

Psychology 89. Psychology, Economic Rationality, and Decision-Making

Fall, 2001

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Mechanics of the Course

This course will be run as a seminar. The syllabus includes a set of questions that I want you to have in mind as you do the reading. Each week, I will choose a subset of the questions and ask you, in groups of two, to write short papers that we will use to focus our discussion. The intent of group paper-writing is to get the people in the group to discuss the material outside of class, not to divide the assignment in half. We will have about three such papers each week, due on the Tuesday before class at 2PM, so that we can all read and think about them. The papers should be written not as summaries, but as critiques, with the intent of making clear what needs to be discussed. Each paper should end with three questions for class discussion. In class itself, we will discuss the papers by having each group give a five minute or so lead-in to get us started. We'll discuss the mode of distribution of papers in the first class.

We will begin each class by going around the room and having everyone spend a few minutes sharing reactions and questions with the rest of the class. Then, the paper writers will kick-off the rest of the discussion with their presentations.

Each of you will write two papers that I will grade. The first paper (6 pages) will be due after fall break. It will be a critical discussion of two of the readings from a given week. The second (10-12 pages) will be due on the last day of class. It will be a critical comparison of readings from two different class meetings. You will need to get my approval for whatever topic you choose. Along with these papers, there will be a scheduled, three-hour final exam. Some time after Thanksgiving I will give you a set of study questions from which the questions on the final exam will be selected. So all told, you can expect to write about six, short seminar papers (in groups), one, six-page paper, one 12-page paper, and a final. That should keep all of us busy.

Some of the readings for the course will be available in a package from Joanne Bramley in the Psychology office in Papazian. Most of the readings will be on electronic reserve.

Week 1. Introduction*Reading*

Schwartz, B. (1993). The costs of living: How market freedom corrupts the best things in life. (Manuscript)

Schwartz, B. (1997). Psychology, "idea technology," and ideology. Psychological Science, 8, 21-27.

Miller, D.T. (1999). The norm of self-interest. American Psychologist, 54, 1053-1060.

Questions

1. Can we "economize" on trust? Under what conditions is trust important for economic transactions? What threatens it? Where do we learn to be trustworthy?
2. What does it mean to ask the question (Schwartz, p.18), "what does the economy do to people?" Do people have a basic nature? If so, what is it and where does it come from? If not, what makes human nature what it is?
3. What defines a profession? How are economic considerations threatening the profession of medicine?
4. What is an "opportunity cost"? What are the opportunity costs of your being students at Swarthmore? Of your being in this class?
5. What is a "dominant good"? How might dividing our social lives into "spheres" solve the problems caused by economic imperialism? How might we decide to make the division? What criteria might we use?
6. Is it possible to have too much freedom? Is a market system the best way to maximize individual freedom?
7. To whom should I have thrown the ball, and why?
8. The "Costs" paper was written in 1993. What is your view of the relevance of its arguments almost a decade later? Have things gotten better or worse?
9. What is "idea technology"? What is ideology?
10. What is the proposed route by which theories can be "self-fulfilling"? What are some examples of this process? Are the examples compelling?
11. What is Miller's argument about the "norm of self-interest"? What does it add to my "ideology" argument?
12. What mechanisms does Miller suggest perpetuate the layperson's belief in the power of self-interest in the face of lots of contradictory evidence?

13. What do you think of Miller's discussion of how the idea of "standing" in the courts contributes to the norm of self-interest? Consider a local version of the "standing" idea. It is often suggested that classes that focus on race, class, ethnicity, or gender, to be legitimate, have to be taught by someone in the category. There is also often an undercurrent of belief that among the students in such classes, special weight should be given to the comments of those who belong to the group the class is about. What is your view of these ideas? Do they contribute to the norm of self-interest?

Week 2. Economic Rationality

Reading

Sowell, T. (1987). A Conflict of Visions. New York: Morrow. Chapter 2 (pp18-39).

Dyke, C. (1981). Philosophy of Economics. Englewood Cliffs, New Jersey: Prentice-Hall. Chapters 1-3 (pp.1-66).

Becker, G. (1987). Economic analysis and human behavior. In L.Green & J.H. Kagel (Eds.), Advances in behavioral economics. Vol. 1 . Norwood, N.J.: Ablex (pp.3-17).

Wolfe, A. (1989). Whose Keeper? Berkeley: University of California Press. Chapter 1 (pp.27-50).

Kuttner, R. (1996). Everything for Sale. New York: Knopf. Chapter 1 (pp.11-38).

Questions

1. Sowell argues that beneath any form of government or social institution is a certain conception of the nature of the people who must be governed or must participate in the institution. Compare the "constrained vision" of human nature that Sowell says lies beneath the U.S. Constitution with the vision of human nature that you think Swarthmore College is based upon.
2. What does Sowell have in mind when he contrasts the idea of "tradeoffs" with the idea of "perfectibility"?
3. Consider this quote from Walter Lippman, with which Sowell's chapter begins: "At the core of every moral code there is a picture of human nature, a map of the universe, and a version of history. To human nature (of the sort conceived), in a universe (of the kind imagined), after a history (so understood), the rules of the code apply." What does Lippman mean? What is the "moral code" that emerges from the doctrine of classical economics?
4. What is value in economics? Sketch alternative conceptions of economic value. What does

“utility” and how can we make interpersonal comparisons of utility?

