

## CORNELL/LSE/MIT CONFERENCE: BEHAVIOURAL ECONOMICS, PUBLIC ECONOMICS AND DEVELOPMENT ECONOMICS

On May 28-29 2004, no less than 25 scholars, mainly economists, brought to stage their research endeavours, which all lie at the crossroads between psychology, development- and public economics. The broad spectrum of papers revealed a good sense of (i) the many ways in which relevant new psychological assumptions can be integrated into economic analysis, and, more importantly, (ii) how these new conceptualisations can improve our understanding of poverty, inequality, taxation, domestic violence, happiness, social capital, etc.

Of particular interest was the diversity in *methodological approaches* presented. Some papers, for instance, by introducing certain aspects of psychological realism to models of economic decision-making, aimed to help explain and interpret puzzling phenomena that traditional assumptions have had difficulty explaining. They thus emerged with a novel understanding of poverty traps, protectionist trade policies, etc. Other papers drew on psychological or evolutionary arguments to explore phenomena that economists have granted only scant attention. They explored, for instance, alternative models of domestic violence or of happiness. And yet another strand of papers embodied a two-way 'dialogue' so to speak between empirical findings (often based on carefully construed randomised experiments) and psychologically more realistic assumptions about individual decision-making, say with respect to the adoption of new technologies. Finally, some papers ventured beyond explaining behaviour, and sought to better explain the normative effects of observed behaviour, and so inform the design of alternative policy instruments. Again, the focus ranged from optimal sin taxes to public policy remedies in catastrophe insurance markets.

At the same time, the papers also jointly shed light on the *diverse uses of one particular medium/approach*, especially *experimental games*. Carefully designed lab experiments were used to unpack and test on the one hand the various cognitive heuristics and biases in people's quick judgements on matters of tax and economic policy, and on the other, the impacts of social preferences on the economic effects of minimum wages in monopsonistic labour markets. Another paper, by connecting experimental and survey data, examined how behaviour in experimental games correlates with real decisions in non-laboratory settings. Finally, experimental games were also made use of to test an alternative explanation for the tendency of social inequalities to reproduce themselves over time.

This remainder of this note provides you with (A) a summary of all the papers presented, and (B) a further, impressionistic glimpse onto the conference proper.

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### (A) PAPER SUMMARIES

#### (i) POVERTY AND INEQUALITY

##### "MOTIVATION AND POVERTY" BY AHBIJIT BANERJEE AND SENDHIL MULLAINATHAN

Why do the poor save so little, the middle class more, *and* the rich so much? Commonly, too little investment and savings by the very poor (that give rise to the infamous 'poverty traps') has been attributed to the credit market constraints and the non-convexity in the production function that the very poor face. Evidence suggests, however, that even when presented with high return-opportunities and absent obvious non-convexities, the poor seem not always willing to invest. Similarly, micro-credit often ends up in consumption rather than investment. Banerjee and Mullainathan develop an alternative, 'behavioural model' so to speak, of individual intertemporal savings and consumption decisions, which accommodates a simple notion of a 'divided self' and the intrapersonal conflict this can give rise to. The idea very generally is that people have self-control problems, and therefore worry about the fraction of today's savings that will be spent tomorrow on what 'today's self' cares about (formally, my utility function that decides consumption

tomorrow is different from the utility function I use today to plan expenditure tomorrow). If today's and tomorrow's selves become better aligned with increasing total amount of savings (formally, the utility function over consumption is less concave than that over temptations), then this can generate a poverty trap. In this world, the poor would pass up profitable investment opportunities that they can afford; at the same time, the very rich would save much more than the poor.

