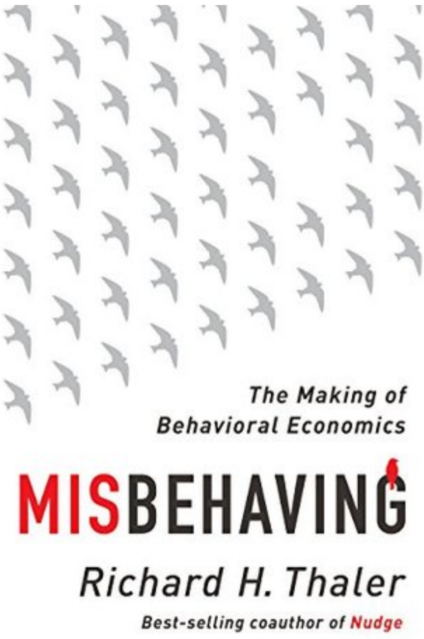

Misbehaving: The Making of Behavioral Economics

Richard H. Thaler

Misbehaving: The Making of Behavioral Economics

Richard H. Thaler

Misbehaving: The Making of Behavioral Economics Richard H. Thaler

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

Misbehaving: The Making of Behavioral Economics Details

Date	:	Published May 11th 2015 by W. W. Norton & Company (first published May 7th 2015)
ISBN	:	
Author	:	Richard H. Thaler

Format : Kindle Edition 432 pages

Genre : Economics, Nonfiction, Psychology, Business, Finance, Science

Download and Read Free Online Misbehaving: The Making of Behavioral Economics Richard H. Thaler

From Reader Review Misbehaving: The Making of Behavioral Economics for online ebook

Gaufre says

A lot of books in my kindle collection were free downloads from a while back, which would cost anywhere from 0.99$ to 3.99$ if I were to buy them now. I also bought a few books for 0.99$. I recently went through my collection and books that no longer interest me, some of which I have never read. I realized that I deleted only books that I downloaded for free and none of the ones purchased. That is what Thaler calls misbehaving. The value of a book is how much it would cost to replace is now - not how much I paid for it back then. To sink the idea in, think about the following scenario: what if Amazon mistakenly deleted some books from your account. How much would you want as compensation? The amount it takes to replace those books? Or what you paid when you purchased them?

This book feels like an evening drinking wine with Thaler recounting his career. He is a great story teller and full of fun anecdotes. I learned a little bit of behavioral economics but I wanted more. The beginning and his list of anomalies - things people do that are contrary to good economics rationale - was fascinating. But the book is more of a history of the development of field than a discussion of the concepts. There is a lot of name dropping of people and conferences who shaped the field. I guess I will have to go read Nudge now.

????????? ???? says

??? ?????? ????? ?? ????? ??? ???????? ??????? behavioral economics ????? ?? ???? ???????? ???? ??????? ????????.
??????? ???? ????? ??????? ??????? ?????? ?????? ?? ??? ???? ???? ????? ?????? "????" ???? ??? ?????? ??????? ???????? ?? ???????? ????? ??? ???????? ??????? ????? ??? ?????? ? ?????? ??????? ???? ????????? ???? ?????? "????????"? ??? ???? ?? ???? ???????? ??? ???? ???????? ??? ???? ??????? ??? ???? ???????.
?? ????? ?????? ?? ??? ???? ?????? ??? ???? ???? ???? ?????? ???? ????? ?????? ??? ???????? ??????? ?????? ???????.

Athan Tolis says

He’s taken his time and he’s waited his turn, but Richard Thaler has delivered the definitive book on Behavioral Economics, the one you can’t afford to miss. It’s a summary of the main findings, a history of how they came about and a preview of coming attractions, with due care taken to pay tribute to those who came before Thaler and apportion credit to those who worked with him.

The field is not as new as Thaler would have you think. There’s bias in this account and it is a bias against those among his predecessors who tried to explain human behavior in a way that was consistent with mainstream economic theory. I’m thinking Gary Becker here (who tried to explain long lines outside empty clubs and packed cheap restaurants alike using an “upward sloping demand curve” and famously sat down to write a paper on suicide when his wife took her own life); I’m thinking the very same Robert Barro that Thaler makes fun of when he describes him as the smartest man ever, but who nonetheless made me understand in his book “Getting it Right” why superstars could get paid so much in a zero-sum game and got confirmation to his theory when Maradona got paid more than the rest of his team, Napoli, put together, and justifiably so because he not only took them to the Campionato, but also deprived much more fancied teams from winning it.

