear influence of Rosen on Thaler, or a lasting collaboration between the supervisor and the supervisee.

In contrast to the iconic, inward looking, mathematical economics of general equilibrium theory that dominated the 1970s, Thaler's work focused on everyday questions on the fringes of the economic discipline. Based on data of insurance purchases, Thaler's thesis provided an estimate of how much individuals apparently value their own lives (see also Rosen & Thaler, 1975). Following a part time affiliation with the Rochester-Monroe County Criminal Justice Pilot City Program, Thaler's "An Econometric Analysis of Property Crime: Interaction between

Police and Criminals” (1977) explored the correlation between number of police cars in an area, and number of crimes reported and solved. Mayers and Thaler (1979) showed how sticky wages, an anomaly of economic rationality, could in fact be explained as resulting from rational employers and employees facing transaction costs.

The underlying stance in these early articles was that mainstream economic theory obviously presents a picture of how the economy and economic actors should work. In addition, however, the assumption was that in general the economy and economic actors actually do behave in this way. This first part of this understanding of economics was further sharpened in “Discounting with Fiscal Constraints: Why Discounting is Always Right” (1979). Contrary to what some US defense managers apparently believed, Thaler forcefully argued that also in the military future incomes and costs should always be discounted against appropriate rates. The fact that some managers sometimes refused to do so was not an invalidation of economic theory, but a signal of professional incapability. In other words, this key paper of Thaler also brought out more clearly another element of Thaler’s thinking: if against all intuition and evidence individuals apparently fail to behave according to economic theory, then, well, they should be told so and if possible should be corrected in their behavior.

Descriptive fallacies

This line of thinking was taken a step further in the next year, when Thaler published “Towards a Positive Theory of Consumer Choice” (1980). This article is often taken to be the first in Thaler’s behavioral economics program, including by Thaler himself. But however true this may be, it is at the same time part of a development of thinking that started a few years earlier, and that would continue to develop over subsequent years. As in his earlier articles, Thaler (1980) emphasized that individuals should behave according to the norms of economic theory. Why they should do so was, as before, never explicitly indicated, but nevertheless the obvious message was that they should do so because it is in their own best interest. However, taking this argument one step further, Thaler now for the first time argued that individuals systematically and predicatably deviate from the norms of economic behavior. The principal source for this claim was Daniel Kahneman and Amos Tversky’s “Prospect Theory, An Analysis of Decision under Risk”(1979). Thaler took two messages from Kahneman and Tversky’s work: that the economic theory according to which individuals should behave effectively constitutes a set of norms and hence constitutes a normative theory, and the observation that deviations from these norms are not accidental, but systematic and predictable.

Thus, although Thaler (1980) to some extent is one step in an ongoing development of thinking, it is equally true that here for the first time the core argument of the behavioral economics program is presented: individuals deviate systematically and predictably from the norms of rational economic theory. As a matter of fact, one could even claim very well that all of Thaler’s articles in the next thirty years are restatements of this basic position, applied to different contexts and different empirical examples. For instance, in “Some Empirical Evidence on Dynamic Inconsistency” (1981) the traditional model of temporal discounting is introduced as the “normatively based” theory economists normally hold. Deviations from this model are understood as a problem of self-control. In addition, losses are hypothesized to be different from gains, in analogy with Kahneman and Tversky’s prospect theory.

However, defying the tempting model of linear scientific progress, in “An Economic Theory of Self-Control” (Shefrin and Thaler, 1981) Thaler returned to his stance of a few years earlier by offering a traditional “orthodox” explanation for observed behavior that is seemingly at odds with economic theory, such as Christmas funds bearing no interest and smoking clinics in which

people pay several hundred (1980) dollars just to stop smoking. Within the individual, who in this regard could be likened to an organization, the interests of the far-sighted planner sometimes collide with the interests of the myopic doer, Thaler and Shefrin argued. Although both rationally strive to maximize their own utility, the eventual behavior of the individual will be in discord with one of these two actors. From the perspective of the actor who lost, the behavior will seem irrational, while in fact it was simply another part of the individual that won the battle to maximize utility.

In 1985 Thaler, together with Werner De Bondt published the much quoted “Does the Stock Market Overreact” which documented the since then well known “January effect”. The (alleged) January effect shows stocks to systematically outperform in January compared to other months. Given that the stock market would seem to be a rational market if ever there was one, the effect is a clear demonstration of the descriptive shortcoming of mainstream, normative economics, according to De Bondt and Thaler.