"WHY ARE SOCIAL INEQUALITIES SO DURABLE? AN EXPERIMENTAL TEST OF THE EFFECTS OF INDIAN CASTE ON PERFORMANCE" BY KARLA HOFF AND PRIYANKA PANDEY

If discrimination against a historically oppressed social group is dismantled, will the group forge ahead? In this paper, Hoff and Pandey experimentally test the hypothesis that *belief systems* that are the legacy of historical conditions of extreme inequality give rise to *expectations* of prejudicial treatment and hence to *behaviours* that tend to reproduce the inequality. They conduct this test in the specific context of the Indian caste system. 321 high-caste and 321 low-caste male student volunteers in village India participated in a controlled experiment (performing the task of solving mazes), in which their caste was either not revealed or made salient. There were no caste differences in performance when caste was not revealed; but making caste salient created a large and robust caste gap in performance, arguably because the low-caste subjects anticipated that their effort will be poorly rewarded. Activating caste identities debilitated the low caste and even hurt the performance of the high castes, a result suggestive of how corrosive these belief systems can be. Results from additional experimental treatments exclude as alternative explanations socio-economic (class) differences and a lack of self-confidence by low-caste players. These findings provide evidence for an additional explanation, *beyond differences in access to various resources*, for the tendency of social inequalities to reproduce themselves over time.

"USING EXPERIMENTAL ECONOMICS TO MEASURE SOCIAL CAPITAL AND PREDICT FINANCIAL DECISIONS" BY DEAN KARLAN

To what extent are results from experimental games generalizable to real decisions in non-laboratory settings? Karlan tests this question in the context of a Peruvian banking project, and, by conducting trust and public goods games with participants in the group lending schemes, examines how behaviour in the games correlates with real future repayment and savings decisions. Apart from the methodological conundrum of general interest, this paper also sheds light on the question of whether social capital can help solve seemingly missing market. The author finds that "trustworthy" behaviour in a trust game predicts higher repayments of loans and savings decisions; however, more "trusting" behaviour predicts lower savings and repayment problems. Whereas the "trusting behaviour" appears to be capturing an individual's propensity to *take risk*, "trustworthiness" does not suffer from this 'murkiness'. In addition, "trustworthiness" in the experimental game is also positively correlated with the General Social Survey questions, which equally purport to measure social capital. To sum up, the paper makes two important points: it endorses experimental economics as a valid tool for field research; at the same time, urges us to critically scrutinize the motives behind actions in experimental games. Secondly, it demonstrates that social capital is an important component determining the success of group lending programs; and, more specifically supports a simple explanation of default, namely that some individuals are fundamentally not trustworthy.

"MODELING DOMESTIC VIOLENCE" BY RAJSHRI JAYARAMAN

Domestic violence is clearly not uncommon and carries large psychic and economic costs. Nevertheless, economists have given this issue scant attention; those who have, fall back onto non-cooperative bargaining models – a modelling strategy, which directs focus on the effect of *changes in incomes* as mediated through its effect on inter-spousal transfers, on the incidence of domestic violence. Jayaraman, instead, starts from a focus on the nature of *men's motivations* or *preferences* over domestic violence. Drawing on the works of social psychologists and sociologists, she translates the essence of three candidate motives for aggressors –instrumental, expressive and norm-based aggression- into a preference theoretic framework. These axioms yield a series of testable predictions, which the author takes to household data from in Uttar Pradesh (a large North Indian state). The data evidences support for all three motives, which

makes the modelling of domestic violence particularly challenging. Hence, Jayaraman formalises three distinct models, which focus on a single motive (or a mixture) and examines their explanatory power. Neither a model of domestic violence as a means of discipline and control (thus combining instrumental and expressive motives), nor a model of domestic violence (both non-cooperative models) simply due to a fondness for aggression, perform very well. The third model of frustration aggression (a collective household model) generates mixed results: increased bargaining power of the wife appears to deter violence, but increased educational attainment of the husband appears to do the same. The reason why the three models deliver rather poor results is likely due to the poor quality of the data, and/or the poor quality of the models. In particular, because in reality motives underlying domestic violence are manifold, as this paper indeed demonstrates, it remains an open question or challenge for economists how they can effectively contribute to the analysis of this phenomenon.