Thaler's predecessors operated in a world where most Economics books had to start with a chapter explaining why Economics is a science. Of course they had to stick to the utility-maximizing / profit-maximizing orthodoxy! Besides, orthodox economic theory was not all that shabby when it came to predicting human behavior.

By the time Thaler was entering his prime, Economics no longer had to apologize to anybody and was much more open to heresy, of course. It was in a position to withstand additional questioning. Armed with a nice piece of math invented by Tversky and Kahneman it was ready to be taken to the next level.

Thaler takes you through the whole thing in the space of the shortest 358 pages you will ever read. As he promises at the start, he tells it through a bunch of stories, mostly the stories of his collaborations and his epic fights with Economic Orthodoxy.

The book is worth reading for the humor alone. The jokes range from pure slapstick (example p. 128: "we were trying to learn what ordinary citizens, albeit Canadians, think is fair") to the esoteric inside joke, like when he mentions Vishny is a common co-author of Shleifer (to the best of my knowledge he's never written a paper without Shleifer). If you're not laughing the whole time, basically, there are squadrons of jokes flying over your head. My favorite type of humor, relentless repetition, is also very well represented. I lost count of the number of times I read the expression "invisible handwave." The man is irrepressible, basically. You can't keep him down.

There's a sadness that goes with this too, and it's that this is a bit of a category killer. "Misbehaving" Pareto-dominates all behavioral economics books that precede it in terms of readability, context, scope, you name it. I don't know what I would do with myself if I was Dan Ariely or if I was Steven Levitt (Roe v. Wade findings notwithstanding), to say nothing of Tim Hartford. They now have to accept that there's a book out there that beats their entire life's work on all fronts.

The long problem set masquerading as a re-interpretation of behavioral economics that is Kahneman's "Thinking Fast and Slow" is the only true exception to the rule, it continues to stand alone, but relative to "Misbehaving" it's a cop-out. As he told Michael Lewis in the interview that preceded that book, Kahnemann did not want to write the history of the field, he did not want the book to have the feel of one's last book. So the door was left wide open to Kahneman's self-admittedly "lazy" student to jump into the breach.

This he has done with gusto.

Prospect Theory (how we are risk averse when we're winning and risk loving when we're losing) is taught straight from Tversky and Kahneman's 1976 graph and is used to explain: (i) transaction utility, including Costco's business model (ii) sunk costs (i.e. why you will carry on wearing an uncomfortable pair of shoes you paid 300 dollars for) (iii) the endowment effect (including later in the book how it undermines the Coase theorem) and (iv) "gambling with the house's money" at the casino, versus the fact that outsiders get overpriced toward the end of the day at the racetrack. Bucketing of budgets gets thrown in for free.

Next comes a tutorial on Self-Control. Thaler explains that many humans discount future pleasure (or pain) on a scale that is totally unrelated to how we present-value bond cashflows and mainly operates on three levels: Now (intense), Later (much less intense) and Much Later (only slightly less intense than Later). This leads to preferences that are intertemporally inconsistent, a nightmare to Economic Orthodoxy, but very often true in real life. Heady stuff, and I promise, he makes it clear. He does not use graphs or charts or math.

He explains it all with one picture: the famous cover of New Yorker magazine where everything this side of the Hudson is rendered in great detail, New Jersey through to California takes up as much space as West Manhattan and Asia is visible behind. You get that chart, you get how we humans really think about delayed gratification. Genius.

A chapter follows which is a summary of “Thinking Fast and Slow” but without trying to shoehorn the rest of Behavioral Economics into that model.

The next couple chapters deal with Fairness (the Ultimatum Game, the Dictator Game, the Punishment Game, cooperation games such as the Prisoner’s Dilemma) and a revisit of the Endowment Effect as exemplified by the trading of Mugs with capital M. Then Thaler attacks Finance and the Efficient Market Hypothesis in Particular.