5. What is rational economic man? How does he behave? In what domains does he operate?
6. What is the theory of revealed preference? How does it relate to the idea of “consumer sovereignty,” and to the idea that economics is about what people do do, not what they should do? What is Dyke’s view of revealed preference as a complete theory of utility, or welfare?
7. Becker argues that the “economic approach,” relying only on the assumptions that preferences are stable and that people try to maximize their utility, can fruitfully be applied to every aspect of human behavior. What is the “economic” account of marriage, and what happens to “love” and “commitment” in that account? What about the “economic” account of scholarly activity? What happens to “truth” in that account? Is there a way to falsify this very broad framework for understanding human behavior?
8. According to Wolfe, Adam Smith recognized what later economists either forgot or ignored—that self-interest was only a part of human motivation. What was Smith's view, and why were motives other than self-interest important?
9. Wolfe argues that the moral vision that underlies economics as an “imperial science” is that people should have as much choice as possible. Wolfe’s claim is that this is a moral view. An economist might argue that whether or not it has moral content, what justifies it is efficiency. When people are free to choose, the economic results, in terms of utility, are more efficient than when people are constrained. Sketch and evaluate this argument.
10. Wolfe talks a lot about “civil society” as an essential component of our social life. What does he mean by “civil society”? Why does Wolfe see the Chicago School as a threat to “civil society”? Is there a downside to civil society? Can you develop an argument that replacing a little bit of civil society with rational choice by individuals would not be such a bad thing.
11. Kuttner identifies three different senses of “efficiency—what might be termed “allocative,” “productive,” and “adaptive.” What are they and how are they different? How do markets contribute to each? Which of these three different types of efficiency should economic policy be directed at cultivating?
12. "People are never satisfied; no matter what they have, they always want more." Provide a critical discussion of this claim. Among the questions you might want to consider are these: What role does it play in modern economic conceptions of human nature? How might these conceptions be different if this claim was false? Discuss one respect in which this claim is true and one respect in which it is false of a typical student at Swarthmore. Is there anything to be said for unlimited human desire as a good thing?

Week 3. Psychology and Economic Rationality: Behavioral Decision-Making

[The reading for this week is focused on the evidence that people do not behave as rational economic choosers in the way that economists say they do. This will be a key theme throughout the rest of the course. Your goal should be to develop a detailed sense of people's "limitations," bearing in mind two questions: are they really "limitations"; and what implications do they have for the economist's view of human nature. The first reading, by Bazerman, provides a nice summary of the various shortcomings in human decision making that have been discovered. There are no questions below on Bazerman. It should provide a good framework for understanding the other readings. Virtually all of the readings revolve around one or another aspect of what is called "prospect theory," so please be sure that you understand this theory.]

Reading

Bazerman, M. (1998). Judgment in Managerial Decision-Making. New York: Wiley. Chapters 2-3 (pp.11-66).

Kahneman, D., & Tversky, A. (1984). Choices, values, and frames. American Psychologist, 39, 341-350.

Thaler, R. H. (1999). Mental accounting matters. Journal of Behavioral Decision Making, 12, 183-206.

Kahneman, D., Knetsch, J.L., & Thaler, R.H. (1991). The endowment effect, loss aversion, and status quo bias. Journal of Economic Perspectives, 5, 193-206.

Thaler, R.H. (1990). Savings, fungibility, and mental accounts. Journal of Economic Perspectives, 4, 193-205.

Tversky, A. & Thaler, R.H. (1990). Preference reversals. Journal of Economic Perspectives, 4, 201-211.

Questions

1. How does prospect theory differ from standard utility theory as understood by economics? What is a "frame," and what role does it play in prospect theory? Relate "framing" to the concepts of "anchoring and adjustment" discussed by Bazerman..
2. Some people criticize the research that is done on human decision making as artificial because it so often involves having people make choices among probabilistic gambles, something that people seldom do in real life. A counter-argument is that virtually every decision people make involves a significant amount of uncertainty, so that choices among gambles is actually a pretty good model of real life. Identify two real life decision situations that ordinary

people like you face. Describe them in a way that identifies both the payoffs and the uncertainties associated with the outcomes of the decision. Then relate your description to the kinds of gambles people face in the laboratory.

3. Review the role of "decision frames" in influencing the choices people make under conditions of uncertainty. Can we talk meaningfully about "rational" and "irrational" decision frames? What is the difference between "topical" and "comprehensive" mental accounts? What is the "rational" way to keep accounts? What are the implications of the work on framing and mental accounting for a theory of economic rationality?

4. Thaler makes a set of recommendations, based on prospect theory, about how people should keep their mental accounts to maximize utility. First, what are they? Second, why, and in what sense, do they maximize utility? What is the relation between maximizing utility and maximizing accuracy?

5. What is the distinction Thaler makes between "acquisition utility" and "transactional utility"?

6. What is the "sunk cost" effect, and how is it related to mental accounting? Is it irrational? Why (or why not)?

7. Why is it in the interest of sellers to offer purchase package plans rather than charging separately for each item in the package? Why do buyers buy packages even though they cost more than their components, sold separately? How does this relate to the effect of using credit cards rather than cash on consumer spending? Think about how this phenomenon might predict the kind of health insurance plans people will prefer.

8. What is Thaler's argument for why it is better to give people things as gifts than cash? More generally, how do people use mental accounts to control temptation, both in spending and in saving?

9. Is mental accounting "good for us," or should we be training people to do their accounting differently?

10. What is the endowment effect and how is it demonstrated? What does it imply about the shape of our indifference curves (see Dyke from Week 2)? What causes it? Why does it produce a "status quo bias"?

