

Spring 2010

RATIONALITY AND CHOICE

Christine Jolls and Amartya Sen

Session 1: Introductory	Jan. 25, 1-3pm
Session 2: Alternative Approaches to Rationality	Jan. 25, 4-6pm
Session 3: Rational Choice and Behavioral Economics	Feb. 8, 1-3pm
Session 4: Behavior, Choice and Information	Feb. 8, 4-6pm
Session 5: Heuristics and Biases: I	Feb. 22, 1-3pm
Session 6: Heuristics and Biases: II	Feb. 22, 4-6pm
Session 7: Consistency and Decision Theory	Mar. 8, 1-3pm
Session 8: Counterfactuals and Uncertainty	Mar. 8, 4-6pm
Session 9: Rationality as Maximization	Mar. 22, 1-3pm
Session 10: Paternalism	Mar. 22, 4-6pm
Session 11: Self-interest and Behavior	Apr. 12, 1-3pm
Session 12: General Discussion	Apr. 12, 4-6pm
Session 13: General Lecture by Prof. Sen	Apr. 19, 2:30-3:50pm

General description: Rationality is a central idea in economics, law, politics and moral and political philosophy. The demands of rationality have been formulated in different ways in classical and contemporary economics, in political science, in philosophical analysis of practical reason, and in legal theory including law and economics. This course will provide a critical examination of the different ways of characterizing rationality and its requirements. It will also consider the role of rationality in legal and political thought.

Requirement: Regular participation in classes and a term paper of about 25 standard pages. A proposal on the subject of the paper, with a motivating description, should be submitted by March 31. The final papers are due by May 6 for all students.

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Amartya Sen:
Mondays 11-12, Littauer Center 205, no appointment
needed
Tuesdays 11-12, Littauer Center 205, by appointment
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General readings:

The following books may be used as general reference:

Richard Thaler, Quasi Rational Economics.

Amartya Sen, Rationality and Freedom.

Other books of general relevance:

Depending on your particular interest you may or may not get involved with any of these books. If the subject of rationality really interests you, then "tasting" them to see whether any of these capture your interest may be worthwhile.

Daniel Kahneman, Paul Slovic and Amos Tversky, eds., Judgment Under Uncertainty: Heuristics and Biases.

Thomas Gilovich, Dale Griffin and Daniel Kahneman, eds., Heuristics and Biases: The Psychology of Intuitive Judgment.

Gary Becker, Accounting for Tastes.

George Akerlof, An Economic Theorist's Book of Tales.

Vivian Walsh, Rationality, Allocation and Reproduction.

Isaac Levi, Hard Choices.

Robert Nozick, The Nature of Rationality.

Jon Elster, ed., Rational Choice.

Gay Meeks, ed., Thoughtful Economic Man.

Jane Mansbridge, ed., Beyond Self-Interest.

Gary Becker, The Economic Approach to Human Behavior.

Thomas Schelling, Choice and Consequence.

Herbert Simon, Models of Thought.

Albert Hirschman, Shifting Involvements.

Michael Slote, Beyond Optimizing, especially Chapters 1 and 2.

Session 1: Introductory

Session 2: Alternative Approaches to Rationality

Gary Becker, The Economic Approach to Human Behavior, Chapter 1, pp. 3-14.

Robert Nozick, The Nature of Rationality, Chapter I ("How to Do Things with Principles"), pp. 3-40, particularly the sections on "Sunk Costs" and "Symbolic Utility," pp. 21-35.

Amartya Sen, "Rational Fools: A Critique of the Behavioural Foundations of Economic Theory," Philosophy and Public Affairs, 6 (1977): 317-344, reprinted in Amartya Sen, Choice, Welfare and Measurement, and also in Jane Mansbridge, ed., Beyond Self Interest.

Richard Thaler, Quasi Rational Economics, "Introduction," pp. xi-xxii.

Amartya Sen, Rationality and Freedom, Chapter 1 ("Introduction: Rationality and Freedom"), pp. 3-26 only.

Session 3: Rational Choice and Behavioral Economics

Daniel Kahneman and Jason Riis, "Living, and Thinking about It: Two Perspectives on Life," in F.A. Huppert, N. Baylis and B. Keverne, eds., The Science of Well-Being.