Not that anybody sane thinks markets are efficient, but you could tear out the rest of the book and keep pages 203 to 253 as a quick guide to why markets are inefficient. Thaler starts with Keynes’ “beauty contest” analogy for stock picking (we pick the girl we think most other people will like, not the one we really fancy). Next he explains why a stock ought to be worth the net present value of its dividends and takes the reader through Shiller’s discovery that stocks move around tons more than dividends do (or can be reasonably expected to do), which proves they wander around tons relative to what they will ever pay out. He offers additional proof by going through closed-end funds’ variation from their NPV and gets some serious kicks from pointing out that stocks on occasion sell for less than the market value of their listed subsidiaries. He’s a bit of a showman, Thaler, he calls this “negative stock prices.”

From there he goes for the kill and notes that Royal Dutch Shell shares have a different price in New York versus Europe, and never more so than they did during the blow-up of LTCM, providing a real-life example of Shleifer and Vishny’s mathematical formalization of Keynes’ old aphorism that “the market can stay irrational for longer than you can stay solvent.”

At some point, Chicago had to follow Al Pacino’s view that “you keep your friends close and your enemies closer” and put him on the faculty. From his angle, it was time to storm the citadel, and this is what Thaler chronicles next.

He had been ready for them from day one. The book actually starts with “The Gauntlet,” which is the series of challenges orthodox economists lay out for the behavioral crowd:

1. The “As If” challenge states that even if nobody is an expert in everything, society operates as if we all were, because through division of labor we all end up doing things we understand.
2. The “Incentives” challenge states that people respond to incentives once the stakes are large enough. All the wishy washy behavioral stuff washes away once we’re talking real money.
3. The “Learning” challenge states that even if we get it wrong in “one-shot” games, in real life most games are “repeated” and behavior thus converges to what Orthodox Economics would suggest.
4. The “Invisible Hand” argument states that if we all go about doing what’s best for us we nevertheless end up doing what’s right for everyone else as well.

Won’t spoil it for you and take you through Thaler’s answers to the above. It’s after all what the book is really all about. But forgive me one indulgence, I’ve GOT to tell you about the bit where he demolishes Robert Barro:

The Rational Expectations Hypothesis has a number of implications, chief amongst them the prediction that fiscal stimulus does not work. If the government writes you a check, the story goes, you know you’ll be taxed for it in the future, so you save it rather than spend it. And the stimulus ends up being a damp squib. Thaler proves the circularity of this argument by suggesting a similarly circular counter-argument: what if the rational agents that compose this economy believed in Keynes' multiplier? What if they thought the stimulus will work and the economy will fly and their taxes will actually go down? Should they spend TWICE the check they were sent?

From Chicago he goes on to a couple (well-earned) victory laps. He applies Behavioral Economics to Americal Football, where he advised three separate teams on how to conduct their affairs during the annual draft, to game shows he was allowed to set up with Endemol, where he proved that his theories can withstand some pretty high stakes and from there onto "nudging" people to contribute more to their pension and pay their taxes on time.

He ends the book with a wish that one day there will be one Economics again, with the Orthodox Economics of utility maximization and profit maximization as a quaint special case. We're probably already there.

Karlyne Landrum says

I had to take this book back to the library today, so I don't have any of the funny stories from it to relate here (what? I should've taken notes?), but there were quite a few. Mr. Thaler might be lazy, but he's also a pretty good story-teller.

However, what I really got out of this book was a sense of wonder. I was amazed at the world of professional economics, a field I knew nothing about; I'm not sure I've ever even met an economist. And what surprised, shocked and amazed me was that until the author and his colleagues came onto the scene just a few decades ago, human behavior had never entered into the field. It has always been, apparently, a science of laws and mathematical formulae, a hard and fast discipline which had not taken into account human vagaries. A field of study which projected the future of human wealth without taking into account how humans (and not perfect economists) behave? Who knew?!

I have one minor quibble: for a hard-back expensive book there were too many typos (one would be too many, but multiples are annoying). Maybe they won't bother economists, but they certainly bothered me!