The January effect article may in addition be understood as the start of behavioral finance. Delineating (sub)disciplines is never straightforward, but may be useful as one way of providing a quick grasp of ongoing developments. The subfield of behavioral finance is sometimes understood as a subdiscipline that is different from behavioral economics, as an empirically driven sub-literature within finance (Samson, 2014). In relation to Thaler’s work and (the chronology of) his academic development, however, it makes much more sense to understand behavioral finance as one branch within behavioral economics focusing on the descriptive fallacies of mainstream economics as applied to the world of finance. Throughout his career Thaler, for instance, easily packed together examples from the stock market, office restaurants, and studies of the availability of donor organs, to illustrate the descriptive shortcomings of mainstream economics. In other words, to Thaler descriptive fallacies within finance have always been but one important example of the problem with mainstream economics.

Another example is “Mental Accounting and Consumer Choice” (1985), in which Thaler presented the reader with four anecdotes which “illustrate a type of behavior” in which the “individual violate[s] a simple economic principle.” The “standard economic theory” Thaler noted, “of course, is based on normative principles,” and he offered prospect theory “as a substitute to the standard economic theory of the consumer” (Thaler, 1985: 200). All this made Thaler a great promoter of Kahneman and Tversky’s work in economics and quickly turned him into a major recipient of, and influential voice in, the Alfred P. Sloan–Russell Sage behavioral economics program, which played a crucial role in establishing behavioral economics as a highly visible new sub-discipline in the 1980s and early 1990s.

As I have set out in much more detail elsewhere, the first, tentative summary of mainstream economic fallacies, and the explanation of these fallacies in terms of Kahneman and Tversky’s behavioral psychology, received a strong boost through this Alfred P. Sloan and later Russell Sage Foundation’s behavioral economics program, which ran from 1984 through 1992 (Heukelom, 2012, 2014). It is not possible to understand the rise of behavioral economics without assessing the role of the Sloan–Sage program. The primary contribution of the Sloan–Sage behavioral economics program was not the resources it provided, which were relatively modest. Instead, the program’s contribution was to catalyze in the researchers it supported a sense of contributing to a new direction of the economic discipline.

Mid June 1984, the board of trustees of the Sloan Foundation officially installed the advisory committee and endowed it with \$250,000 to fund a number of “seed projects” in subsequent years, to see if the program could work (Wanner’s notes on the advisory committee meeting, 7 December 1984, RAC). As early as July 1984, Robert Abelson expressed a view that seems to have been shared by the other advisory committee members as well as by the program’s director

Eric Wanner, namely that Kahneman and Thaler should be at the center of the new program: “Getting Thaler and Kahneman together is bound to produce progress. Their teamwork could be as seminal as the Tversky and Kahneman pairing, but more market oriented” (Abelson’s letter to Wanner, 26 July 1984, RAC). The first behavioral economics meeting was planned for 7 December 1984 at the Waldorf-Astoria Hotel, New York. In addition to the advisory committee and Kahneman and Thaler the following economists and psychologists were invited: Hillel Einhorn, Baruch Fischhoff, Donald Hood, Thomas Juster, Charles Plott, Howard Kunreuther, Howard Raiffa, Oliver Williamson, Richard Zeckhauser, and Herbert Simon.¹

Another important element in this collaborative effort were Thaler’s anomalies columns for the *Journal of Economic Perspectives (JEP)*. In 1986, the journal’s founding editors, Joseph Stiglitz (b. 1943), Carl Shapiro (b. 1955), and Timothy Taylor (b. 1960) decided that one element of their new journal would be “features,” a series of short papers around one theme of which one would appear in every issue of the journal. As Taylor recalls

We started with three features: a “Recommendations for Further Reading” feature written by Bernard Saffran, an “Economic Puzzles” feature written by Barry Nalebuff, and the “Anomalies” feature written by Richard Thaler. My memory is that Joe and Carl had Thaler in mind pretty much from Day 1. They had talked with Dick, and he had a list of potential topics pretty much ready to go . . .

