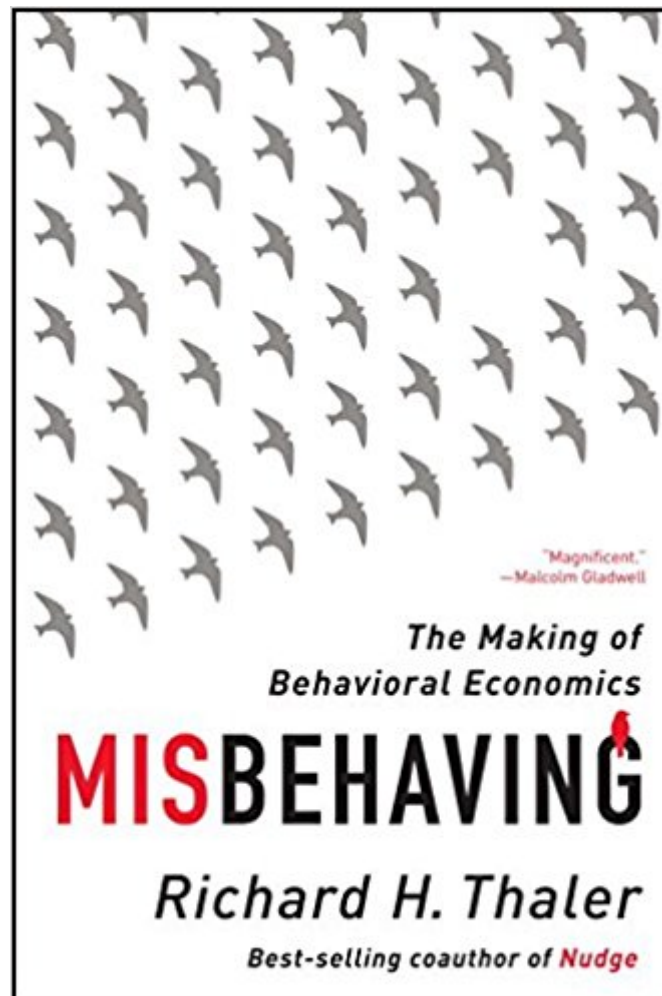




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Misbehaving: The Making Of Behavioral Economics



Synopsis

Get ready to change the way you think about economics. Richard H. Thaler has spent his career studying the radical notion that the central agents in the economy are humans—predictable, error-prone individuals. *Misbehaving* is his arresting, frequently hilarious account of the struggle to bring an academic discipline back down to earth—and change the way we think about economics, ourselves, and our world. Traditional economics assumes rational actors. Early in his research, Thaler realized these Spock-like automatons were nothing like real people. Whether buying a clock radio, selling basketball tickets, or applying for a mortgage, we all succumb to biases and make decisions that deviate from the standards of rationality assumed by economists. In other words, we misbehave. More importantly, our misbehavior has serious consequences. Dismissed at first by economists as an amusing sideshow, the study of human miscalculations and their effects on markets now drives efforts to make better decisions in our lives, our businesses, and our governments. Coupling recent discoveries in human psychology with a practical understanding of incentives and market behavior, Thaler enlightens readers about how to make smarter decisions in an increasingly mystifying world. He reveals how behavioral economic analysis opens up new ways to look at everything from household finance to assigning faculty offices in a new building, to TV game shows, the NFL draft, and businesses like Uber. Laced with antic stories of Thaler's spirited battles with the bastions of traditional economic thinking, *Misbehaving* is a singular look into profound human foibles. When economics meets psychology, the implications for individuals, managers, and policy makers are both profound and entertaining. Shortlisted for the Financial Times & McKinsey Business Book of the Year Award

