Behavioral economics (BE) is the 6th revolution in economics, following Classical Economics (c. 1750-1869), Marginalism (1870–1910), Neoclassical Economics (1890-1930), Keynesian Economics (1936-1970), The Chicago School (1950–2013*), and BE (c. 1940-present.) (* The last winner of the Nobel Prize in Economics by a Univ. Chicago faculty member was in 2013.)

BE is an attempt by economists to integrate psychology (neuroscience, sociology, finance, and management science) into economic theories and models. It began with a dissatisfaction of the idea of the perfectly rational homo economicus. Economics, BBE (before BE), was more mathematics and engineering than a social science. Increasing dissatisfaction caused BE. Ideas about rationality, maximizing behavior, and efficiency. Bounded rationality replaced perfect rationality. The idea that humans are maximizing was simply dropped. The BBE prevailing notion of efficiency was equating changes in costs and changes in benefits, or what economists call equating at the margin. This notion was joined by the concept of X-efficiency, whether firms are costs minimizers and profits maximizers. A class in BE starts with explaining these changes which took place beginning around 1940 and completed this task by 1980. The BE revolution could not have taken place without these changes.

Once established, BE began to integrate ideas, theories, and models from psychology. These included, in alphabetical order: altruism, bad habits ("rational" addiction), bias in thinking, bounded rationality, the brain, emotions, envy, happiness, heuristics, intuitive and logical thinking, neuroeconomics, public policy, (decision making under) risk and uncertainty.

Student Learning Outcomes.

1. Differentiate the view of human beings and economic processes both before and after the integration of psychology into economic theories and models.

2. Define at least ten biases in human decision making.

3. Identify 6 heuristics used in decision making as well as the conditions which make them most successful.

4. Understand the relationship between the brain, rationality, and decision making.

5. Articulate one public policy which can be affected by B.E.

Topics to be Covered and Readings.


2. Prerequisites for an Integration of Psychology and Economics. 1 week. How Economics Had to Change Before There Could Be an Integration of Economics and Psychology, Roger Frantz.

3. Humanistic Economics. An Early Attempt at B.E. 1 week. The Challenge of Humanistic Economics, Mark Lutz and Kenneth Lux. Ch 1, "Humanism as a Concept: Its Emerging Significance in Psychology


10. Emotions and Decision making. 1 week.

11. Altruism and Happiness. 1 week.

12. Public Policy Implications of BE. 1 week.

Exams.

1. 3 midterms, each worth 100 points. Exams are short answer and essay questions.

2. 10 on-line quizzes, each worth 10 points. Quizzes will be available Friday after 12 noon and due Sunday evening at midnight. Each quiz will be based on the material covered in class and assigned readings during that week.