

Fall 2005
Mondays, 1-3 PM

RATIONALITY

Christine Jolls and Amartya Sen

Session 1: Introductory	Sep 19
Session 2: Alternative Approaches to Rationality	Sep 26
Session 3: Counterfactuals and Uncertainty: I	Oct 3
Session 4: Counterfactuals and Uncertainty: II	Oct 17
Session 5: Heuristics and Biases: I	Oct 24
Session 6: Heuristics and Biases: II	Oct 31
Session 7: Rationality as Self-interest Pursuit	Nov 7
Session 8: Rationality as Consistency	Nov 14
Session 9: Rationality as Maximization	Nov 21
Session 10: Limits of Self-interest: I	Nov 28
Session 11: Limits of Self-interest: II	Dec 5
Session 12: General discussion	Dec 12

General description: Rationality is a central idea in economics, law, politics and moral and political philosophy. The demands of rationality have been formulated in different ways in classical and contemporary economics, in political science, in philosophical analysis of practical reason, and in legal theory including law and economics. This course will provide a critical examination of the different ways of characterizing rationality and its requirements.

Requirement: Regular participation in classes and a term paper of about 25 standard typed pages. For students other than those from the Law School (where grading is anonymous), a proposal on the subject of the paper, with a motivating description, should be submitted before the Thanksgiving break. The final papers are due by January 10 for all students.

Office hours: Christine Jolls:

Wednesdays 8:25-10:25, Griswold Hall 504, by
appointment
(please email ekeng@law.harvard.edu)

Amartya Sen:

Mondays 11-12, Littauer Center 205, by appointment
(please call 5-1871)

Tuesdays 11-12, Littauer Center 205, no appoint-
ment needed

General readings:

The following books may be used as general reference:

Gary Becker, Accounting for Tastes.

Richard Thaler, Quasi Rational Economics.

Amartya Sen, Rationality and Freedom.

Other books of general relevance:

Depending on your particular interest you may or may not get involved with any of these books. If the subject of rationality really interests you, then "tasting" them to see whether any of these capture your interest may be worthwhile.

Daniel Kahneman, Paul Slovic and Amos Tversky, eds., Judgment under Uncertainty: Heuristics and Biases.

Thomas Gilovich, Dale Griffin and Daniel Kahneman, eds., Heuristics and Biases: The Psychology of Intuitive Judgment.

George Akerlof, An Economic Theorist's Book of Tales.

Vivian Walsh, Rationality, Allocation and Reproduction.

Isaac Levi, Hard Choices.

Robert Nozick, The Nature of Rationality.

John Elster, ed., Rational Choice.

Gay Meeks, ed., Thoughtful Economic Man.

Jane Mansbridge, ed., Beyond Self-interest.

Gary Becker, The Economic Approach to Human Behavior.

Thomas Schelling, Choice and Consequence.

Herbert Simon, Models of Thought.

Albert Hirschman, Shifting Involvements.

Michael Slote, Beyond Optimizing, especially Chapters 1 and 2.

Session 1: Introductory

Session 2: Alternative Approaches to Rationality

Sep 26

Gary S. Becker, The Economic Approach to Human Behavior, Chapter 1, pp. 3-14.

Robert Nozick, The Nature of Rationality, Chapter I ("How to Do Things with Principles"), particularly the sections on "Sunk Costs" and "Symbolic Utility," pp. 21-34.

Amartya Sen, "Rational Fools: A Critique of the Behavioural Foundations of Economic Theory," Philosophy and Public Affairs, 6 (1977), reprinted in Choice, Welfare and Measurement, and also in Jane Mansbridge, ed., Beyond Self-Interest, pp. 25-43.

Richard Thaler, Quasi Rational Economics, "Introduction," pp. xi-xxii.

Amartya Sen, Rationality and Freedom, Chapter 1, pp. 3-26.

Session 3: Counterfactuals and Uncertainty: I

Oct 3

Richard Thaler, Quasi Rational Economics, Chapter 1 ("Toward A Positive Theory of Consumer Choice"), pp. 1-24, and Chapter 8 ("Experimental Tests of the Endowment Effect and the Coase Theorem"), pp. 137-166.

Mark Kelman, "Consumption Theory, Production Theory, and Ideology in the Coase Theorem," course reader.

Christine Jolls, Cass R. Sunstein and Richard Thaler, "A Behavioral Approach to Law and Economics," course reader, section II.D only.

Optional: For students interested in recent evidence on the endowment effect, see also:

Charles R. Plott and Kathryn Zeiler, "The Willingness to Pay-Willingness to Accept Gap, the 'Endowment Effect,' Subject Misconceptions, and Experimental Procedures for

Eliciting Valuations," American Economic Review, 95 (2005), pp. 530-545.

Session 4: Counterfactuals and Uncertainty: II

Oct 17

R. Duncan Luce and Howard Raiffa, Games and Decisions, section 2.4, pp. 19-23, and for those not deterred by symbolic reasoning, also section 2.5, pp. 23-31.

Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choice," course reader.

Mark Machina, "Choice under Uncertainty: Problems Solved and Unsolved," course reader.

Amartya Sen, Rationality and Freedom, Chapter 6 ("Rationality and Uncertainty"), pp. 225-244.

George Akerlof, An Economic Theorist's Book of Tales, Chapter 2 ("The Market for Lemons"), pp. 7-22.