Our original plan with the “Anomalies” column was that it would include a range of anomalies: micro, macro, even theory or econometrics. However, getting authors to write these kinds of columns in JEP style proved tricky, and Dick and his co-authors generated a lovely stream of behavioral topics for us.

(Taylor, email to author, 6 April 2010)

Thaler published two series of “anomalies” papers for the *JEP* that had the sole purpose of proclaiming that economics had serious problems regarding its theory of economic behavior. Each paper had a length of about 4000 words. The first series contained fourteen anomalies articles and appeared from the first issue of the journal in 1987 through to 1991.² The second series contained four publications and appeared between 1995 and 2001. Thaler’s anomalies columns provided the core of the new Kahneman and Tversky-inspired behavioral economics with a highly visible platform, and arguably served as a strong catalyst for its development.

The first anomaly article in 1987 further documented the already mentioned January effect. When the market for stocks is in efficient equilibrium, in the neoclassical world the average monthly return should be equal for each month. There is no reason to expect that stocks would perform better just because it happens to be a certain month. However, this was exactly what was observed in the case of January. Especially for smaller firms stock returns were substantially higher in January compared with other months. How could this January effect be possible given the theory of efficient markets? The answer was that it was not possible, with the question left open how to solve this anomaly.

Loewenstein and Thaler (1989) showed that many similar anomalies existed in and outside the economy that have to do with intertemporal choice. For example, people prefer to pay too much tax in advance and to receive some back when the year is over instead of the reverse, even when the first option is subject to costs in terms of lost interest. Schoolteachers who can choose between being paid in nine months (September–June) or in twelve (September–August), choose the second option although from an economic perspective the first is more rational. But Loewenstein and Thaler also cited the dermatologist who lamented that her patients were unwilling to avoid

the sun when she told them about the risks of skin cancer, but who were quick to stay out of the sun when she told them about the risk of getting “large pores and blackheads.” This example, Loewenstein and Thaler argued, was also a violation of economic theory because it showed myopia in patients they should not have if they acted rationally. The implicit reasoning was that economic theory could be applied to every aspect of our lives and that therefore also violations of economic theory could be drawn from every corner of life: “where there are testable predictions, there are anomalies” (Loewenstein & Thaler, 1989: 183). The recurring message of the anomalies articles was that there are serious problems with economic theory which cannot be easily dismissed, and which need to be taken seriously.

In his anomalies columns, Thaler cited examples from finance that were clearly economic. The structure of the anomalies, however, was often similar to the biases produced by Kahneman and Tversky (e.g. Kahneman & Tversky, 1972, 1979, and Tversky & Kahneman, 1974, see also Heukelom, 2014). One anomaly that Thaler frequently investigated and that became one of the principal anomalies of behavioral finance was the “endowment effect” (e.g. Thaler, 1980, Kahneman, Knetsch, & Thaler, 1990, 1991). The endowment effect was an application of the framing effect of Kahneman and Tversky that showed that individuals’ preferences are subject to an initial framing process. In other words, individuals’ preferences depend on the quantity of the means they are endowed with. The experiment is as follows. Divide a group of subjects randomly into two sub-groups and give one of the two sub-groups a standard coffee mug. Subsequently, ask the sub-group with the mug what price they would minimally want to sell the mug for. Also ask subjects of the sub-group without mugs what price they would maximally want to pay for the mug. Typically, the willingness to accept (WTA) is about twice the willingness to pay (WTP). Apparently, people reframe their preferences after receiving the mug. In economics, this endowment effect could serve as an explanation for the often observed fallacy of taking into account sunk costs (see e.g. Thaler, 1980, 1987, Tversky & Kahneman, 1981). The endowment effect further falsified the Coase theorem, which says that in order to attain the efficient market allocation, the initial endowment of the goods should be irrelevant. The Coase theorem depends on the assumption that for every individual WTA equals WTP, so that trading will continue until the goods are in the hands of those with the highest WTP. But given the demonstrated systematic difference between WTA and WTP, the Coase theorem no longer held true: “Contrary to the assumptions of standard economic theory that preferences are independent of entitlements, the evidence presented here indicates that people’s preferences depend on their reference positions” (Kahneman, Knetsch, & Thaler, 1990: 1344).

