

Contents

Acknowledgements	xiii
1. Introduction: Smart thinking in the real world of complexity	
What this book is all about	10
Appendix: Background sources for, smart economic decision-making in a complex world	14
References	15
2. The evolution of decision-making: Why institutions and capabilities matters	
Introduction	17
Assumptions matter and behavioural economics	19
The conventional wisdom and the different faces of behavioural economics	20
The bounded rationality approach in context	22
Satisficing and procedural rationality in context	29
X-efficiency theory and external benchmarks for optimal behaviour	31
Nudging versus constraints change and redesign	32
Conclusion	33
References	35
3. How complexity affects decision-making	
Introduction	39
Key points of overlap: Hayek and behavioural economics	40
Assumptions matter	42
Revisiting complexity and the expert	48
Contemporary views on bottom-up decision making and individualized norms for rationality	51
Ecological rationality and the spontaneous order	58
Opening the door to intelligent design	60
Opening the door to multiple equilibria: Casting shadows on the spontaneous order and ecological rationality	63
Conclusion: Hayek's Golden nugget in decision-making theory	68
References	71

4. Freedom of choice in a complex world	
Introduction	75
Multiple equilibria in consumption	79
Multiple equilibria in production: An introduction	80
Multiple equilibria in production: X-inefficiency and managerial slack	82
Multiple equilibria in production: X-inefficiency and agency	84
Multiple equilibria in production: Some related scenarios	86
Historical and logical time	87
Rent seeking and x-efficiency	87
Conclusion	88
References	90
5. Understanding rational inefficiency: A scientific basis for economic failure and success	
Introduction	93
Introducing rationality and rational inefficiency	94
Institutions, efficiency, and rationality	99
Different types of rationality	102
Production inefficiency	107
Consumption inefficiencies	115
Macroeconomic choices and rational behaviour	120
Conclusion	125
References	127
6. How consumers can achieve freedom of choice: When consumers are truly sovereign	
Introduction	131
An alternative model of preference formation	132
Conventional perspectives and critiques	134
Constructing an alternative theory of welfare maximization	136
Choice x-inefficiency and x-inefficiency in production	142
Conclusion	142
References	144
7. Inside the black box of the firm: Why choice, power and preferences matter for productivity and efficiency	
Introduction	147
Origins of efficiency wage theory	150
Real wages, effort variability, and efficiency wages	151
Efficiency wage theory revised	156
Foundations of x-efficiency theory	163
Linking x-efficiency and efficiency theories	178

Conclusion	183
References	185
8. How smart people can be involuntarily employment when misguided policy dominates decision-making	
Introduction	189
Keynes and the real wage rate	191
Keynes and the demand side	195
The behavioural model and employment	198
Conclusion	206
References	207
9. Why financial literacy matters for socio-economic wellbeing	
Introduction	211
The conventional wisdom	215
Fast and frugal decision-making and smart heuristics	216
Institutions matter	218
Errors and biases and 'irrational' heuristics	219
Financial education and literacy and the different faces of behavioural economics	222
Linkages between financial issues, financial education, and financial literacy	224
Pensions and saving	224
Investing in financial assets	227
Bubbles and busts: Animal spirits and decision-making	228
Informational problems and errors in decision making	232
The trust heuristic	233
Ponzi schemes and the trust heuristic	234
Conclusion: Economic theory, financial literacy and public policy	236
References	242
10. How labour markets really work	
Introduction	245
What is behavioural labour economics	246
Modelling labour supply: A standard rendering	247
A behavioural model of labour supply: A target approach	250
Non-labour market income and labour supply	255
Unemployment insurance and labour supply	257
Non-economic variables and errors or biases in labour market decision-making	258
Demand for labour and the supply of effort	262
Efficiency wage and x-efficiency theory	265

Some labour market implications of generalized x-efficiency theory	269
Population growth with real women	272
Conclusion	274
References	275

Index	281
-------	-----