Session 5: Heuristics and Biases: I

Oct 24

Neil D. Weinstein, "Unrealistic Optimism About Future Life Events," course reader.

Amos Tversky and Daniel Kahneman, "Extensional Versus Intuitive Reasoning: The Conjunction Fallacy in Probability Judgment," course reader.

Christine Jolls and Cass Sunstein, "Debiasing Through Law" (forthcoming 2006), course reader.

Session 6: Heuristics and Biases: II

Oct 31

Baruch Fischhoff, "Hindsight \neq Foresight: The Effect of Outcome Knowledge on Judgment Under Uncertainty," course reader.

Hal R. Arkes, David Faust, Thomas J. Guilmette and Kathleen Hart, "Eliminating the Hindsight Bias," course reader.

Christine Jolls, Cass R. Sunstein and Richard Thaler, "A Behavioral Approach to Law and Economics," course reader, section IV.A only.

Linda Babcock, George Loewenstein, Samuel Issacharoff and Colin Camerer, "Biased Judgments of Fairness in Bargaining," course reader.

Linda Babcock, Xianghong Wang and George Loewenstein, "Choosing the Wrong Pond: Social Comparisons in Negotiations that Reflect a Self-Serving Bias," course reader.

Session 7: Rationality as Self-interest Pursuit

Nov 7

Gary S. Becker, Accounting for Tastes, Chapters 1 ("Preferences and Values") and 2 ("De Gustibus Non Est Disputandum"), pp. 3-49.

George Akerlof, An Economic Theorist's Book of Tales, Chapter 9 ("Loyalty Filters"), pp. 175-91.

Vivian Walsh, Rationality, Allocation and Reproduction, Chapter 5 ("Rationality as Pursuit of Self-interest"), pp. 112-38.

Christine Jolls, Cass R. Sunstein and Richard Thaler, "A Behavioral Approach to Law and Economics," course reader, sections II.A through II.C and III.A only.

Amartya Sen, Rationality and Freedom, Chapter 1, pp. 26-37.

Session 8: Rationality as Consistency

Nov 14

Vivian Walsh, Rationality, Allocation and Reproduction, Chapter 4 ("Rationality as Consistency"), pp. 81-111.

Isaac Levi, Hard Choices, Chapters 1 ("Moral Struggle") and 2 ("Dilemmas"), pp. 1-35.

Amartya Sen, Rationality and Freedom, Chapter 3 ("Internal Consistency of Choice"), particularly pp. 121-37; also in Econometrica, 61 (1993).

Optional: For those who are not deterred by stretches of formal reasoning, see also:

Amartya Sen, Choice, Welfare and Measurement, Chapter 1 ("Choice Functions and Revealed Preference), pp. 41-53, and Chapter 8 ("Social Choice Theory: A Re-examination," from Econometrica, 45, 1977), section 4, pp. 169-78.

Rajat Deb, "Binariness and Rational Choice," Mathematical Social Sciences, 5 (1983), pp. 97-106.

H. Moulin, "Choice Functions over a Finite Set: A Summary," Social Choice and Welfare, 2 (1985), pp. 147-160.

Session 9: Rationality as Maximization

Nov 21

Robert Nozick, The Nature of Rationality, Chapter V ("Instrumental Rationality and Its Limits"), pp. 133-139 only.

Thomas Schelling, Choice and Consequence, Chapter 3 ("The Intimate Contest for Self-command"), pp. 57-82.

Richard Thaler, Quasi Rational Economics, Chapter 4 ("Economic Theory of Self-control," with H.M. Shefrin), pp. 77-90.

Amartya Sen, Rationality and Freedom, Chapter 1 ("Introduction"), pp. 37-45, and Chapter 4 ("Maximization and the Act of Choice"), pp. 158-194 (the mathematical appendix can be evaded, except by those who like that sort of thing); also in Econometrica, 61 (1993).

Cass Sunstein, Laws of Fear: Beyond the Precautionary Principle, Chapter 1 ("Precautions and Paralysis"), pp. 13-34.

Optional: Those who want to go more into the general problem of self-management and are not deterred by formal economics, would find it useful to look also at:

Jean Tirole, "Rational Irrationality: Some Economics of Self-Management," European Economic Review, 46 (2002), pp. 633-655.

Session 10: Limits of Self-interest: I

Nov 28

Richard Thaler, Quasi Rational Economics, Chapter 10 ("Fairness as a Constraint on Profit Seeking: Entitlements in the Market"), pp. 199-219.

Elizabeth Hoffman, Kevin McCabe and Vernon L. Smith, "Social Distance and Other-Regarding Behavior in Dictator Games," course reader.

George Akerlof, An Economic Theorist's Book of Tales, Chapter 8 ("Labor Contracts as Partial Gift Exchange"), pp.145-174.

Ernst Fehr, Georg Kirchsteiger and Arno Riedl, "Does Fairness Prevent Market Clearing: An Experimental Investigation," course reader.

Session 11: Limits of Self-interest: II

Dec 5

Uri Gneezy and Aldo Rustichini, "A Fine Is a Price," course reader.

Mark Kelman, "Law and Behavioral Science: Conceptual Overviews," course reader. (Note: This article and the next address not only limits of self-interest but also many of the other topics covered in the course; thus these articles are meant to help in pulling together much of the material covered in the course.)

Matthew Rabin, "A Perspective on Psychology and Economics," course reader.

Session 12: General discussion

Dec 12