(ii) CAREER CHOICE AND LABOUR MARKET BEHAVIOUR

"THE BEHAVIOURAL EFFECTS OF MINIMUM WAGES" ARMIN FALK, ERNST FEHR AND CHRISTIAN ZEHNDER

This paper offers a fresh contribution to the debate on how minimum wages might affect employment by taking salient aspects of a monopolistic labour market to the experimental lab. In the game, one fourth of the subjects take on the role of a monopsonistic firm (randomly assigned), and at the start of each round (30 in total) offer a wage to a group of three randomly matched employees. The employees accept the wage offer only if it exceeds their individual threshold value or reservation wage, which they were asked to reveal at the start of each round. So, notice, the experimental setup allows the authors to truthfully elicit the employees' reservation wages – something which can not be readily observed in the market place. In one condition, the first 15 rounds of the wage offer game are played without a minimum wage in place, whereas the next 15 rounds with a minimum wage (set below the third worker's marginal product). In the second condition, the ordering is the other way around. In contrast to conventional wisdom (i.e. predictions for money-maximising agents), the authors find asymmetric effects of the introduction and removal of the minimum wage on employment and workers' reservation wages, as well as a strong positive impact of minimum wages on reservation wages. These results indicate that social preferences, such as intention-based fairness preferences, and entitlement effects play a very important role for the economic effects of minimum wages, and that these behavioural arguments deserve much more attention and scrutiny in future research and political discussion.

"EDUCATIONAL DEBT BURDEN AND CAREER CHOICE: EVIDENCE FROM A FINANCIAL AID EXPERIMENT AT NYU LAW SCHOOL" BY ERICA FIELD

Does the timing of career-contingent financial aid influence its effectiveness in encouraging law students to enter public interest work? To address this issue, Field analyzes quasi-experimental data from NYU Law School's 'Innovative Financial Aid Study', in which career-contingent financial aid packages with equivalent net value but varying debt structures were randomly assigned to applicants. Her results indicate that debt timing matters: law school graduates who receive tuition waivers rather than ex-post loan assistance have a 37% higher rate of first job placement in public interest law and a 94% higher rate of clerkships. Furthermore, recipients of tuition waivers are more likely to enrol in law school conditional on being admitted. Using propensity score methods to correct for sample selection bias at the matriculation stage, Field finds that differences in the job placement according to debt timing persist after controlling for differential enrolment rates, which implies an independent, post enrolment influence of debt timing on career decisions. These stylised facts provide strong evidence of time-inconsistent debt aversion. A logical consequence is that tuition subsidies may serve as a commitment device (i.e. avoid being "sucked into the private sector") to a debt averse student who is cognizant of his nature. Regardless of the underlying mechanism, the policy implications for a school interested in steering its students towards public interest work (low-paying jobs with high social value) are straightforward. By distributing career contingent scholarship funds early on in students' careers rather than after they graduate, a law school's financial aid policy is likely to generate a higher rate of public interest work among graduates. Furthermore, a move to forward looking loans also

has the potential to attract a higher quality pool of entering students and as a result a higher rate of clerkships, as it appears that students are willing to trade off school quality for short term debt relief.

(iii) WELFARE ECONOMICS AND TAXATION

“UNCOVERING HIDDEN TAXES AND INDIRECT EFFECTS” BY EDWARD J. MCCAFFERY AND JONATHAN BARON  
Why is it that individuals do not adequately focus on hidden taxes and other indirect effects, such as the rise in prices attendant on various tax-law changes? These preferences may well be symptomatic of general tendencies not to think ahead about the effects of public policies. But then, which cognitive heuristics and biases determine these general tendencies? To test various explanations and the influence of various debiasing techniques, McCaffery and Baron conducted a series of experiments (within-subject design) on the World-Wide Web. These show a consistent tendency to prefer hidden to transparent taxes (a form of tax aversion), an intentionality bias, and some sense of optimism. The authors also find limited, imperfect knowledge of direct and, more so, indirect effects, with greater knowledge of such effects bringing about some reduction. On all these matter, the debiasing efforts produced small effects, albeit generally in the predicted direction, towards consistency with the subjects’ own stated values. All of this suggests that the isolation effect, a kind of residual variable in the five experiments, is a very important underlying perceptual bias in people’s quick judgments on matters of tax and economic policy. This bias due to the isolation effect, the authors highlight, can lead people to inadequately integrate attitudes about parallel tax systems to form a consistent whole.

