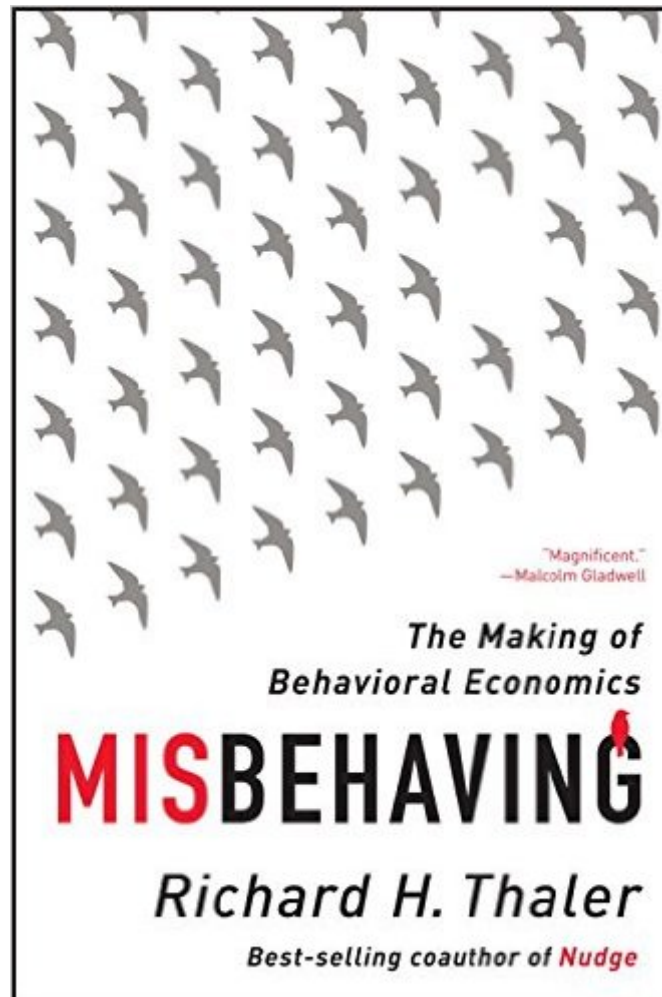


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# Misbehaving: The Making Of Behavioral Economics



## Synopsis

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

## Book Information

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## Customer Reviews

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 was 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 thwarted 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.

"The foundation of political economy and, in general of every social science, is evidently psychology. A day may come when we shall be able to deduce the laws of social science from the principles of psychology." Vilfredo Pareto, 1906 Misbehaving is a thoroughly enjoyable read, both comprehensive and replete with historical context, but "neither a treatise nor a polemic" as prefaced by Thaler. Instead, it is a memoir and a chronological history on the rise of behavioral economics as a legitimate discipline, making it an excellent introduction to the field. The book is lengthy, an un-lazy 358 pages, but an easy read because of Thaler's self-deprecating style and numerous examples that are both funny and informative (like oenophile mental accounting). My favorite illustrative anecdote, however, was the kerfuffle that ensued among the "efficient market" professors at the University of Chicago when it came time to hold a lottery on allocating offices in their new academic building - hilarious. I got hooked on behavioral economics almost 20 years ago at a

conference held on the topic at Harvard's Kennedy School, featuring Richard Thaler, Richard Zeckhauser, Arnie Wood and others. The seeds planted from that fascinating seminar led me to be a lifelong student of this emerging, multi-disciplinary field and the importance of metacognition - quite literally, thinking about thinking. For an alcoholic, admitting you have a problem is the first step towards recovery. Analogously, it is impossible to temper evolutionarily prewired heuristics and biases unless you have studied them - and even then, it is too easy to 'fall off the wagon.

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