11. Economists believe that a dollar is a dollar is a dollar—that money is totally fungible, independent of how it is earned or how it is saved. What is the evidence? Does it make sense for there to be different "types" of money?

12. One could view all the findings you read about this week as indicating that prospect theory must replace utility theory as an account of how people make decisions. Once that is done, the rest of the theoretical edifice of economics can be preserved—even strengthened—because it will now rest on much sounder psychological foundations. An alternative view is that because of

the nature of prospect theory, it rocks the foundations of standard economics to the core. Make an argument in support of one of these two positions.

Week 4. Goals of Economic Rationality: Happiness

Reading

Frank, R. (1999). Luxury Fever. New York: Free Press. Chapters 1-6 (pp 1-93).

Myers, D.G. (2000). The funds, friends, and faith of happy people. American Psychologist, *55*, 56-67.

Myers, D.G. & Diener, E. (1995). Who is happy? Psychological Science, *6*, 10-19.

Diener, E. & Biswas-Diener, R. (2000). Income and subjective well-being: Will money make us happy? Unpublished manuscript.

King, L.A. & Napa, C.K. (1998). What makes a life good? Journal of Personality and Social Psychology, *75*, 156-165.

Questions

1. "While there are certain kinds of "goods," like clean lakes and beautiful parks, that require some kind of public policy to create and preserve, most of the goods people consume are a private matter, and in a democracy like ours, that reveres individual rights, what people do with their money is nobody's business." Critically evaluate this claim. What would Frank have to say about it.
2. Frank offers two explanations for the rapid growth in consumption of luxury goods. One is the human concern for status and relative position. The second is the growth of what he calls the "winner-take-all society." Review Frank's arguments.
3. Frank first shows that increases in income do not produce increases in subjective well-being, but then he goes on to argue that rather than showing that "money can't buy happiness," what this shows is that people spend their money on the wrong things. What are his arguments? Do you buy them? If so, why do you think people spend their money on the wrong things?
4. According to the Myers papers, what are the components of happiness? What factors seem to play the biggest role in predicting happiness? What factors seem largely irrelevant? Based on this evidence, what advice would you give an incoming first year Swarthmore student about how to allocate his/her time and energy?

5. Diener and Diener report a modest correlation between income and well-being within nations and a fairly sizeable one between nations. But they also report essentially no effect of income change on well-being either in individuals or in nations. How do they make sense of this patterns of results? How do you?
6. What is the relation that Diener and Diener report between strength of material goals and well-being. Why?
7. King and Napa report a study of the “folk concept” of the good life. What do people think makes a good life, a life they would want to live? What roles to “happiness,” “meaning,” and “money” play? What do you think people in the study think “happiness” is, if it’s different from “meaning” and “money”? Do King and Napa find any interesting differences between conceptions of a desirable life and conceptions of a moral life? Are you convinced by their study? Why? If people tend to see money as relatively unimportant to either a desirable life or a moral life, how are we to understand the extraordinary degree to which material pursuits dominate people’s lives?
8. This week’s reading was about happiness, or subjective well-being. Economics tells us that people choose so as to maximize their utility, at least if they are rational. What would an economist say if confronted with this week’s readings? What, if anything, do this week’s readings imply about rationality in general, and about economic rationality in particular?

Week 5. Happiness: Adaptation, Relative Position, and Self-Awareness

Reading

Kahneman, D. (1999). Objective happiness. In D. Kahneman, E. Diener, & N. Schwarz (Eds.), Well-Being: The Foundations of Hedonic Psychology. New York: Russell Sage, pp.3-25.

Loewenstein, G. & Schkade, D.(1999). Wouldn’t it be nice? Predicting future feelings. In D. Kahneman, E. Diener, & N. Schwarz (Eds.), Well-Being: The Foundations of Hedonic Psychology. New York: Russell Sage, pp. 85-108.

Frederick, S. & Loewenstein, G. (1999). Hedonic adaptation. In D. Kahneman, E. Diener, & N. Schwarz (Eds.), Well-Being: The Foundations of Hedonic Psychology. New York: Russell Sage, pp.302-328.

Gilbert, D.T. & Jenkins, J.E. (2000). Decisions and revisions: The affective forecasting of escapable outcomes. Unpublished manuscript.

Frank, R. (1999). Luxury Fever. New York: Free Press. Chapters 8-11 (pp 107-172).

Questions

1. Explicate Kahneman's arguments about the measurement of "objective happiness." What is the point of his distinction between "instant utility" and "remembered utility"? What is the point of his distinction between judgments of color and judgments of length? What is his argument that hedonic judgments are more like judgments of color? How do norms and standards affect hedonic judgments? What is the "hedonic treadmill"? Does it reflect an adaptation effect or an effect of comparison with a changed standard? What is the "satisfaction treadmill"? How is it different from the "hedonic treadmill"? What is Kahneman's argument about the implications of each type of treadmill for social policy?
2. What is the difference between "decision utility" and "experienced utility"? What is the "peak-end" rule of remembered utility, and how does this relate to the distinction between decision utility and experienced utility? If there is a consistent and significant difference between people's experienced utility and their remembered utility, which of them should people be trying to maximize? And which of them should social policy be directed at improving?
3. Discuss the various mechanisms that might be responsible for the inaccurate prediction of future feelings. Review the evidence of people's inability to predict accurately their future feelings as a result of one or another event or experience.
4. Suppose you are a doctor trying to decide how to treat a seriously ill patient, or a policy maker trying to decide how to improve quality of life by allocating resources. Based on the papers by Kahneman and by Loewenstein, to what extent should your decisions be based upon what people tell you they want? How would you handle the inaccuracies described in this week's readings in making your decision?
5. What is adaptation? Why is it a good thing that organisms adapt? What is the difference between sensory and cognitive adaptation? What is the difference between shifting of adaptation levels and desensitization?
6. What do Gilbert and Jenkins mean by the "psychological immune system"? What do they mean by "immune neglect"?
7. "All other things being equal, it is better to be able to keep your options open than not. It is better to be able to drop this course until the very last minute than for there to be a drop/add deadline. In general, situations involving reversible decisions are better than situations involving irreversible decisions." What would Gilbert and Jenkins have to say about this quote. What is their evidence?
8. Review the evidence discussed by Frank that people care more about their relative position than their absolute position. Though this concern would seem to give rise to such negative emotions as jealousy, envy, and competitiveness, Frank suggests that it actually serves us well. What is his argument? Do you think it's true that Swarthmore students care more about their