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“A sly and somewhat subversive history of [the economics] profession . . . engrossing and highly relevant.” • - Jonathan A. Knee, New York Times “Highly enjoyable . . . dense with fascinating examples. . . . It is long past time to replace Econs with Humans, both in theory and in the practice of prediction.” • - Carol Tavris, Wall Street Journal “A dryly humorous history of the revolution [Thaler] helped ignite, as well as a useful (if sometimes challenging) primer on its key concepts.” • - Julia M. Klein, Chicago Tribune “A masterful, readable account of behavioral economics. Very well done.” • - David Wessel, Pulitzer Prize-winning journalist, author of *Red Ink* and *Ben Bernanke’s War on the Great Panic* “Bound to become a classic. Now established as one of the great figures in the history of economic thought, Thaler has no predecessors. A rebel with a cause . . . [w]here he wins Olympic gold is in keen observation; his greatest insights come from actually looking.” • - Cass Sunstein, New Rambler “Entertaining”. An excellent read on the shortcomings of classical economic and finance theory.” • - Ronald L. Moy, CFA Institute “The creative genius who invented the field of behavioral economics is also a master storyteller and a very funny man. All these talents are on display in this wonderful book.” • - Daniel Kahneman, winner of the Nobel Prize in Economics and author of *Thinking, Fast and Slow* “The story behind some of the most important insights in modern economics. If I had to be trapped in an elevator with any contemporary intellectual, I’d pick Richard Thaler.” • - Malcolm Gladwell “Richard Thaler has been at the center of the most important revolution to happen in economics in the last thirty years. In this captivating book, he lays out the evidence for behavioral economics and explains why there was so much resistance to it. Read *Misbehaving*. There is no better guide to this new and exciting economics.” • - Robert J. Shiller, winner of the Nobel Prize in Economics and author of *Finance and the Good Society*

Richard H. Thaler is the coauthor of the best-selling book *Nudge* with Cass R. Sunstein, and the author of *Quasi Rational Economics* and *The Winner’s Curse*. He is a professor of behavioral science and economics at the University of Chicago Booth School of Business and, in 2015, the president of the American Economic Association.

My Rating: Put it on your list
Level: Moderate to difficult, depending on your base knowledge of Economics and Psychology. Moderate in length, but reads quickly
Summary: Part Thaler

autobiography, part time line of the development of the field, with plenty of humorous anecdotes and academic anomalies, this book does not read like a history of an academic discipline. The book is broken into eight broad chapter based around years in which Thaler worked through differing parts of the development of the field. The chronology starts with him as a graduate student, where he is just starting to look into ideas that would become the discipline, and proceeds up to the present, where he seems poised to hand over the reins to the next generation. Along the way are his stories of getting the discipline recognized by academic journals, struggles with the establishment, and gaining allies (across other disciplines, as well) and students that will become the next generation.

My Thoughts This book, like the somewhat related book (Thinking, Fast & Slow) by his fellow collaborator, Daniel Kahneman, kind of annoyed me in how well it is written. Thaler has had a nearly five decade career as researcher and writer, so he should write well, but that is not what I mean. His book is funny and reads quickly like a narrative. As I said above, it is part autobiography, and lends itself tremendously to humorous narrative that leaves you interested in reading more. As a pretend internet researcher and writer, I am envious that someone with actual credentials writes so well.

All that being said, I think I missed the subtitle of this book when I first heard about it a few years ago. I heard Thaler on a interview, and knew he was related to behavioral economics, but didn't quite realize this was book he was promoting. I must have searched his name on and bought the first book I saw, without noticing the reference to Nudge on the cover. Nudge was really the book I was looking for, which is more about the research out of Behavioral Economics as it relates to topics like money and health.

The Making of Behavioral Economics should have clued me in to this book being more of a history. Luckily, I enjoy history and biographies, and as I said above, he is a very talented writer.

One of the first things that stuck out to me was how long he has been in the field. His book starts in 1970, with him as a grad student. I wouldn't be born for another decade and a half, and I don't consider myself very young. I've heard that Millennials will have between seven and 17 careers over their lifetimes, so it amazes me to read of someone's history in a field that is longer than my lifetime.