John Gurney says

I enjoyed Thaler's ironic writing style in *Misbehaving*, his autobiographical history of the field of behavioral economics. Full disclosure: I didn't have a class with Thaler, but I attended the same University of Chicago Graduate School of Business, n/k/a Booth. I knew of him by reputation and it is a treat to read some of my other professors' names in print, e.g. Anil Kashap and Doug Diamond, and others known by reputation such as Thaler's friend and, at times, ideological opponent, Gene Fama. The inter-Chicago rivalry between the 'rational' school and 'behavioral' school was an important theme in the book.

At times, Thaler gets snarky in this tome, but his insights tended to be correct and anything that challenges the status quo may be met with resistance. It may take an iconoclastic personality like Thaler's to so go against the flow. To his credit, he is truly kind towards many and modest about his contribution to behavioral economics, with much acclaim to the pair of Amos Tversky and Nobel Prize-winner Danny Kanneman. Also, Thaler is clear about what his "nudge" recommendations are attempting to do. A valid criticism of behavioral economics is the "so what?" that comes from pointing out people often don't act in their logical self-interest because that doesn't necessarily suggest a solution. Some argue it is a bit nihilistic. Thaler and University of Chicago law professor Cass Sunstein attempted to address this with the policy proposals in their "libertarian paternalism" book *Nudge*. Thaler is no communist nor socialist, but rather, attempting to marry real world behavior with economic goals. He is well aware government agents are just as susceptible to irrational behavioral heuristics as private sector players are. But, behavioral economics helpfully takes us away from theoretical "Econs", the perfectly rational, yet non-existent, folks of much economic theory. Given the amusing narrative in *Misbehaving*, it is a great place for the non-economist to learn what behavioral economics is all about.

Steve says

Yup - this is now (officially) the memoir/autobiography of the 2017 Nobel Prize Winner.....

This was a lot of fun, but it is what it is. It's a career academic writing about his professional journey - basically the story of the evolution of his successful, productive, and (arguably) paradigm shifting lifetime of research - for a popular audience in the context of the intersection of economics and, well, everything related to behavior, which, of course, includes a healthy dose of psychology.

The book holds together nicely, but what makes the book a joy are the examples, anecdotes, and results from empirical research. The topics run the gamut - from retirement savings to household insulation to corporate leadership to the NFL draft to taxation to the bowls of nuts on the table to, for me, the most entertaining, the selection of faculty offices in an elite graduate school.

If you haven't studied or read or thought much about economics, I have no idea how accessible this would be, but it wouldn't surprise me if it would be interesting and thought-provoking for anyone willing to read and question their preconceived notions and ... think.

There's a lot of *life inside the ivory tower* stuff that I'm guessing plenty of readers will find lies somewhere between *inside baseball* and *too much information* and *geeks tell all* drama, but - at least for me - I found it hugely entertaining.

It was fun reading this soon after enjoying Rodrik's *Economics Rules*, and I'm guessing anyone that enjoys one will enjoy the other.

Side note: I haven't yet read *Nudge*, Thaler's well known collaboration with Cass Sunstein, but I'll probably go back and read it at some point. At least based on my experience, this book stands up just fine on its own.

Muriel Fang says

What is the value of 'Misbehaving' after 'Nudge' and 'Thinking Fast and Slow'? After all, 'Thinking' told us the discovery process by behavior science demigod. 'Nudge' explained how to apply behavior science to practical policy-making.

'Misbehaving' has its value independent from 'Nudge' and 'Thinking'. Unique in 'Misbehaving' is a candid account of the struggle getting recognized when your opinions are different from the establishment, a humble understanding on the fortunate events that helped a young investigator to start - and stand in the field. 'Misbehaving' tells the reader many 'insider baseball' stories -- how Thaler got skinned at conferences / journal submissions (but the tone wasn't vengeful), and how he got back to his feet and respond with empirical evidence (rather than ideological tautology).

'Nudge' and 'Thinking' read like champions writing home from the finishing line or the celebratory after-party, while 'Misbehaving' is Thaler's account of 'life as a professional renegade'. This is part of the appeal: don't we all like a good underdog story? Most of us are, at best, underdogs in our fields, Thaler's humble 'renegade-getting-recognized' story is fuzzily encouraging. In this way, 'Misbehaving' reads like a grand-parent writes to the grand-children: sharing the stories of life, and perhaps planting a vague idea that 'fight-on' could be fun.