relative than their absolute position in the “smartness” hierarchy at Swarthmore? Would they be well served if we found a way to increase the extent to which they compare themselves to others?

Week 6. Happiness: The Problem of Choice

Reading

Schwartz, B. (2000). Self-determination: The tyranny of freedom. American Psychologist, 55, 79-88.

Iyenigar, S.S. & Lepper, M.R. (2000). When choice is demotivating: Can one desire too much of a good thing. Journal of Personality and Social Psychology, 79, 995-1006..

Schwartz, J.A. & Chapman, G.B. (1999). Are more options always better: The attraction effect in physicians' decisions about medication. Medical Decision Making, 19, 315-323.

Iyenigar, S.S. & Lepper, M.R. (1999). Rethinking the value of choice: A cultural perspective on intrinsic motivation. Journal of Personality and Social Psychology, 76, 349-366,

Loewenstein, G. (2000). Costs and benefits of health and retirement related choice. In S. Burke, E. Kingson, & U Reinhardt (Eds.), Social Security and Medicare: Individual vs. Collective Risk and Responsibility. Washington, D.C.; Brookings Institution Press.

Dworkin, G. (1988). The Theory and Practice of Autonomy. New York: Cambridge University Press. Chapter 5.

Sunstein, C.R. & Ullmann-Margalit, E. (2000). Second-order decisions. In C. R. Sunstein (Ed.), Behavioral Law and Economics. New York: Cambridge (pp.187-209).

Questions

1. What can it mean to talk of freedom as “tyrannical”? What evidence does Schwartz draw on to suggest that too much choice is bad for people? What is the argument that “framing,” rather than distorting reality and clouding people’s vision of how things really are, is essential to rational decision making?
2. There are at least two different respects in which modern Americans experience more freedom of choice than their predecessors. First, within the domain in which choice was always salient (ie., consumption of goods and services), people have more options than ever before. Second, there are now entire domains of life (eg., romantic relations, family commitments, religious observance, etc.) where individual autonomy has replaced cultural constraint. Discuss

these two different types of increase in freedom. Do you think they have different effects on human well being? Relate the increase in autonomy in non-economic domains to Becker's argument (Week 2) that every domain of life is really economic.

3. Review the evidence reported by Iyenigar and Lepper (2000) that sometimes increasing people's options lowers their motivation. Is there an "optimal" level of choice? What are the possible mechanisms suggested by Iyenigar and Lepper? Can you think of a way to separate them experimentally?
4. Can you think of circumstances in your own life in which you would prefer to have a decision made for you rather than by you? What are they and what are their characteristics?
5. Loewenstein addresses whether the proliferation of choices in the domains of health care and retirement planning have made people better or worse off. What are the benefits, in general, of increased choice? What are the costs? In balancing benefits and costs, does Loewenstein think that increased choice in health care and retirement is good or bad for people? Some people have argued that markets and choice are wonderful in their place, but that place is not every place. In particular, in all the really important domains, social policies should not be left to markets. What would Loewenstein say about this? What do you think? How would you feel if most of the choices about your education at Swarthmore were made for you, by experts?
6. Dworkin suggests that the value of choice is so taken for granted as to be axiomatic in both economics and in liberal political philosophy. And if choice is good, it is assumed, then more choice is better. What are his arguments against this view? What does he mean when he says that it is morally significant simply to introduce the possibility of choice into a domain, independent of how that choice is exercised? What does he mean by the "intrinsic," or "non-instrumental" value of choice? What is his argument that even if we accept that choice is intrinsically good, it does not follow that more choice is intrinsically better? Does his argument apply equally to increasing choice opportunities within a domain and to increasing them across domains (see Question 2)?
7. What are "second-order decisions"? What are the strategies that people and societies use to avoid having to make first-order decisions all the time? What are the virtues and drawbacks of rules as alternatives to individual decisions? Suppose you were charged with the task of designing the Swarthmore curriculum. How would you combine the various second-order decision strategies outlined by Sunstein and Ullmann-Margalit into a set of curricular policies? In what domain(s) and to what extent would you permit first-order decisions by students? Does it make a difference to you whether second-order decisions are imposed by some authority or voluntarily accepted by the people who are affected by those decisions?
8. Do this week's readings persuade you that choice is not all that it's cracked up to be. If not, why not? If so, how would you go about limiting or restricting the options that people faced?

Week 7. Regret and Other Emotions

Reading

Landman, Janet (1993). Regret. New York: Oxford University Press. Chapters 1 and 5 (pp.3-34, 111-154).

Gilovich, T. & Medvec, V.H. (1995). The experience of regret: What, when, and why. Psychological Review, 102, 379-395.

