

Contents

<i>List of abbreviations</i>	xi
1 Introduction	1
2 The scientific practices of economics and the emergence of behavioral economics	3
Economics as a science	3
Paradigms and scientific revolutions	4
Economics and psychology over the years	6
Psychology and the emergence of behavioral economics	8
Scientific methods and the emergence of behavioral economics	9
The strands of behavioral economics	13
Differences within behavioral economics	21
Behavioral economics: the next economic paradigm?	22
3 The practices and content of the bounded rationality strand	25
Introduction	25
Herbert Simon	25
Rational decision making	26
Bounded rationality	29
Conclusion	31
4 The basics of the psychological economics strand	33
Psychological economics: origins and orientations	33
Heuristics and biases	35
Prospect theory	40
Discussion	49

5	Psychological economics: important further developments	53
	The effect of emotions on judgment and decision making	53
	Self-interest and social preferences	58
	Self-control	63
	Summing-up on the three key assumptions	63
	Time preference and choice	64
	Conclusion	66
6	Behavioral finance	68
	Efficient markets	68
	Problems with the efficient market hypothesis	70
	Behavioral finance	73
	Conclusion	78
7	Behavioral economics, public policy, and nudging	80
	Public policy, behavioral economics, and human nature	80
	The problem with neoclassical economic decision making and the promise of behavioral economics	80
	The philosophy of libertarian paternalism	81
	Nudge: the essence and an example	82
	Choice architecture	83
	The need for nudges	83
	Nudging increased saving	84
	Ten important types of nudges	86
	Nudges in relation to other government efforts	86
	Are nudges ethical and acceptable?	87
	Good nudges require evidence	88
	Nudging around the world	89
	Conclusion	90
8	Law and behavioral economics	92
	Law and economics	92
	Law and socio-economics	95
	Socio-economics compared to behavioral economics	97
	Law and behavioral economics (or socio-economics)	98

9 Behavioral macroeconomics	101
Keynesian macroeconomics	101
Macroeconomic evolution	102
Toward a behavioral macroeconomics	103
Animal spirits and the macroeconomy	106
Discussion	108
10 The empirical methods of behavioral economics	110
With regard to empirical investigation, neoclassical economics, and behavioral economics are very different	110
Experimentation in economics	110
The rise of experimental economics	111
Laboratory experiments	113
Comparing experimental economics to behavioral economics	114
Beyond lab experiments: the empirical methods of behavioral economists	115
11 Are mainstream economists open-minded toward behavioral economics or do they resist it?	119
The open-mindedness of mainstream economists	119
How mainstream economists react: defending the rationality assumption	120
How mainstream economists react: criticizing valid behavioral economic tenets	122
Conclusion	124
12 Neuroeconomics	125
The essence of neuroeconomics	125
Neuroeconomic technologies	125
Essential elements of brain functioning	126
An important piece of history	129
Making sense of the unfortunate accident	130
Toward improved understanding of brain functioning	131
Examples of neuroeconomic research	131
Putting neuroeconomics in perspective	134

13	Toward a more humanistic behavioral economics	136
	A humanistic behavioral economics	136
	Dual motive theory: the core underlying human motivations	137
	Manipulation and deception in competitive markets	142
	Contrasting the dual motive view with the phishing/phool view	144
	Paul Zak, oxytocin, and economics	145
	Conclusion	146
14	Behavioral economic trends	148
	Introduction	148
	The political or ideological factor	148
	Raj Chetty's approach to behavioral economics	149
	Conducting online experiments	152
	Nudging to improve health	154
	Should economists be plumbers?	156
	Conclusion	157
15	Conclusion	159
	<i>Index</i>	163