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The Economic View of the World:
From Imperialism to Social Science Integration

Bruno S. Frey
University of Zurich
ETH Zurich
CREMA - Center for Research in Economics, Management and the Arts
Switzerland
Introduction

• **Rational Choice Approach**

  1) Possibilities

  2) Extensions
     “economics & psychology” (misnomer: behavioral economics)

→ Psychology
RATIONAL CHOICE APPROACH

Constituting elements

1. Methodological individualism
2. Incentives
3. Preferences vs. constraints
4. Self-interest
5. Constraints
   - income
   - relative prices
   - time
   - institutions
     • decision-making system
     • behavioral rules
     • organizations
6. “Law” of supply / demand
Rational
Resourceful
Evaluating
Expecting
Maximizing
Man
Interdisciplinarity

• new type
  politics: “Public Choice”
  “Economic Theory of Politics”

• adoption
  sociology: “Rational Choice Sociology”
  law: “Law and Economics”
  history: “Cliometrics”
Applications

- classic
  - education
  - health
  - environment
- major
  - family
  - discrimination
  - politics
  - law
  - History
- recent
  - sport
  - religion
  - terrorism
Innovation (insights)

*(Examples)*

- Traffic, urban problems
  “road pricing”

- Schools, art
  “vouchers”

- Environment
  “markets for environmental certificates”

- Terrorism
  alternatives to deterrence policy

- Museums
  exit price
Economic Imperialism
    = Export

Economics & Psychology
    = Import

Extending the rational choice approach
Extending the Rational Choice Model

Some directions

1. Focus on multiple social decision making systems
   - market (price)
   - democracy
   - hierarchy
   - bargaining
   - random
   - tradition
2. Self-interest is too narrow

Evidence:
- experiments
  - ultimatum
  - dictator game
  - prisoners dilemma
- field
  - giving
  - voluntary work (altruism)

Kind of motivation:
- extrinsic
  - material
  - immaterial
  - money
  - privileges
- intrinsic
  - enjoyment based
  - norm based
  - awards
3. Systematic decision errors by individuals

Examples

- endowment effect
- reference point effect
- opportunity cost effect
- certainty and small probability effect
- anchoring effect
- availability and representativeness bias
- overconfidence effect
- framing effect
4. Crowding Theory

Systematic (non-additive) relationship

extrinsic - intrinsic motivation

Crowding-out

“controlling”

Crowding-out

“supporting”
5. Types of utility

a)
• outcome utility
• procedural

b)
• decision
• predicted
• experienced

↑ misprediction errors
6. Happiness

- utility can be measured (good proxy)

  various measures

- econometrically measured happiness function

  determinants
  • genes
  • socio-demographic
  • economic
  • cultural, religious
  • institutional: political

- insights