Zeelenberg, M. (1999). Anticipated regret, expected feedback, and behavioral decision making. Journal of Behavioral Decision Making, 12, 93-106.

Roese, N.J. (1997). Counterfactual thinking. Psychological Bulletin, 121, 133-148.

Questions

1. What, according to Landman, are the positive pragmatic, ethical, and social functions of regret? What does it mean to say that regret is a moral emotion? Do you think people would be happier if they could keep themselves from looking back emotionally (regretfully) at past decisions? Do you think the world would be better? What is the distinction between “substantive” and “procedural” rationality made by Landman (p.112)? Relate this distinction to what economists seem to mean by rationality.
2. “It makes no sense to say that a person can regret something even as he or she is doing it. What can this mean? If the person really regretted doing A rather than B, she would do B. So-called ‘concurrent regret’ is really just a mismatch between what people say they want and what they actually want. And we must always trust what people do, not what they say.” Evaluate this claim.
3. Explicate Landman’s critique of rational decision theory, especially as regards the phenomenon of regret. Do you find her arguments convincing? What are some decision-theory based models that try to factor in regret?
4. What is the role of counterfactual thinking in the experience of regret? Is it a good or a bad thing that people have a strong tendency to engage in counterfactual thinking? What are its determinants, according to Roese? Can you identify particular circumstances in your own life when you are likely to engage in counterfactual thinking? Is there anything they have in common?
5. What is the evidence that people treat commissions and omissions asymmetrically in thinking

counterfactually, tending to ignore or minimize acts of omission? Relate this asymmetry to the economic concept of “opportunity cost.” Does it help explain why people are so bad at thinking about their decisions in terms of opportunity costs?

6. People argue that one explanation for why people are risk averse (see Week 3) in making decisions is that they avoid risk to avoid the regret involved in risky decisions that go badly. Zeelenberg argues that rather than thinking of people as risk averse, it is more accurate to think of them as “regret averse,” and that sometimes, people will take risks to avoid regret. What is his evidence? How does he use the idea of regret aversion to explain the choices people typically make in the “ultimatum bargaining” game?

7. Consider the reading we did in Weeks 3-5 on how people make decisions, on happiness, and on adaptation. What do these readings imply about the occurrence of regret? What can people do to minimize regret? Should people try to minimize regret?

Week 8. Individual Rationality and Social Norms

Reading

Sunstein, C.R. (1996). Social norms and social rules. Columbia Law Review, 96, 903-968.

Haidt, J. (2001). The emotional dog and its rational tale: A social intuitionist model of moral judgment. Psychological Review, in press.

Fiske, A.P. & Tetlock, P.E. (1997). Taboo trade-offs: Reactions to transactions that transgress the spheres of justice. Political Psychology, 18, 255-297 (255-285 required; the rest recommended).

Tetlock, P.E., Kristel, O.V., Elson, S.B., Green, M.C., & Lerner, J.S. (2000). The psychology of the unthinkable: Taboo trade-offs, forbidden base rates, and heretical counterfactuals. Journal of Personality and Social Psychology, 78, 853-870.

Hollis, M. (1979). Rational man and social science. In R. Harrison (Ed.). Rational Action. Cambridge: Cambridge University Press, pp.1-15.-

J. Martin and G. Stent (1990). I think; Therefore I thank. American Scholar, 59, 237-254.

Questions

1. Sunstein argues that rather than viewing personal preferences and social norms as in conflict, it is more accurate to view social norms as making a major contribution to preferences. Further,

he argues that rather than seeing social norms as constraints on individual freedom, it is more accurate to view them as enabling freedom. What are his arguments?

2. What is the role of social norms in establishing “mental accounting” practices? How do they contribute to blocking exchanges among certain kinds of goods and to preventing the fungibility of all goods? How can social norms contribute to our understanding of Thaler’s discussion of mental accounting (Week 3)?

3. Sunstein discusses a process by which norms that originally arise out of instrumental concern become “moralized” and take on a life of their own, even if the original instrumental concerns fade away. For example, one might understand religious dietary laws as having developed in this way. Consider this process of moralization as it related to the public attitude toward smoking. What are the benefits of getting people to see some issue as moral rather than just instrumental?

4. Economists tend to view choices as preferences, or more accurately, as “revealed preferences.” Sunstein criticizes this idea, suggesting that at the very least, we need to know why people make the choices they do. What is his argument? What, more generally, is his critique of the economists’ tendency to equate choice with preference?

5. Haidt argues that moral judgments by and large reflect moral intuitions rather than rational deliberation. The rational part comes later, and when it does come its role is largely to justify the intuition rather than evaluate it. In his discussion of the source of our moral judgments, Haidt says that “reason is more like a lawyer than a judge.” Where do moral intuitions come from? What roles do habit and social norms play in the forming of moral intuitions? If you were to accept Haidt’s conclusions, how would you design a program of moral education for kids?

6. Fiske and Tetlock make the argument that certain kinds of tradeoffs are regarded by people as taboo, that is, morally unacceptable. What is their argument? What sets the boundaries that mark off acceptable from unacceptable tradeoffs? What role do social norms and legal principles play? What role do the four basic modes of social relations (communal sharing, authority ranking, equality matching, and market pricing) play in establishing the boundaries between acceptable and taboo tradeoffs? Evaluate the argument that in reality, people are forced to make so-called taboo tradeoffs all the time, and barriers to making such tradeoffs only lead to poor decisions? What are the implications of the notion of taboo tradeoffs for the economists’ efforts to suggest that people evaluate everything on a single scale of utility. Would people, and society, be better or worse off if this were true?