Reading history is always fascinating, because you, with the addition of hindsight, can read and say, "how did these people miss this?" I couldn't believe some of the resistance he and others would face as they argued against the efficient market hypothesis. I was in high school during the .com (look it up kids) and the tech bubble and finished grad school a few months before the housing bubble popped, so I struggle to believe in any way that the market is efficient and that people are well informed. Thinking back to my undergrad economics courses, I believe I was taught the distinction between theory of economics

(people who Thaler calls Econs) and actual behavior (called Humans). In grad school, the distinction was called that of theory and practice. So, it is interesting to see that a few decades before, saying things like this, which to me are clearly true, would get you laughed out of conferences and barred from academic journals. This history was interesting, and the debates with other academics were amusing and insightful, but the book really shines with the anecdotes. I won't go through all of them here, but they include an economist who refuses to sell his wine (for a gain) at the market price while also stating he would never buy it at the price and companies whose stock prices are lower than their subsidiaries (even when purchasing the larger company stock means getting the smaller companies stock included; this means the larger company is valued in negative dollars relative to market cap). These types of stories are what I enjoy reading. They are amusing on their own, but also challenge your assumptions about certain areas, but even more, make you really question whether you actually know what you are doing. You may think you do everything rationally, but you probably don't, and that is illustrated time and again in this book. If you are looking for just stories and research results, you are probably better off with Nudge or Thinking, Fast and Slow. However, if you are interesting in Behavioral Economics in general, this is definitely a book to put on your list. More reviews at MondayMorningTheology.com

I thought "Nudge" was a great read so I was interested to get more of the story on the creation and development of behavioral economics. Mission accomplished and expectations exceeded! Thaler's writing style is very approachable and his "Human-ness" brings a witty authenticity to the book. I was trained in economics to believe all mortals behave as Econs. Thanks to Richard Thaler and his fellow behavioral economists, we can move beyond this misplaced assumption.

Richard Thaler is the one who coined the term Libertarian Paternalism. The Paternalism comes from the fact that you can guide people into better outcomes with the way things are presented, while the Libertarian comes from making sure at the end that they see the path they took and are happy with their choices (as opposed to tricking people). The premise of the book is that while traditional economic theory says that markets are rational and people behave like Econs, in fact, markets are often not rational, because people, even some Econs, behave like Humans instead. It's really based on the fact that Humans are more risk adverse than they are willing to gamble on gain, and how things are framed can change our perception of the risk and outcome. It's a bit of a brick, and the writing style of the book is kind of a gee-wiz, but the material is great, even if at times it did give me a headache. It's the kind of book everyone should read at some point in their lives. A big

thumbs up from me.

Misbehaving: The Making of Behavioral Economics by Richard Thaler, explores the author's role in the creation of Behavioral Economics, a field which challenges the assumptions of much of classical economics. Economics is based on the assumption that people make rational decisions that optimize their decisions. This assumption provides a handy set of axiomatic points to move from, creating all manner of theories of how people go about making choices. It has the enhanced predictive power of other sciences which proceed from a unified theory to explain the varying phenomenon of nature. Thaler details the problems with rational theory. He explores the early stages of his career as an economist, when he collected counter-instances to the theory of rational expectations. This leads to the first tentative attempts to form other theories about people's choices and behavior which do not make assumptions about their complete rationality. Theories like sunk costs and the fungible nature of money appear to be completely out of sync when tested against the reality of how people consider expenses and money. People make mistakes that are not in their best interests because they do not have complete information, or they act upon emotion rather than correct information. This book shows the inherent bias in any scientific community. Researchers base their entire careers on looking at a field in a certain way, and are very reluctant to set that view aside. Reputation, position, and power can retard the progress of scientific inquiry. Thaler's book shows that if enough effort is put behind gathering counter-instances in a field, eventually even the most ardent critic must take note.

As an economics major in college (but not career) I always thought that the mathematical models were impressive but a perfect example of GIGO (Garbage In Garbage Out.) The main problem was that they were all based on Economic Man, a mythical creature like unicorns. I never met any so I assumed that a new theory was needed. Just one example: To Economic Man the pain of losing \$100 is equal to the pleasure of making \$100 which we all know is not true. This book tries to bring this discrepancy in to economics by showing that Economic Man Misbehaves according to Classic but not Behavioral Economics.classical

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