'Misbehaving' writing reminds me of Richard Feynman's books in being funny, irreverent, and honest. In the Conclusion chapter, Thaler likened his now mainstream status to 'The lunatics are running the asylum!' -- You won't find exclamations like this in either 'Nudge' or 'Thinking'. It reminds me of Feynman on his safe-cracking, or thoughts of 'cargo cult science'. Thaler comments on a general practice in academia: "As usual after such meetings ... both sides were confident that they had won." Thaler saved some directness for his intellectual opponents -- there is no sugar-coating on what he thought of them ("least scientific"). Yes, it is a little easier to be direct and unapologetic after you have turned mainstream and your collaborators have won the Nobel -- but the book is direct and honest about himself too. Like this: Thaler recounts how his thesis advisor assessed him: 'We did not expect much of him'. Enjoy!

?.???? ??????? says

???? ?????? ??? ???? ???????? ???????
Behavioural Economics
?? ??????? ???? ?? ???? ??? ???? ?????.
???? ?????? ??? ?? ???? ??? ??? ????? ?? ??????? ????? ?????? ?????? ??? ???? ???? ?? ??????? ????????? ??? ?? ?????? ????? ?????? ???? ??? ??????? ???????? ???????? ??? ????? ?????? ??????? ?????? ???? ?? ?????? ?? ???? ????? ???????? ????? ?????

?????? ???? ???? ????? ???? ????? ????? ???? ?? ??????? ???? ??????. ???? ???? ????? ??????

Melora says

First book I've returned to Audible (and Audible makes that astonishingly easy. not that I expect to need to do it often, but, my gosh, just a click and they send me back my money. impressive).

As my three star rating indicates, this is not a Bad book at all. I listened to it for a little less than three hours, I think, and the bits about behavioral economics were really fun. I enjoyed Thaler's stories about the irrational financial choices people make, which he presents in contrast with the ideal, logical choices which traditional economists assume people will act on. Unfortunately, the book is not about behavioral economics but, rather, as the title clearly indicates, about the Making of the field. The author was evidently a central figure in the development of this branch of economics, and the greater part of the book, as far as I got in it, is about his career and efforts to bring other economists to see things from his point of view. He spends a lot of time talking about other economists and their specialties and interests, giving credit to those who contributed to his developing ideas. He talks about how he got jobs at various universities, who he worked with, the papers they wrote, the walks they took, etc. Which might possibly be of interest to me if I knew enough about economics to recognize (and be impressed by) all the significant figures he mentions. But I don't. So. Not bad, just too specialized or outside my areas of interest.

Huyen Chip says

For someone without any background in economics before, this book is an eye-opener. It gives me many tools that I'm sure I can effectively use to argue with my friends in the future. It's also an easy read. Richard has many interesting stories to tell, each with many lessons to learn from.

Don-E Merson says

This was a really fun read. It gives kind of a behind the scenes look at how the field came about from one of the most prominent creators of the field.

Charles Berteau says

It was once a cliche that economics theory dealt only with completely rational human beings, under the principle that this was the only way to develop workable models. Even though classical economists, from Smith to Keynes, had acknowledged that human behavior often deviated from the rational, the models persisted in this foundation. I guess the theory was that deviations from the rationale would be okay, because human behavior would vary in random ways, and the rational "average" would still hold.

That this ridiculous assumption has been largely set aside is due to the work of a few remarkable people, such as Daniel Kahnemann (see Thinking, Fast and Slow), Robert Shiller (of Case-Shiller Home Price Index fame), Amos Tversky, and others ... including Richard Thaler, author of this book (and, previously, Nudge). These economists and psychologists bridged the wide gap between these disciplines, and created behavioral economics - demonstrating that, in the real world, humans tend to exhibit the same, non-rational, behavior over and over again. The assumpion that Humans behave like "Econs" is, simply, wrong - and demonstrably so, in real experimentation.

Thaler provides a history of behavioral economics, his role, and that of the other giants. It's a fascinating walk through the creation of a discipline, and a peek into the world of academia, which can be incredibly vain and petty.