7. What do Tetlock et al mean by “taboo trade-offs,” “forbidden base rates,” and “heretical counterfactuals”? What is their evidence that people care about such things? What is the “sacred value protection model”? What would an economist say about the “rationality” of behavior like this?

8. Hollis talks about how “lock,” “stock,” and “barrel” respond to a water shortage. Which of them is rational, according to economists? Which of them is rational according to sociologists?

Which of them is rational, according to Hollis? What are the assumptions Hollis attributes to the economists that lead them to arrive at their conclusion about rationality? What does he mean by “expressive rationality”?

9. Why, according to “Ms. Manners” (Judith Martin) is etiquette a serious, important, and valuable thing?

Week 9. Cost-Benefit Analysis and the Violation of Social Norms

Reading

Baron, J. (1986). Tradeoffs among reasons for action. Journal for the Theory of Social Behavior, 16, 173-195.

Baron, J. (1988). Utility, exchange, and commensurability. Journal of Thought, 23, 111-131.

Schwartz, B. (1988). Some disutilities of utility. Journal of Thought, 23, 132-147.

Prelec, D. & Herrnstein, R.J. (1997). Preferences or principles: Alternative guidelines for choice. In R.J. Herrnstein, The Matching Law: Papers in Psychology and Economics. New York: Russell Sage, Chapter 15 (pp.293-312).

Sunstein, C.R. (2000). Cognition and cost-benefit analysis. Journal of Legal Studies. [Read to page 43, the section titled “*Incomplete Theorization: Cost-Benefit Analysis As Political, Not Metaphysical.*”]

Nussbaum, M. (1990). Love’s Knowledge. New York: Oxford University Press. Chapter 2, pp.54-75.

Easterbrook, G. (2000). Green values. The New Republic, November 13, 18-21.

Gottlieb, B. (2000). Price is right. The New Republic, May 22, 16-18.

Berkowitz, P. (2000). The futility of utility. The New Republic, June 5, 2000, 38-44.

Questions

1. What does Baron mean by “lexical rules”? What is his distinction between “normative” and “prescriptive” moral theories? What is the difference between “rule utilitarianism” and “act utilitarianism,” and how does that relate to normative and prescriptive moral theories?

2. Baron argues that people should try to move as far as possible in the direction of normative rather than prescriptive (simple) moral rules. In making this argument, he rejects the “slippery slope” arguments of opponents of his view. What are his arguments? (you should rely on both Baron papers).
3. Schwartz acknowledges the force of Baron’s arguments but then offers a counterargument that worries about just the sort of slippery slope that Baron has previously dismissed. What is this slippery slope? How slippery is it? What sorts of things in society create friction that prevents everyone from sliding down it?
4. Sunstein argues that social policy with regard to expenditures of money to reduce risks to human health and safety are inconsistent at best and incoherent at worst. He attributes these defects to a variety of “imperfections” in human decision making. What are they, and how do they operate to produce bad social decisions? What role can cost-benefit analysis play in correcting these problems? Discuss the Gottlieb and Easterbrook articles from Sunstein’s perspective. Should we sell kidneys? Should we put a price on the environment?
5. Compare Sunstein’s discussion of cost-benefit analysis with his discussion (Week 8) of the importance of social norms. Are the arguments in these two papers compatible with one another? What would be the effect on social norms of routine cost-benefit analysis by most people on most issues?
6. What is the importance of rules to achieving our rational interests according to Prelec and Herrnstein? Why and under what circumstances do we need them? Relate their arguments to Posner’s arguments, as reviewed by Berkowitz. What do you think would be the long-term effect on the power of rules of a general understanding that we obey them because it’s good for us?
7. What is “practical wisdom”? Nussbaum identifies four characteristics of rational choice theory that Aristotle would reject: singleness, metricity, consequentialism, and maximization. What are they, and how are they related? What is the virtue in assuming that these characteristics operate in choice situations? What is Aristotle’s critique of them? What according to Nussbaum, are the key features of Aristotle’s conception of pleasure? Why are pleasures “incommensurable,” and why is pleasure the byproduct of action rather than its goal?
8. You could view the Aristotelian position about particulars versus general principles as an argument for the use of judgment rather than rules. What role would rules play even in an Aristotelian world? How does this distinction between rules and judgment relate to Baron’s discussion of “archangels” and “proles”? Think about some key professions in modern society: doctor, lawyer, judge, teacher. Imagine people who practice these professions in complete accordance with rules. In what ways is this better, and in what ways worse, than actual current practices?

Week 10. Economic Imperialism: Economic Consequences

Reading

Hirsch, F. (1976). Social Limits to Growth. Cambridge, Mass.: Harvard University Press. Chapters 2-3 (pp.15-54).

Kuttner, R. (1996). Everything for Sale. New York: Knopf. Chapters 2-6 (through p.208), 8 [*Pages 209-280 recommended*].

Cassidy, J. (2000). The productivity mirage. New Yorker, November 27, pp.106-118.

Waskow, A. (2001). Free time for a free people. The Nation, January 1, pp.22-25.

