

What is behavioral economics?

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Abstract

This paper is concerned with defining the characteristics of behavioral economics (BE), identifying the different strands of BE, and carefully comparing BE to mainstream economics (ME). The job of comparison is first to identify the key dimensions (related to its approach to science) along which BE, and its different strands, differs from ME, and second to use these dimensions to illustrate the differences. The dimensions selected for this use are: (1) narrowness, (2) rigidity, (3) intolerance, (4) mechanicalness, (5) separateness, and (6) individualism. After using these dimensions to characterize ME, they are used to characterize BE's strands.

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1. Introduction

Quite a few economists identify themselves as behavioral economists these days. Although they share common characteristics, they do behavioral economics (BE) in significantly different ways. Many of them would be hard pressed to articulate exactly what it is that makes them behavioral economists (BEs). And some might be very skeptical that there are any clear defining features of BE. So what is BE? This paper is concerned with defining the characteristics of BE, identifying the different strands of BE, and comparing BE to mainstream or orthodox economics. A key part of the paper involves identifying a number of dimensions useful for comparing the different strands of BE with other types of economics.

An important question here is: is BE an economic school of thought? It is noteworthy that BE is not strongly associated with a political economic ideology or particular substantive propositions as is the case with some other economic schools of thought. What distinguishes BE is its scientific

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practices and its guiding notions of what good scientific practice ought to be. In other words, BEs practice and espouse scientific methods that are different, at least, from those typical of mainstream economics. To understand this, it is necessary first to gain some perspective by reviewing some important concepts from the philosophy of science, especially its application to economics (economic methodology).

2. Philosophy of science perspectives

Philosophy of science is concerned with issues common to all sciences such as: (1) what is good scientific practice, (2) how is truth established, (3) how do we decide what theory is best, and so on. By the late nineteenth century, modernistic thinking, which is associated with progress through reason and rationality, acquisition of universal truths through scientific methods patterned on those of physics, and the rejection of traditional metaphysics, became prevalent. Positivism, a high level, modernistic philosophy of science became the dominant view at the beginning of the twentieth century (Arzlan, 2003, p. 6). “Positivistic thought rejects the validity of metaphysical and unprovable statements as scientific knowledge . . . [and] regards the human sense experience as the source of scientific knowledge” (p. 6). Positivistic science is Science British style (with a capital S) (McCloskey, 1983, 1994). It emphasizes hypothesis testing and experiments as well as the observable, numerical, nontactit aspects of the world. Moreover, it involves rigorous, hard-nosed rejection of qualitative and intangible aspects, of insights deriving from introspection, and of historical and cultural aspects.

By 1964 in philosophy, positivism had “died” due to recognition of its many deficiencies (McCloskey, 1994, p. 3). It became clear that a broader, better definition of science was needed (p. 61). Positivists were simply too dogmatic about their “refusal to allow any subjective, qualitative elements, . . . a refusal that artificially limited their analyses and created gaps in their description of science” (Caldwell, 1982, pp. 89–90). “The positivist fixation on the objective side of science missed half of a beautiful and complex tale” (p. 244). The problem was that “positivists came to value objective, dispassionate analysis with an almost irrational passion, and therein lay the seeds of their ruin” (p. 89). Positivism ultimately had “become an oppressive rather than a liberating force” (McCloskey, 1994, p. 5).

As a result, it dawned on philosophers, if not most economists, that knowledge is a complex matter and that there is no simple scientific way to determine what is and is not knowledge (McCloskey, 1994, pp. 192–193). Thus, in Caldwell’s view, there is “no universally applicable, logically compelling method of theory appraisal” as positivists have led us to believe (p. 245). For Caldwell, post-positivism means methodological pluralism. McCloskey (1994) agrees but emphasizes that good science has the nature of a good conversation, i.e., scientists using rhetoric to persuade their fellow scientists of the relative truth of their propositions. It follows that scientists in their efforts to persuade should use not only facts and logic but stories and metaphors for completed human reasoning (pp. 61–62). In other words, there is no short, strict list of methods for doing good science. In this sense, most philosophers, at least, have gone beyond positivism.

3. The approach to comparison

The purpose of this section is to develop an approach to comparing BE to other types of economics, particularly mainstream economics (ME). The most important difference between behavioral and mainstream economists is that they hold different normative conceptions of

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