“MORAL HAZARD, INCOME TAXATION AND PROSPECT THEORY” BY RAVI KANBUR, JUKKA PIRTILLA AND MATTI TUOMALA

If we assume, in line with the emerging empirical consensus, that citizens’ preferences are loss averse (as suitably captured by Prospect Theory’s value function), then how would a theory of *optimal income taxation* based on this assumption look like? This is precisely the question Kanbur, Pirtillan and Tuomala address. The paper first revisits the original Mirrlees’ (1974) model of optimal non-linear income taxation under uncertainty, before it analyses a similar model from a non-welfarist point of view (i.e. where the government’s and citizens’ objective functions differ). The authors then interpret the optimal income tax rule derived under non-welfarism by assuming that the individuals behave according to the tenets of prospect theory. They find that many of the standard results are either overturned or modified in interesting ways. In particular, the validity of the First Order Approach requires new conditions. When these conditions hold, the optimal marginal tax rates on low incomes will tend to be lower than under standard expected utility theory. This, of course, is potentially important for income taxation models as it indicates a more likely case for progressive income taxation than one derived under conventional models. But also, it invites us to ‘re-consider’ and theoretically test the robustness of results derived using expected utility maximisation.

“OPTIMAL SIN TAXES” BY TED O’DONOGHUE AND MATTHEW RABIN

If we assume, again in line with much empirical and experimental evidence, that *some* consumers may have *some* degree of self-control problems –for instance, overindulge (by their own reckoning) in fatty foods like potato chips, then how would a theory of *optimal commodity taxation* based on this assumption look like? O’Donoghue and Rabin develop a non-welfarist model of optimal commodity taxation (focusing on the two good-case, potato chips and carrots) when indeed some agents might have a self-control problem. They derive “optimal” taxes that correspond to the traditional “Ramsey” taxes when people have 100% self-control, but differ when some people have self-control problems. The authors illustrate the possibility that heavy “sin taxes” may be optimal even if we believe the prevalence of self-control problems is relatively small. The intuition here is that a revenue-neutral increase in taxes on unhealthy items that has a second-order cost to 100% rational consumers, can have a first-order benefit to those with mild self-control problems. Any Pareto statements, of course, rest on government’s beliefs about the support of preferences, and in particular about the support of people’s true (or long run) relative tastes for potato chips and carrots. The authors’ approach, however, illustrates the value of writing down these assumptions (also considering alternative specifications in numerical

examples) and then investigating which policies achieve the “best outcomes”. Accordingly, the problem of “optimal paternalism” effectively becomes a mechanism design problem where some agents might be boundedly rational.

“WELFARE ECONOMICS WITH INTRANSITIVE REVEALED PREFERENCES: A THEORY OF THE ENDOWMENT EFFECT” BY LORNE CARMICHAEL AND BENTLEY MACLEOD

One approach that economists have taken to explain “anomalous” behaviour (such as loss aversion) has been to suggest the form preferences must take to “rationalize” it (advancing so-called “augmented” utility functions). These theories designed to provide a parsimonious framework within which we can organize evidence of violations of the transitivity axiom in choice, cannot help with normative economics, the authors explain, precisely because revealed preferences (behaviour) may not reflect the true underlying preferences. Hence, Carmichael and MacLeod start with the assumption that at the heart of economic behaviour *is* a meaningful welfare ordering. Central to their arguments lays the parallel they observe between the notion of ‘territoriality’ and loss aversion. Indeed, with a simple trading model, where agents can be territorial and walk away from a deal if they consider the terms unfair, Carmichael and MacLeod show that the agents will refuse certain trades that would make them better off –behaviour which is consistent with the “endowment effect” and the associated divergence between willingness to pay (WTP) and willingness to accept (WTA). In other words, the model demonstrates that loss aversion and the endowment effect are strategies that get used for good economic reasons, and hence, could be consistent with individual maximization of a meaningful welfare ordering. Still, the problem that these preferences are not revealed by behaviour remains. To most efficiently uncover these preferences and carry out consistent cost-benefit analyses, the authors, at the very end of their paper, suggest the use of measures of equivalent gain and equivalent loss, rather than WTP and WTA.

