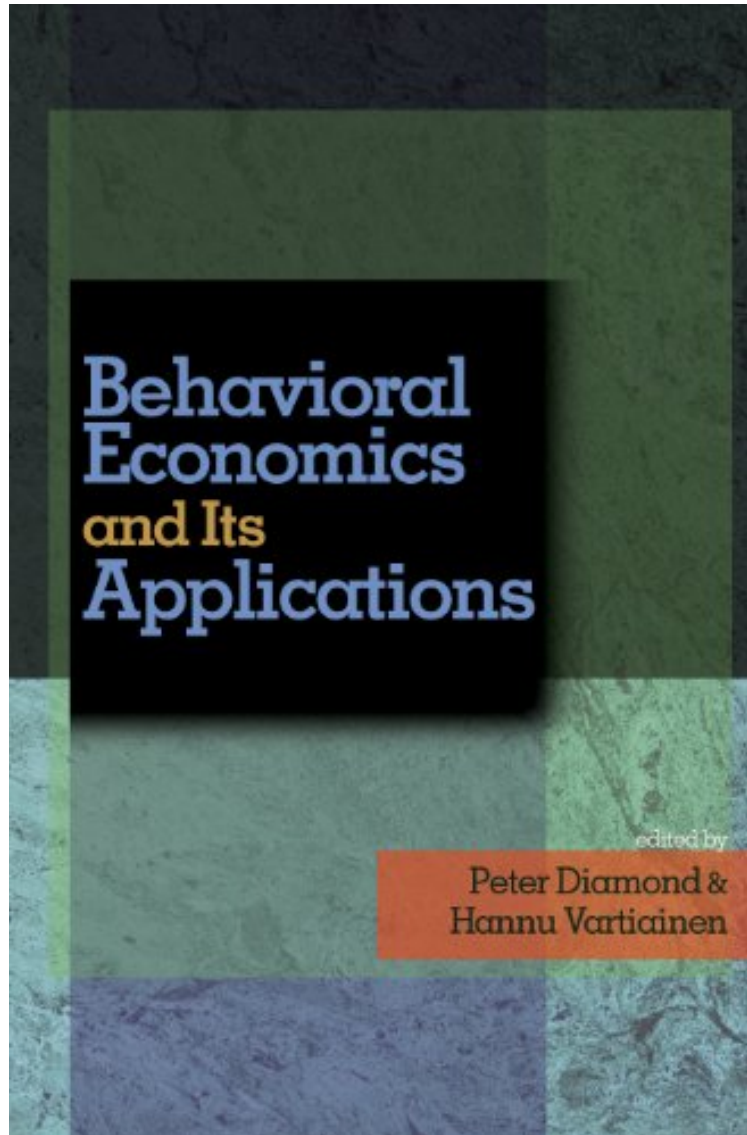


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## Behavioral Economics and Its Applications

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**From Princeton University Press : Behavioral Economics and Its Applications** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Behavioral Economics and Its Applications:

38 of 38 people found the following review helpful. Useful Review of Policy Implications of Behavioral Economics By Herbert Gintis This edited volume is the outgrowth of an international conference on the topic held in Helsinki in June, 2004. Behavioral economics is moving so rapidly that the various contributions must serve as an introduction to policy areas, not a description of cutting edge research. I recommend this book to experts in the area because of its breadth (it covers six different policy-relevant fields), and to curious newcomers because each policy