Daniel Kahneman and Richard H. Thaler, "Anomalies: Utility Maximization and Experienced Utility," Journal of Economic Perspectives, 20 (2006): 221-234.

Daniel Kahneman, "Maps of Bounded Rationality: A Perspective on Intuitive Judgment and Choice," in T. Frangsmyr, ed., Les Prix Nobel: The Nobel Prizes 2002.

Daniel Kahneman, "New Challenges to the Rationality Assumption," in Daniel Kahneman and Amos Tversky, eds., Choices, Values, and Frames.

Christine Jolls, "Behavioral Law and Economics," in Peter Diamond and Hannu Vartiainen, eds., Economic Institutions and Behavioral Economics (with responses by Ian Ayres and Christoph Engel).

Session 4: Behavior, Choice and Information

Amartya Sen, The Idea of Justice, Chapters 7-10, pp. 155-221.

Amartya Sen, "Isolation, Assurance and the Social Rate of Discount," Quarterly Journal of Economics, 81 (1967): 112-116, reprinted in Amartya Sen, Resources, Values and Development.

Peter Hammond, "Isolation, Assurance and Rules: Can Rational Folly Supplant Foolish Rationality?" in Kaushik Basu and Ravi Kanbur, eds., Arguments for a Better World.

Session 5: Heuristics and Biases: I

Amos Tversky and Daniel Kahneman, "Extensional Versus Intuitive Reasoning: The Conjunction Fallacy in Probability Judgment," Psychological Review, 90 (1983): 293-315.

Daniel Kahneman and Shane Frederick, "A Model of Heuristic Judgment," in K.J. Holyoak and R.G. Morrison, eds., The Cambridge Handbook of Thinking and Reasoning.

Christine Jolls and Cass Sunstein, "Debiasing Through Law," Journal of Legal Studies, 35 (2006): 199-241.

Session 6: Heuristics and Biases: II

Baruch Fischhoff, "Hindsight \neq Foresight: The Effect of Outcome Knowledge on Judgment Under Uncertainty," Journal of Experimental Psychology: Human Perception and Performance, 1 (1975): 288-299.

Hal R. Arkes, David Faust, Thomas J. Guilmette and Kathleen Hart, "Eliminating the Hindsight Bias," Journal of Applied Psychology, 73 (1988), 305-307.

Christine Jolls, Cass R. Sunstein and Richard Thaler, "A Behavioral Approach to Law and Economics," Stanford Law Review, 50 (1998), section IV.A only.

Linda Babcock, George Loewenstein, Samuel Issacharoff and Colin Camerer, "Biased Judgments of Fairness in Bargaining," American Economic Review, 85 (1995): 1337-1343.

Linda Babcock, Xianghong Wang and George Loewenstein, "Choosing the Wrong Pond: Social Comparisons in Negotiations that Reflect a Self-Serving Bias," Quarterly Journal of Economics, 111 (1996): 1-19.

Session 7: Consistency and Decision Theory

R. Duncan Luce and Howard Raiffa, Games and Decisions, section 2.4, pp.19-23, and for those not deterred by symbolic reasoning, also section 2.5, pp. 23-31.

Vivian Walsh, Rationality, Allocation and Reproduction, Chapter 4 ("Rationality as Consistency"), pp. 81-111.

Isaac Levi, Hard Choices, Chapters 1 ("Moral Struggle") and 2 ("Dilemmas"), pp. 1-35.

Amartya Sen, Rationality and Freedom, Chapter 3 ("Internal Consistency of Choice"), particularly pp. 121-37 (from Econometrica, 61 (1993)).

Optional: For those who are not deterred by stretches of formal reasoning, see also:

Amartya Sen, Choice, Welfare and Measurement, Chapter 1 ("Choice Functions and Revealed Preference), pp. 41-53, and Chapter 8 ("Social Choice Theory: A Re-examination"), section 4, pp. 169-78 (from Econometrica, 45 (1977)).

Rajat Deb, "Binariness and Rational Choice," Mathematical Social Sciences, 5 (1983): 97-106.

Herve Moulin, "Choice Functions over a Finite Set: A Summary," Social Choice and Welfare, 2 (1985): 147-160.

Session 8: Counterfactuals and Uncertainty

Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choice," Science, 211 (1981): 453-458.