(iv) HAPPINESS AND WELL-BEING

“EVOLUTIONARY EFFICIENCY AND MEAN REVERSION IN HAPPINESS” BY LUIS RAYO AND GARY BECKER

If the basic mechanisms of happiness (i.e. experienced utility or hedonic experience) are innate, then arguably these mechanisms served an evolutionary purpose. Rayo and Becker develop a principal (natural selection) – agent (chooses effort) model in an attempt to uncover this evolutionary rationale. In the moral hazard agency problem, the principal’s metaphorical objective is to motivate the agent, via happiness, towards seeking goals that favour genetic replication. The individual, in turn, simply seeks high levels of happiness, but in the process also serves as an agent of genetic replication. The central assumption of the theory is the existence of a physiological constraint (“happiness is like blood pressure”, it has a *healthy* range), which limits the optimal incentive-compatible happiness function that the principal can select. The solution to the optimal incentive problem is a mean-reverting happiness function that is based on a context-dependent reference point. The unifying principle set forth is that the reference point optimally aggregates all information available towards assessing the individual’s current performance (statistical inference). This in turn leads to a process of habituation and peer comparisons. The authors’ objective is not to present a comprehensive description of the existing patterns and determinants of happiness; indeed this would be a rather daunting task for a formal model. Rather, they set forth an agency-based mechanism that can deliver a unified account of several stylized facts surrounding hedonic experience.

“SUBJECTIVE WELL-BEING, ISOLATION, AND RIVALRY” BY MARCEL FAFCHAMPS AND FORHAD SHILPI

Using detailed geographical and household survey data from Nepal, Fafchamps and Shilpi examine how *geographical isolation* might affect subjective well-being. As a first step, the authors empirically establish (with ordered probit regressions) that isolation significantly reduces subjective wellbeing. To be able to examine the ‘relative consumption’-effect on subjective well-being, the authors of course need to define an appropriate reference group. In their econometric specifications with all the village residents as the respondents’ reference group (which they argue is a reasonable assumption to make given the high geographical isolation in Nepal and virtual absence of media sources (like television)), they find that the relative income effect is effectively stronger than the individual income effect –this implies a rivalry effect so strong that a

proportional increase in all incomes reduces subjective well-being. Furthermore, the strength of this relative income effect increases with isolation. This suggests that in isolated villages, the reference group is indeed made up of neighbouring households while in an urban setting the reference group is more diffuse. One policy implication of these findings is that any measures to reduce isolation can give rise to two antagonistic effects: On the one hand, it is likely to directly increase satisfaction; on the other, it might also indirectly reduce satisfaction due to the rivalry effect. Whether the latter effect is a necessary factor for policy-makers to consider, of course, boils down to the question whether envy or interpersonal comparisons are deemed a legitimate determinant of welfare.

(v) LOBBYING AND CATASTROPHE INSURANCE MARKET

"LOBBYING BEHAVIOUR AND PROTECTIONS" BY CAROLINE FREUND AND CAĞLAR ÖZDEN

The fact that *standard* political economy models of trade policy fail to explain or even contradict puzzling phenomena, such as the 'anti-trade-bias puzzle', declining industry protectionism and the persistence of protectionism, leads Freund and Özden to explore the use of a 'behavioural' *alternative*. In their model of lobbying for protection, the agents ('shareholders' or 'stakeholders' of the firms) care not only about individual consumption levels, but also about the firm's profits relative to a threshold profit value or reference point. In particular, they perceive a decline in their welfare if profits drop below the reference point, but derive no additional utility for profits above the threshold (i.e. *only* losses loom large). Their model draws out a tension between the standard effect of a negative output shock, namely a reduction in demand for protection and tariff levels, and the behavioural effect, namely an increase in demand for protection due to loss aversion. These two simple forces generate protection dynamics that are similar to those observed in many industries. Of particular interest, the model produces an intermediate range of world prices for which a further decline leads to an offsetting increase in protection (region of 'compensating protection'). This result provides an intuition for why so many instruments of contingent protection (like price floors or import quantity restrictions) used across the globe, focus on maintaining domestic prices at a given level. The paper concludes with a case study of the US steel industry, where the structure of protection effectively appears to have been largely driven by losses and used to maintain incomes.