Meanwhile, 1991 saw the beginning of the Russell Sage Foundation Behavioral Economics books series. The first book to be published in this series was Thaler’s *Quasi-Rational Economics* (1991). Eventually, eleven books were published, among which Loewenstein and Elster’s *Choice over Time* (1992), and Thaler’s *Advances in Behavioral Finance* (1993).

Libertarian paternalism, aka nudging

Thaler has never been primarily interested in finding better descriptive alternatives for mainstream economics. After exhaustively documenting descriptive failures, Thaler’s next move was rather to devise ways to make people behave more in accordance with the normative economic theory. On the one hand, Thaler has always believed that individuals usually behave according to the normative economic theory. When they do not, it is however the individual who is to blame, and not economic theory. In contrast to, say, Herbert Simon, to Thaler the normative, universal validity of economic theory for rational behavior has never been in question. Quite

the contrary; because economists know how best to behave in the economy, and because they observe individuals to make mistakes in that regard, economists are obliged in their capacity as fellow, moral human beings to help these failing individuals to behave more in accordance with the normative theory of rational economics.

Thaler's first article principally devoted to this policy implication of behavioral economics was "How to Get Real People to Save" (1992) in which he argued that to increase saving rates in the (American) economy, it is best to follow the common sense of mothers and empirical evidence of behavioral economists, and not the advice of mainstream economists. Mom and behavioral economists would, for instance, advise firms to make (larger) lump-sum bonuses, which people are more likely to save substantial parts of as compared to salaries smoothed out over time. In addition, Mom and behavioral economists would advise to increase withholding rates for the federal income tax. The resulting larger tax return would likely increase overall spending. Also, firms could offer payroll saving plans, as saving is easier when you do it automatically and do not see it happen in your account every month. Through these and other straightforward actions of mothers and behavioral economists, that, according to Thaler, seemed so foreign to mainstream economists in their everyday obviousness, individuals could be made to behave more in accordance to the mainstream economic theory.

In "Psychology and Savings Policies" (1994) Thaler provided an overview of why the standard life-cycle theory does not account for actual saving behavior, and which measures a government or employer could take to increase saving—such as providing more information as to how much you need to save to sustain consumption after retirement, and schemes to pre-commit oneself to send lump-sum payments to a savings scheme. That being said, the solutions remain theoretical solutions without practical evidence. Actual implemented behavioral economic saving policies emerged only in the early 2000s, first and foremost with Saving More Tomorrow (SMarT), in which people pre-commit to send an increasing amount of future pay-raises to a pension savings scheme (e.g. Benartzi & Thaler, 2001).

Rationality and nudging

Thaler's reinterpretation of Kahneman and Tversky's distinction between the normative and the descriptive in terms of a conflict within the economic decision maker had important consequences for welfare economics. Following Friedman (1953), and many others, most mainstream economists in the 1990s and 2000s associated welfare economics in one way or another with the term normative. That was one reason why Kahneman and Tversky's labels of normative and descriptive invoked confusion when inserted into the economics discourse. The reinterpretation of normative versus descriptive in terms of full rationality versus bounded rationality solved this confusion and in turn allowed behavioral economists to develop their own position on welfare economics (Heukelom, 2014).

Well known in this regard is Thaler and Sunstein's (2003) "Libertarian Paternalism." Libertarian paternalism can be understood as a paternalism that does not restrict individual freedom of choice. Thaler and Sunstein distinguished themselves explicitly from Paul Samuelson's revealed preference stance towards welfare issues.

We clearly do not always equate revealed preference with welfare. That is, we emphasize the possibility that in some cases individuals make inferior choices, choices that they would change if they had complete information, unlimited cognitive abilities, and no lack of willpower.

(Thaler & Sunstein, 2003: 175)

In other words, the justification for paternalistic policies was the fact that the decisions people actually make, their “revealed preferences,” do not always match with their “true” preferences. Behavioral economists thus constructed a distinction between “revealed” and “true” preferences. This did not mean that preferences were considered context-dependent. Rather, it meant that it depended on the context whether the true preferences can and will be revealed appropriately. A source that was sometimes relied on in this regard was John C. Harsanyi who had argued that “in deciding what is good and what is bad for an individual, the ultimate criterion can only be his own wants and his own preferences,” where the individual’s “own preferences” were his “true” preferences: “the preferences he would have if he had all the relevant factual information, always reasoned with the greatest possible care, and was in a state of mind most conducive to rational choice” (quoted in Angner & Loewenstein, 2012: 679).