Questions

1. According to Hirsch, what is the distinction between material scarcity and social scarcity? What are "positional goods"? What is the consequence for economics of the fact that most scarcity in affluent societies is social? What problems are posed for measuring the productivity of society that many of societies "goods" are now social? What lies behind the apparent paradox that economic pressure increases with increasing affluence?
2. What are some schemes for making allocation decisions under conditions of social scarcity? Can these schemes be justified on economic grounds (in terms of efficiency)? On moral grounds? What is Hirsch's argument that "screening" produces social waste? What other kinds of social waste are produced by social scarcity? What is meant by the "tyranny of small decisions"?
3. Kuttner makes the argument that while the classical economic account of how markets work would probably survive if the assumption of economic rationality proved to be false, notions of "revealed preference" and "consumer sovereignty" would not. This, in turn, would open the door to all kinds of normative debates about how markets should be regulated. What is his argument? What do you think of the idea of consumer sovereignty? Who should be deciding what courses you take, for example?
4. In what ways is the labor market, as it has traditionally worked, different from the market for goods and services? According to Kuttner, what has transpired in recent years to make the labor market more like the product market? How does this account for increases in income inequality in the U.S.? Is the labor market, as it currently works, more or less efficient than it used to be?
5. What are the reasons why the market in health care fails to be efficient? Has it gotten better or worse with the growth of managed care? How about the shift from non-profit to for-profit

HMOs and hospitals? Would creating a better informed public solve the problem? Is there any way to use economic levers to get the health care system we want? If not, what do you think is necessary? Think about the modern physician from the perspective of Nussbaum's discussion (Week 9) of practical wisdom. Would physicians high in practical wisdom solve the health care problem?

6. Kuttner takes a dim view of how financial markets currently operate. Why? What is "efficient market theory," and what's wrong with it? What do you think of the claim that "if it's good for the financial markets, it's good for the economy"?

7. What does Kuttner think of the view that competition produces innovation with the market needing no help from the government? In light of his arguments, what are your thoughts about the Microsoft antitrust case?

8. What does Cassidy have to say about modern "efficiency" produced by technology? How would you criticize his argument? What about Waskow's argument on how much free time modern "efficient" Americans have?

9. What does Kuttner have to say about cost-benefit analysis? What is the difference between cost-benefit analysis and assessments of cost-effectiveness? Consider Kuttner's discussion of the effects of regulation in light of our own discussion of cost-benefit analysis in Week 9.

10. What is the difference between "exit" and "voice" as responses to things one doesn't like? How does this distinction relate to the question of social regulation? How does Hollis's distinction between "lock," "stock," and "barrel" (Week 8) relate to the distinction between "exit" and "voice," and the distinction between "command" and "incentive"?

Week 11. Economic Imperialism: Social Consequences

Reading

Wolfe, A. (1989). Whose Keeper? Berkeley: University of California Press. Chapters 2-3 (pp. 51-104).

Lemann, N. (2000). No man's town. New Yorker, June 5, 2000, pp.42-48.

Stone, D. (2000). Empty-nest politics. The Nation, June 12, pp. 49-53.

Hirsch, F. (1976). Social Limits to Growth. Cambridge, Mass.: Harvard University Press. Chapters 5-6 (pp. 71-101).

Hochschild, A. (1983). The Managed Heart. Berkeley: University of California Press. Chapters 6-7 (pp.89-161).

Walsh, M.W. (2000). When "may I help you" is a labor issue: The customer-service assembly line. New York Times, August 12, Section C, p.1.

Sennett, R. (1998). The Corrosion of Character. New York: Norton. Chapter 1 (pp.15-31).

Bertram, E. & Sharpe, K. (2000). Capitalism, work, and character. American Prospect, September 11, pp. 44-48.

Questions

1. Wolfe says: "Americans are not so much narcissistic as they are caught between competing moral codes, only one of which, they are convinced, will enable them to enjoy the irresistible benefits of modernity. The market, in other words...is there. Not much else is. And it seems to offer the least problematic option for many good people." (p.77) What does he mean? What evidence does he cite to support the claim that the market has transformed what he calls "intimate obligations"? What are his arguments that it can not replace those obligations?
2. In Chapter 3, Wolfe argues that the market also undermines what he calls "distant obligations"—obligations that extend across generations and to strangers. What is the evidence that people ever took such obligations more seriously than they do now? Consider the argument that the anonymity and impersonality of the market offers a better chance for a "universalist" social orientation than any other form of social regulation.
3. Wolfe suggests that there is a dynamic at work as the market penetrates people's lives that encourages them, for good reason, to look out only for themselves. What is the nature of that dynamic? To what extent is it something of a self-fulfilling prophecy? Can it be stopped or reversed by simply changing the way people think about their relations with one another, or are material changes required as well? Consider Lemann's article about Philadelphia in light of Wolfe's analysis.
4. "A significant aspect of the commercialization of social relations is that the process of commercialization affects the product." What does this mean? What is Hirsch's argument about the dynamics by which economic considerations penetrate social relations? What are the consequences (including economic) of such penetration? To what extent can the things Hirsch is describing be attributed to "modernity" and "individualism" rather than "economic imperialism"? Consider the book review by Stone in light of Hirsch's analysis.
5. What is Hochschild's argument about the instrumentalization of emotion and the erosion of the self in modern society? How does Walsh's article about the phone service industry relate to Hochschild's account? A successful disc jockey was once interviewed about the secret of his success. He attributed it to sincerity. "If you can fake that," he said, "you've got it made." Consider the Hochschild reading in light of this quote. What happens to authenticity as more and more people earn their livings in service industries? Think about your own summer jobs.

Have you ever been called upon to display feelings for a living? If so, how is this different from prostitution?

6. Sennett says (p.21) “the qualities of good work are not the qualities of good character.” What does he mean? How does this concern relate to the Hochschild reading. What is “good character,” and where do you think it comes from? What do Bertram and Sharpe have to say about the relation between the market and “good character?”