Mark Machina, "Choice under Uncertainty: Problems Solved and Unsolved," Journal of Economic Perspectives, 2 (1988): 121-154.

Amartya Sen, Rationality and Freedom, Chapter 6 ("Rationality and Uncertainty"), pp. 225-244.

Richard Thaler, Quasi Rational Economics, Chapter 8 ("Experimental Tests of the Endowment Effect and the Coase Theorem"), pp. 137-166.

Christine Jolls, Cass R. Sunstein and Richard Thaler, "A Behavioral Approach to Law and Economics," Stanford Law Review, 50 (1998), section II.D only.

Charles R. Plott and Kathryn Zeiler, "The Willingness to Pay-Willingness to Accept Gap, the 'Endowment Effect,' Subject Misconceptions, and Experimental Procedures for Eliciting Valuations," American Economic Review, 95 (2005): 530-545.

Optional:

George Akerlof, An Economic Theorist's Book of Tales, Chapter 2 ("The Market for Lemons"), pp. 7-22.

Session 9: Rationality as Maximization

Robert Nozick, The Nature of Rationality, Chapter V ("Instrumental Rationality and Its Limits"), pp. 133-139 only.

Thomas Schelling, Choice and Consequence, Chapter 3 ("The Intimate Contest for Self Command"), pp. 57-82.

Richard Thaler, Quasi Rational Economics, Chapter 4 ("Economic Theory of Self-control," with H.M. Shefrin), pp. 77-90.

Amartya Sen, Rationality and Freedom, Chapter 1 ("Introduction: Rationality and Freedom"), pp. 37-45 only, and Chapter 4 ("Maximization and the Act of Choice"), pp. 158-194 (the mathematical appendix can be evaded, except by those who like that sort of thing) (from Econometrica, 65 (1997)).

Jean Tirole, "Rational Irrationality: Some Economics of Self-Management," European Economic Review, 46 (2002): 633-655.

Session 10: Paternalism

Bill New, "Paternalism and Public Policy," Economics and Philosophy, 15 (1999): 63-83.

Cass R. Sunstein and Richard H. Thaler, "Libertarian Paternalism Is Not an Oxymoron," University of Chicago Law Review, 70 (2003): 1159-1202.

Richard H. Thaler and Cass R. Sunstein, Nudge (2008), "Introduction," Chapter 4 ("When Do We Need a Nudge"), and Chapter 5 ("Choice Architecture"), pp. 1-16, 74-103.

Christine Jolls, "Governing America: The Emergence of Behavioral Law and Economics," in Max Weber Lecture Series (forthcoming).

Derek Bok, The Politics of Happiness (2010), Chapter 3 ("Should Policy-Makers Use Happiness Research"), and Chapter 11 ("The Significance of Happiness Research"), pp. 45-62, 205-212.

Session 11: Self-interest and Behavior

Gary Becker, Accounting for Tastes, Chapters 1 ("Preferences and Values") and 2 ("De Gustibus Non Est Disputandum"), pp. 3-49.

George Akerlof, An Economic Theorist's Book of Tales, Chapter 9 ("Loyalty Filters"), pp. 175-191.

Christine Jolls, Cass R. Sunstein and Richard Thaler, "A Behavioral Approach to Law and Economics," Stanford Law Review, 50 (1998), sections II.A through II.C and III.A only.

Amartya Sen, Rationality and Freedom, Chapter 1 ("Introduction: Rationality and Freedom"), pp. 26-37 only.

Richard Thaler, Quasi Rational Economics, Chapter 10 ("Fairness as a Constraint on Profit Seeking: Entitlements in the Market"), pp. 199-219.

Elizabeth Hoffman, Kevin McCabe and Vernon L. Smith, "Social Distance and Other-Regarding Behavior in Dictator Games," American Economic Review, 86 (1996):653-660.

George Akerlof, An Economic Theorist's Book of Tales, Chapter 8 ("Labor Contracts as Partial Gift Exchange"), pp. 145-174.

Ernst Fehr, Georg Kirchsteiger and Arno Riedl, "Does Fairness Prevent Market Clearing: An Experimental Investigation," Quarterly Journal of Economics, 108 (1993): 437-459.

Session 12: General Discussion

Session 13: Follow Up on the Course Material