Throughout Thaler blends fascinating - if now familiar - stories about human irrationalities, the "Supposedly Irrelevant Factors" across finance, fairness, and many other topics. I especially enjoyed the case study of how the Chicago School of Economics allocated new offices - even though the faculty of this school are all strong rationalists, who would (rationally) auction off kidneys to the highest bidder, they didn't allocate their offices that way at all, but rather by seniority and lottery. What is good for the goose, is not always good for the gander.

If the topic interests you at all, it's a great, great read. Thaler is an engaging, funny author, and he makes difficult topics easy to read. Check it out!

David says

This book is by Richard Thaler, one of the founders of the field of behavioral economics. When he first started getting into this field, he faced mountainous obstacles, mostly from his fellow economists. For many years, he collaborated with Daniel Kahneman and Amos Tversky, who are famous for the book Thinking, Fast and Slow. In 2017, Thaler received the Nobel Prize in economics, for his work in understanding the realities of economic decision making.

This book is enjoyable and engaging, and is packed with interesting anecdotes. Perhaps he goes a little overboard, in describing his personal story and his interactions with Kahneman and Tversky; there is a little bit too much of this, and it almost feels like name-dropping. The book is mostly about the development and history of behavioral economics, rather than the subject of behavioral economics itself. On the other hand, I also very much enjoyed reading one of his previous books, Nudge: Improving Decisions About Health, Wealth, and Happiness.

Vincent Li says

I have mixed feelings about this book. I wrote a brief article about how college doesn't teach you anything, and to my horror I realized that I already learned most of what this book has to say. For someone without any background in behavioral economics, I recommend reading this in conjunction with Thinking Fast and Slow, the two books will pretty much teach you everything you need to know.

Having studied most of the points mentioned in the book (as well as reading several of the papers summarized) I enjoyed the book mainly for the anecdotes and fun tidbits (for example that the exponential discount function was first posited by the great Samuelson). The book was interesting to me in that it also served as a memoir for Thaler, discussing the various phases of his academic life and his work. I was pleasantly surprised to confirm that Thaler's collection of anomalies was a nod to Kuhn's theory of scientific revolutions. I also heavily agreed with Thaler's emphasis on randomized trials and use of experimental evidence over a priori axioms.

Now for the critique. Thaler seems like a bit of a braggart. He never seems to cease name dropping, and some of his claims seem overreaching. He makes it seem almost like he single-handedly set up behavioral economics. Additionally, the characterization of economists of the more rational mold seem unfair to me. Posner and Miller are reduced to stubborn silly one dimensional characters when both are accomplished and nuanced.

Thaler sets up certain classical problems such as the dividend puzzle, the equity premium puzzle and close ended funds and proclaims them solved by behavioral economics. I read the dividend puzzle paper, and while the "solution" seems reasonable, it has little to no empirical work (ironic, given Thaler's admonishment that "mainstream" economics doesn't look at evidence enough). Thaler claims to have solved the equity premium puzzle by looking at loss aversion rather than risk aversion, and argues that additionally the equity premium puzzle cannot be a risk premium because he looked at the betas of the equity and it didn't explain the equity premium. However, especially after Fama's work, there's widespread agreement that beta does not completely capture risk (it's hard to get a beta of the "market"). Thaler himself recognizes this when he discusses the Fama-French factors and the failure of CAPM. It seems disingenuous to try to refute a possible objection using a risk metric that he knows is not accurate. Lastly, Thaler criticizes Miller for dismissing his work on finding a correlation between close ended funds and small cap equity. It seems like Miller is correct, in that just because Thaler found a correlation, he shouldn't be able to attribute that correlation to investor sentiment. In other words, Thaler presents as fact what is still very controversial in the field.

Even during my studies I always found myself annoyed by Thaler's idea of mental accounting. For the record, I find the concept of mental accounting totally reasonable, and perhaps even true. However, scientifically speaking, it does not seem falsifiable. Any result that does not jive, seems to be able to be explained away, and it seems like mental accounting has little to no predictive power.

At least to me, Thaler needs to propose some empirical tests that can differentiate between behavioral explanation and other explanations. Otherwise, his explanations are as axiomatic as the "mainstream" economics he criticizes.

Caroline says

[

> *Economics is considered the most intellectually powerful of the social sciences, this is because it has a

---