"DEMAND AND SUPPLY SIDE ANOMALIES IN CATASTROPHE INSURANCE MARKETS: THE ROLE OF THE PUBLIC AND PRIVATE SECTORS" BY HOWARD KUNREUTHER, MARK PAULY AND THOMAS RUSSELL

First, the paper presents several behavioural anomalies on the demand and supply side of the insurance market, providing us with true market evidence in support of these claims and candidate, plausible explanations. For instance, many firms and individuals without insurance at the time of a disaster will wish to buy insurance immediately afterwards and then cancel their policies several years later if they haven't suffered a loss. This behaviour is principally attributable to the availability bias and saliency of the event. Insurance providers, by contrast, will often withdraw from the market or quote prohibitively high premiums to anyone who applies for new insurance, even though the expected value benefits they would pay out in the next period should be affected only modestly by the occurrence of the catastrophic event. Like the victims of disasters, they fixate on the event itself and forget about the loss probability. These private market failures of course naturally raise the question: Is there a role for the government to play so that firms and individuals will make decisions which are better aligned with their own and society's interests? The authors point out several policy remedies that might directly improve matters on the demand side, such as providing better information to consumers and firms (reframing probabilities), promoting the supply of insurance with disappearing deductibles, or requiring insurance coverage as a condition for (federally insured) loans and mortgages. Other government actions, however, might unintentionally make the problems worse. For instance, tax policies create firms' (including insurance providers') incentives to minimize their reserves, so that in the event of a disaster, they must turn to the capital market, which is itself 'in retreat'. Hence, a key consideration in designing new programs, the authors emphasize, is to foster policies, which encourage adequate private capital reserves before a catastrophic event, and speedy return of private capital to the insurance market afterwards.

“UNDERSTANDING TECHNOLOGY ADOPTION: FERTILISER IN WESTERN KENYA” BY ESTHER DUFLO, MICHAEL KREMER AND JONATHAN ROBINSON

This paper ‘previews’ findings from a series of randomised field experiments, designed to help us better understand why so many farmers in rural Western Kenya do not use fertiliser despite its apparent profitability. The experiments or “pilot projects”, carried out in collaboration with an NGO over a three year time span, allow Duflo, Kremer and Robinson to estimate the returns to fertiliser use and evaluate the marginal impact of the extension services, product endorsement, starter kits, and the experiences of social contacts on the fertiliser adoption decision. Results suggest that fertiliser is indeed profitable, and providing information goes part of the way towards increasing fertiliser adoption. Farmers were also randomly assigned to several variants of the “Savings and Fertiliser Initiative”, a program, which provides a commitment device to those farmers who wish to use fertiliser. Interestingly, when offered the option to participate right after harvest, many farmers often expressed great interest; but any delay in actually committing the cash or maize for the purchase of the fertiliser usually led farmers to default on their plans. An epidemiological model of learning, the authors posit, can account for the observed links between low savings and low adoption: Low savings make it more likely that farmers will abandon the new technology, and high rates of abandon make it less likely that farmers will talk to each other about it. Finally, the authors briefly introduce additional interventions planned for, which should help reveal the precise nature of hyperbolic discounting in their particular real-world developing country setting- distinguishing whether the extended families or the individual family members are hyperbolic discounters; and whether the farmers are naïve or rational hyperbolic discounters. Testing these refined behavioural hypotheses in the field may also provide a rationale for particular policy interventions, such as marketing boards, which subsidise inputs.