area is approached as though the reader knows the traditional theory but not the behavioral alternative. In some of the areas, the results are strong, whereas in others, little has been learned to date, but the potential for behavioral contributions is made clear by the author. The strongest chapter in the book, also the most focused, is Truman Bewley's study of the causes of wage rigidity over the business cycle. He concludes that firms are reluctant to lower wages when labor demand is weak, because directors believe that such a move would adversely affect "worker morale." The theoretical importance of this result is inestimable, since it implies that the culture of the workplace, ignored in standard economic theory, is an important determinant of profits and productivity. The policy implications are important as well, since this result suggests a dimension of macroeconomic stabilization not usually considered in standard economic theory. The review of behavioral public economics does a good job dealing with time inconsistency, addictive substances, and contributions to public goods. The discussion is somewhat dated on the first issue, since very explicit taxation and savings policies based on framing effects and time inconsistency have emerged in the past three years. The discussion of public goods deals with experiments, but not the large literature on private charity and voter behavior towards redistribution policy. Similarly, there is a nice behavioral literature on individual preferences concerning taxation that is not dealt with here. Among the more interesting contributions is a chapter on behavioral psychology and international poverty. The author argues that development policy should be based on the idea that the poor in poor countries have the same cognitive and behavioral limitations that behavioral economics has documented for the non-poor in rich countries. This is a refreshing alternative to the two standard notions that (a) the poor are Homo Economicus without wealth; and (b) the poor have behavioral characteristics, not shared by the non-poor, that make them poor. Much more work has been done in this area since the Helsinki conference. I direct the reader to a brilliant review paper in the *Journal of Economic Perspectives*, Vol 21, No. 1, Winter 2007, pgs 141-167, by Duflo and Banerjee. The possible future impact of this work may well be very great. It is surprising that the editors chose not to include a chapter on behavioral finance. This research area is among the most active in behavioral economics, and potentially with the most important implications for regulatory policy. Of course, there are other fine books covering this area, but a summary chapter would have been useful for the reader. The inspiration for this book is the behavioral economics centering on how individuals make decisions. There is an additional area, which might be called behavioral game theory, which has discovered important behavioral regularities in human strategic interaction, that is virtually absent from this book. The standard view of the authors is that individuals are boundedly rational, loss averse, erratic decision-makers prone to error, and poor logicians subject to framing errors. The newer literature stresses the capacity of humans to behave in ways that enhance cooperation in complex societies. For instance, the issue of corruption is dealt with in only two pages, and the issue of when individual exhibit such character virtues as honesty, trustworthiness, and social commitment is barely touched upon. 1 of 1 people found the following review helpful. The other side of economics By Pat House If you've noticed that classical economics usually doesn't fit well with the real world of healthcare, this is a great book to have on your shelf. I purchased it as a supplement to a doctoral-level course I teach in health economics. The healthcare section is very good, covering physician behavior, demand, and insurance, but its orientation is national healthcare, so the chapter doesn't address in much depth payer or employer behavior. There also are excellent chapters on behavioral economics and law, public policy, welfare, psychology, and organizational effort. Text notes and references are excellent. The format is great for students: chapter content is presented followed by commentary and constructive criticism from experts. I have turned to this book time and again in my own research. This is a great companion text to more recent health economics texts by authors who step out from the rigors of classicism, such as Shirley Johnson-Lans. 0 of 0 people found the following review helpful. An Extremely Valuable Contribution By Hugh H. Schwartz Behavioral Economics and Its Applications is an extremely valuable collection, outlining the ways in which leading economists have concluded that the approach of behavioral economics can be applied to a number of areas. Hugh Schwartz, author of A Guide to Behavioral Economics

In the last decade, behavioral economics, borrowing from psychology and sociology to explain decisions inconsistent with traditional economics, has revolutionized the way economists view the world. But despite this general success, behavioral thinking has fundamentally transformed only one field of applied economics--finance. Peter Diamond and Hannu Vartiainen's *Behavioral Economics and Its Applications* argues that behavioral economics can have a similar impact in other fields of economics. In this volume, some of the world's leading thinkers in behavioral economics and general economic theory make the case for a much greater use of behavioral ideas in six fields where these ideas have already proved useful but have not yet been fully incorporated--public economics, development, law and economics, health, wage determination, and organizational economics. The result is an attempt to set the agenda of an important development in economics--an agenda that will interest policymakers, sociologists, and psychologists as well as economists. Contributors include Ian Ayres, B. Douglas Bernheim, Truman F. Bewley, Colin F. Camerer, Anne Case, Michael D. Cohen, Peter Diamond, Christoph Engel, Richard G. Frank, Jacob Glazer, Seppo Honkapohja, Christine Jolls, Botond Koszegi, Ulrike Malmendier, Sendhil Mullainathan, Antonio Rangel, Emmanuel Saez, Eldar Shafir, Sir

Nicholas Stern, Jean Tirole, Hannu Vartiainen, and Timothy D. Wilson.