A more detailed and elaborate explication and defense of this new branch of behavioral economics can be found in Camerer et al. (2003) “Regulation for Conservatives: Behavioral Economics and the Case for ‘Asymmetric Paternalism’.” In this article, the five authors (Camerer, Issacharoff, Loewenstein, O’Donoghue, and Rabin) made a case for what they labeled “asymmetric paternalism,” where “[a] regulation is asymmetrically paternalistic if it creates large benefits for those who make errors, while imposing little or no harm on those who are fully rational” (Camerer et al., 2003: 1212). Behavioral economics, then, “describes ways people sometimes fail to behave in their own best interests” (Camerer et al., 2003: 1217). These “apparent violations of rationality [...] can justify the need for paternalistic policies to help people make better decisions and come closer to behaving in their own best interests” (Camerer et al., 2003: 1218).

Thaler and Sunstein (2003) countered possible aversions to paternalism by economists and others by linking paternalism to libertarianism. Camerer et al. (2003), on the other hand, founded their defense of paternalistic policies on the need for asymmetry in the paternalistic policy. The definition of asymmetric paternalism resembled the Paretean improvement argument: “a policy is *asymmetrically paternalistic* if it creates large benefits for those people who are boundedly rational [...] while imposing little or no harm on those who are fully rational” (Camerer et al., 2003: 1219, emphasis in the original). Or, in other words, “asymmetric paternalism helps those whose rationality is bounded from making a costly mistake and harms more rational folks very little” (Camerer et al., 2003: 1254). Another way of putting it, Camerer et al. (2003) argued, is to see the limitedly rational individual as imposing negative externalities on his or her own demand curve. “When consumers make errors, it is as if they are imposing externalities on themselves because the decisions they make as reflected by their demand do not accurately reflect the benefits they derive” (Camerer et al., 2003: 1221). Hence, there was a need for a policy maker who could remove the externalities and redirect behavior in such a way that the externalities disappeared. Camerer et al. (2003) furthermore noted that firms could either consciously or unconsciously use the irrationality of individuals to gain more profit.

On the basis of these results, behavioral economists argued that economists are morally obliged to act against the violations of full rationality:

As economists, how should we respond to the seemingly self-destructive side of human behavior? We can deny it, and assume as an axiom of faith that people can be relied upon to do what’s best for themselves. We can assume that families paying an average of \$1,000 per year financing credit card debt are making a rational tradeoff of present and future utility, that liquidity constraints prevent investing in employer-matched 401k plans, that employees prefer investing in their own company’s stock instead of a diversified portfolio ... that people are obese because they have calculated that the

pleasures from the extra food, or the pain of the foregone exercise, is sufficient to compensate for the negative consequences of obesity.

(Loewenstein & Haisley, 2008: 213)

According to Thaler and other behavioral economists, economics was particularly suited for solving the violations of full rationality because it possessed the knowledge of how to “steer human behavior in more beneficial directions while minimizing coercion, maximizing individual autonomy, and maximizing autonomy to the greatest extent possible” (Loewenstein & Haisley, 2008: 215). The role of the economist in this regard could be seen as analogous to the psychoanalytical therapist. “Just as the therapist endeavors to correct for cognitive and emotional disturbances that detract from the well-being of the patient, such as anxiety, depression, or psychosis, the economist/therapist endeavors to counteract cognitive and emotional barriers to the pursuit of genuine self-interest” (Loewenstein & Haisley, 2008: 216).

Thaler attempted to solve mankind’s limited rationality problem by using phenomena similar to those that formed the basis for behavioral economics to begin with. The most important phenomenon in this regard was what was most commonly known in behavioral economics as framing. One of the central findings of Kahneman and Tversky’s behavioral decision research and behavioral economics was that people are susceptible to the way in which a choice is presented to them. Depending on the “reference point,” in Kahneman and Tversky’s terms, or “frame,” the term Thaler favored for behavioral economics, people change their preferences. The example taken from Thaler and Sunstein (2003) is of the cafeteria manager who can either place the desserts before the fruits or vice versa. If she frames this decision as fruits-before-desserts, then the fruit will be chosen more often. Thus, framing is used to influence people’s behavior without affecting their freedom to choose in any significant way. Changing the default option from not-participating to participating in pension saving schemes is another often-quoted example.