“NETWORKS, SOCIAL LEARNING, AND TECHNOLOGY ADOPTION: THE CASE OF DEWORMING DRUGS IN KENYA” BY EDWARD MIGUEL AND MICHAEL KREMER

Miguel and Kremer exploit the randomised phased-in introduction of deworming medicine and health education at primary schools in the Busia district (western Kenya) to examine the process of social learning – How might social links and their experiences influence individual take-up of the deworming drugs? These drugs kill worms in the body; although people are soon reinfected, treatment interferes with the transmission cycle, thus generating positive externalities. Unlike most studies, which are forced to impose a particular definition of the relevant peer group, the survey data on social networks here starts from the respondent’s self-defined peer group. Interestingly, Miguel and Kremer find that children whose parents have (randomly) more social links to early treatment schools, controlling for the total number of social links, are themselves *less* likely to take deworming drugs. This negative social effect implies that actual learning and information transmission took place (rather than imitation). The hypothesis that is consistent with this finding is that those exposed to the program had overly optimistic beliefs about the net private drug. So for the type of technology they examine, because prior beliefs are often too optimistic and the technology creates positive externalities, faster social learning is *not* socially beneficial. But the combination of strong social effects and extensive social networks among teenagers implies that “child-to-child” public health approach focused on teenagers will speed up social learning – a finding useful to the design of other public health projects. Finally, the striking difference between the experimental (negative) and non-experimental (positive) social effect estimates indicates that in their context the omitted variable bias is positive and large.

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## **(B) FURTHER IMPRESSIONS**

### **A COLOURFUL MEETING-POINT**

In a 'full house' with 'backbenchers' and all the rest of it, debate was remarkably relaxed, 'forward-looking' and ambitious: Indeed, no fanatical defence of intellectual 'territory' based on admittedly wrong-headed assumptions (possibly, under the spells of a status-quo bias), rather a critical review of original experimentation with an overarching interest in how these new models and emerging insights can push forwards the bounds of economic strategy and reasoning (possibly biased by over-optimism ☺), and public policy-making.

### **DIVERSE TACTICS**

The diverse tactics convey the 'message' that 'getting set on a model is dangerous, models can blind you'. Affording greater psychological realism to the economic agents we study so as to emerge with different, verifiable predictions about behaviour and hedonics, and eventually more effective public policy instruments is not of course a simple task. Indeed, it calls for not only the same formal and analytical rigour to which mainstream economists aspire, but also a healthy dose of sensitivity and curiosity towards the 'spectacle' of everyday life, and insights that other disciplines deliver.

### **CAVEATS AND WAYS FORWARD**

Entertaining departures from the textbook axioms of rational choice is not just a fad or a matter of intellectual niche carving. Instead, following in the footsteps of game theory and informational economics, positive behavioural predictions aspire to be integrated with mainstream economics. Interestingly, the themes that permeate through much of the work today on 'psychology and economics' strike a chord with earlier work by economists on the "boundaries of the village moral economy", "the making of a working class", or the failures of collective action, to name but a few. Indeed, concerns with fairness, identity, intentions, internalisation of constraints, cognition and visceral reactions to dignity, pervade both strands of scholarly literature. Observing such parallels is not only of interest in of itself, but also helps pave the way for 'behavioural economics' of enhancing and assimilating with mainstream economics.

The conference's broad array of topics is merely indicative of the many economically significant phenomena in need of further direct scrutiny. One such area, vastly understudied, is that of financial decision-making under poverty. On an optimistic note, by paying more attention to the psychological assumptions underlying our analyses, economists' studies of say, extended warranties, pay-day loans, rent-to-own, pawnshops, or credit card debt, promise to yield novel insights. Similarly, the sort of methodological experimentation represented at the conference again offers merely a flavour of the rising number of research initiatives that underpin the behavioural challenge to economics. Multidisciplinary and collaborative efforts in the fields of neuroscience and the study of emotions, for instance, make headway at directly enriching our conceptions of human behaviour, and indirectly contributing an improvement to welfare economics.

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