Week 12. Economic Imperialism: Moral Consequences

Reading

Walzer, M. (1984). Spheres of Justice. New York: Basic Books. Chapters 1,3,4,13.

MacIntyre, A. (1981). After Virtue. South Bend Indiana: University of Notre Dame Press. Chapter 14.

Hirsch, F. (1976). Social Limits to Growth. Cambridge, Mass.: Harvard University Press. Chapters 8-10 (pp. 117-151).

Anderson, E. (1990). The ethical limitations of the market. Economics and Philosophy, 6, 179-205.

Maitland, I. (1997). Virtuous markets: The market as school of the virtues. Business Ethics Quarterly, 7, 17-31.

Questions

1. What does Walzer mean by “complex equality” and by “spheres of life”? How are they defined and separated? How does the existence of a “dominant good” threaten complex equality and spheres of life?
2. What are the principles of distribution of goods identified by Walzer? What determines which principles will apply in which domains? What principles does Swarthmore College use in distributing its “goods”?
3. What does MacIntyre mean by a “practice”? When he argues that there are “two kinds of good possibly to be gained by playing chess”—internal and external, what does he mean by this, and how does it relate to practices? What is the relation between practices and virtues? What is the relation between practices and Walzer’s “spheres”? How does economic imperialism threaten practices?

4. Economists argue that the concept of "rationality" refers to the choice of means to given ends. Nothing can be said about the rationality of ends themselves. This is partly because choices of ends depend on what people value, and human values are individual, idiosyncratic, and incommensurable. This kind of analysis assumes that means and ends can be easily separated. How do this week's readings bear on this assumption?
5. Hirsch argues that in order to work, the free market depends on the adherence to certain moral precepts that can not themselves be justified on economic grounds. He further argues that the market erodes or undermines those very precepts. What are those moral precepts? What is Hirsch's argument? Why does he believe that Adam Smith's view, that it is possible, with free markets, to achieve socially beneficial results even with individuals whose motives are entirely selfish, is not true of modern society, even if it was true in Smith's time?
6. What is Maitland's counterargument to Hirsch? Do markets nurture virtue?
7. Anderson argues that there are important distinctions between market and non-market goods that are connected to the values that these different kinds of goods are intended to serve. Review her arguments, and relate them to the somewhat different arguments of Walzer and of Hirsch for why distinct spheres of life must be maintained.

Week 13. Ideology Revisited

Reading

Bowles, S. (1998). Endogenous preferences: The cultural consequences of markets and other economic institutions. *Journal of Economic Literature*, *36*, 75-111.

Frank, R.H., Gilovich, T., & Regan, D.T. (1993). Does studying economics inhibit cooperation? *Journal of Economic Perspectives*, *7*, 159-171.

Frey, B.S., Pommerehne, W.W., & Gygi, B. (1993). Economics indoctrination or selection? Some empirical results. *Journal of Economic Education*, *24*, 271-281.

Frey, B.S. & Oberholzer-Gee, F. (1997). The cost of price incentives: An empirical analysis of motivation crowding-out. *American Economic Review*, *87*, 746-755.

Miller, D.T. & Ratner, R.K. (1998). The disparity between the actual and assumed power of self-interest. *Journal of Personality and Social Psychology*, *74*, 53-62.

Questions

1. Economists usually assume that individual preferences are “exogenous,” meaning that they come from wherever they come from and economic theory has little to say about their origins, but much to say about what people do about satisfying them. Bowles’s paper is an extensive argument that preferences are “endogenous”—that economic institutions create preferences rather than just satisfying them. What is the significance of the exogenous/endogenous distinction? How does it affect the kinds of arguments one might make to defend or criticize markets as the dominant institutions in modern society?
2. Review Bowles’s arguments that markets affect preferences by affecting how opportunities are framed, by affecting motivation, by affecting social norms, and by affecting the nature of work. What is it about markets that produces these effects? Why are they especially important under conditions of what Bowles calls “incomplete contracting”?
3. How does Bowles’s discussion related to the concept of ideology as discussed in Week 1?
4. Discuss the Frank, Gilovich, & Regan paper in light of our discussion of ideology in Week 1. What is the evidence that “economists are different from you and me”? What is the evidence that it is something they learn by studying economics rather than a feature of their character that may attract them to economics? How does the Frey, Pommerehne, and Gygi paper speak to the direction of causality?
5. What is the “crowding-out effect”? How do Frey and Oberholzer-Gee explain it in connection with the “NIMBY” problem of siting a nuclear waste dump? What are alternative explanations and how can they be ruled out? What does this result bear on the notion of ideology?
6. Miller and Ratner try to show that people seem to assume that self-interest is a much more important force in human motivation than it really is. What is the logic of their studies? What are the results? Are you persuaded by them? If not, can you identify alternative explanations of what they found, or flaws in their methods? What do you think would happen if we did a study like theirs, polling say honors and non-honors students about proposed changes in the Swarthmore spring calendar? Consider the relation between what Miller and Ratner found and the kind of “identity politics” that dominates college campuses that argues that only members of certain groups can speak with legitimacy about issues involving those groups. Is this a version of the assumption of self-interest or something else?
7. If people are mutable—their natures shaped in important ways by social circumstances—what kind of human characteristics do we want to encourage? From what vantage point, philosophically speaking, can we criticize the “bad” transformations that are taking place and argue that certain “good” characteristics should be preserved? From what vantage point can we also advocate “good” transformations when they are needed?