Thus, when behavioral economics expanded, behavioral economists were both faithful to the Kahneman and Tversky legacy, while at the same time they sought to broaden its scope. Problematic in this regard were the labels of normative and descriptive, which were considered confusing in an economic context that already had created its own understanding of these concepts (e.g. Friedman, 1953). As a consequence, behavioral economists in the 1990s and 2000s reinterpreted the normative–descriptive distinction in terms of rationality. Thaler was well aware of the fact that the reinterpretation of economics in terms of normative versus descriptive raised the question concerning the definition of the descriptive theory when the normative theory is about rational behavior. However, Thaler was not very specific, or at least he did not offer a conclusive answer. Thaler referred to behavior that deviates from the normative solution on a number of occasions as “irrational” or “non-rational.” Furthermore, he noted that he “would not want to call such choices rational” (Thaler, 2000: 138). On other occasions Thaler referred to the normative–descriptive distinction as rational versus emotional (see e.g. Shefrin & Thaler, 1988: 611).

But the main interpretation Thaler used in the 1980s and 1990s was the term “quasi-rationality,” most prominently as the title of a collection of articles, *Quasi-Rational Economics* (1991). Quasi-rationality suggests a category of behavior somewhere in between the full rationality of the normative decision and irrational behavior. Regularly used in the 1980s and 1990s, quasi-rationality is perhaps best understood as the failed attempt of people to be rational, which is exemplified by the one suggested definition of the term that Thaler provided: “quasi-rational, meaning trying hard but subject to systematic error” (Thaler, 2000: 136). On another occasion it was characterized as “less than fully rational” (Thaler, 1991: xviii).

From the early 2000s onwards, the term increasingly favored by behavioral economists was “bounded rationality.” The distinction that was made was that between the fully rational decision and the decision actually made that was deemed boundedly rational when deviating from the rational decision. Full rationality in behavioral economics was defined as follows:

The standard approach in economics assumes “full rationality.” While disagreement exists as to what exactly full rationality encompasses, most economists would agree on the following basic components. First people have well-defined preferences (or goals) and make decisions to maximize those preferences. Second, those preferences accurately reflect (to the best of the person's knowledge) the true costs and benefits of the available options. Third, in situations that involve uncertainty, people have well-formed beliefs about how uncertainty will resolve itself, and when new information becomes available, they update their beliefs using Bayes's law—the presumed ability to update probabilistic assessments in light of new information.

(Camerer et al., 2003: 1214–15)

The most influential publication within this program of libertarian paternalism, has been Thaler and Sunstein's *Nudge* (2008). *Nudge* introduced the libertarian paternalism of behavioral economics to the wider public, and inspired policy makers from Democrat Barack Obama in the United States, to Conservative David Cameron in the United Kingdom, to a range of other social-democrats and social liberals elsewhere. In all this, the core idea remained: individuals may systematically and predictably deviate from the norms of economics—and scientific theories more generally—and that it is economists' and policy makers' job to ensure individuals act more rationally on their preferences.

Conclusion

The most important influence on Richard Thaler's thinking as an economist have been psychologists Kahneman and Tversky, who suggested that individuals may actually deviate predictably and systematically from economic theory, and who suggested economists might be more concerned with finding ways to help behave more in accordance with this normative economic theory. However, the firm belief that economics sets out how people should make their decisions predates Thaler acquaintance with the psychologists, and is visible from his earliest PhD papers onwards.

In fact, one could argue that Thaler's economic world view has been remarkably constant over the course of his career of now almost forty years. Economic theory tells us how we should behave in the economy, and economists should be more concerned with finding out if and when people behave along those lines. If not, then economists should devise ways to help individuals do so. From that perspective, the developments and nuances described above are refinements of an established point of view first of all.

Notes

- 1 As I have set out elsewhere, the term “behavioral economics” was first coined in 1943 by Clark Hull and has since then been employed by various (groups of) scientists in partly related, but also diverging ways (Heukelom, 2014.; Senn, 1966; Pooley, forthcoming, see also Hosseini, this volume). For instance, also the Society for the Advancement of Behavioral Economics (SABE) was founded in 1984.
- 2 The anomalies of the first series have been collected in *The Winner's Curse* (1992).

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