

# Emotional arousal as a source of bounded rationality

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## Abstract

This paper proposes an alternative psychological explanation for bounded rationality. According to Herbert Simon, bounded rationality arises from human cognitive limitations. Following the suggestion of institutional economist John R. Commons, I argue that extremes in emotional arousal also contribute to bounded rationality. This idea is formalized and developed using the Yerkes–Dodson law from psychology. Examples from the popular press and the academic literatures of law, management and economics are presented to illustrate the impact of this type of bounded rationality on human behavior. © 1999 Elsevier Science B.V. All rights reserved.

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## 1. Introduction

The concept of bounded rationality, as developed by Simon and others (Simon, 1987a; Conlisk, 1996), is based on human cognitive constraints, such as limited computational ability and selective memory and perception. In this paper I suggest an additional source of bounded rationality that arises from insufficient or excessive emotional arousal.

Institutional economist (Commons, 1934, p. 874) asserted that human behavior is goal oriented and purposive but also heavily influenced by ‘stupidity, ignorance, and passion.’ Simon (1982, p. 449) acknowledges that in developing the concept of bounded rationality he drew inspiration from Commons’ earlier work. Simon, however, locates the source of bounded rationality in the limited processing capability of the human brain (‘stupidity’) and lack of knowledge of alternatives in the choice set (‘ignorance’), but largely ignores the role of ‘passion.’ This is an important omission, for the literature of psychology suggests that human passions (now called emotional or ‘affective’ states) can impart

numerous biases and irrationalities into human decision making (Janis, 1989; Oatley, 1992).

I develop Commons' insight using the Yerkes–Dodson law from psychology. It provides an intuitively appealing explanation for numerous instances of (apparently) non-optimal behavior that cannot be easily explained on the basis of cognitive limitations alone. Illustrative examples are presented from the contemporary press and the research literatures of law, management, and economics.

## **2. Emotional arousal**

Emotions are among the most complex and powerful psychological phenomena. Emotions are subjective mental 'feelings' such as love, hate, anxiety, boredom, fear, sympathy and lust. A variety of theories of emotion exist in the psychological literature, but a popular one (Lazarus, 1991) holds that they are largely cognitive in origin, grow out of some internal or external change that affects a goal of the human agent, vary in intensity in direct proportion to the importance of the goal and the degree to which the internal or external change affects the goal, and take particular forms (e.g., love, hate, anger) depending on the agent's appraisal of the origin, cause, and personal consequences of the internal or external change. Thus, the emotion 'anger' is triggered when the human agent perceives that an event or action threatens a desired goal, in some way demeans or slights personal sense of self-esteem, and is caused by a person (possibly the self) who is judged attributable for the action or event and is thus blameworthy. The experience of this emotion then arouses or energizes the person to action.

The emotions are largely absent from economics' discourse, given the emphasis in the discipline on rational choice (but see Etzioni, 1988; Frank, 1988; Elster, 1998), and even in psychology have remained on the periphery of research until relatively recently (Lewis and Haviland, 1993). This neglect in the modern social and behavioral sciences stands in sharp contrast to the prominent role given to emotions in human affairs by authors and playwrights from the time of the Greeks to the present. Two themes in this literature (and in pre-1960s psychology literature) stand out. The first is that emotions are in many ways the antithesis of reason and rationality, the second is that emotions reflect the lower, more primitive, and often darker side of the human psyche and unless controlled and repressed have the potential to cause great harm and suffering (Hirschman, 1977; Holmes, 1995).

The contemporary view of emotions in psychology is somewhat different. First, while the behaviors caused by emotional states can be irrational, the emotional process itself is largely explicable in rational, scientific terms (Frijda, 1986; de Sousa, 1987). Second, emotions are a central part of the psychological process of motivation (i.e., the process that activates and guides human behavior toward particular ends) as they heighten the saliency of certain desires, wants, and outcomes and thus energize people to pursue them. Third, people adapt and adjust to environmental change by developing 'coping strategies.' Emotions play a key role in such strategies because they signal the human agent that an important goal needs attention (e.g., as when sudden fear alerts a person to jump out of the way of an oncoming car). Finally, the current view is that optimal human performance

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