Striving for Balance in Economics

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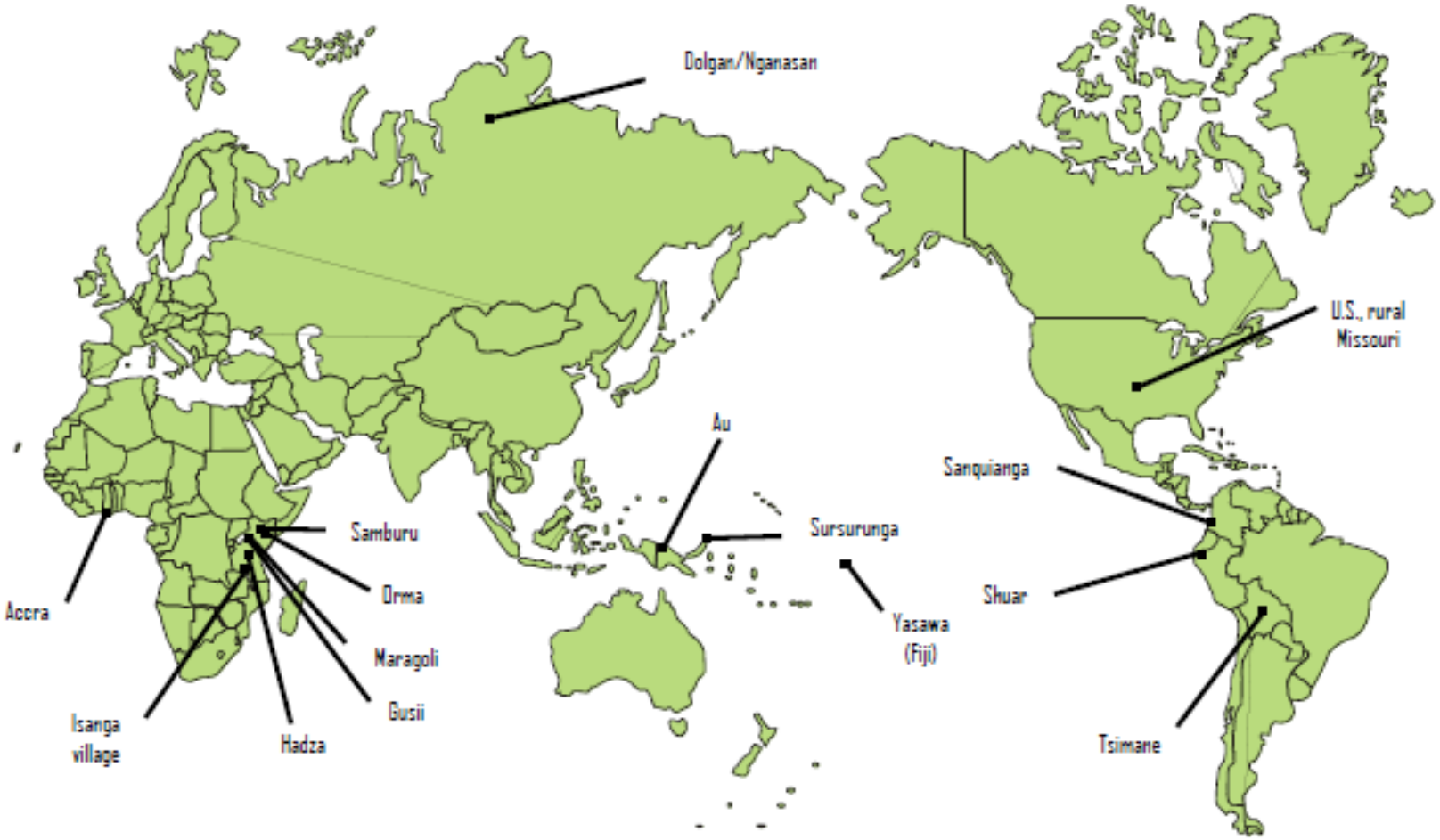
Objectives

To broaden the model of how people make decisions

Standard Economics	Behavioral Economics
The rational actor • Fixed, autonomous preferences	The quasi-rational actor • Fixed preferences, including a preference for conformity • "Fast thinking"
Guided by: • Incentives	Also guided by: • Context in the moment of decision

Standard Economics	Behavioral Economics	
The rational actor • Fixed, autonomous preferences	The quasi-rational actor • Fixed preferences, including a preference for conformity • "Fast thinking"	**The enculturated actor, with** • Endogenous preferences • Endogenous cognition • Endogenous perceptions
Guided by: • Incentives	Also guided by: • Context in the moment of decision	Also guided by: Experience and exposure that create mental models, e.g. • Narratives • Concepts • Identities

Anthropologists ran experiments across the world



Source: Henrich et al. 2010

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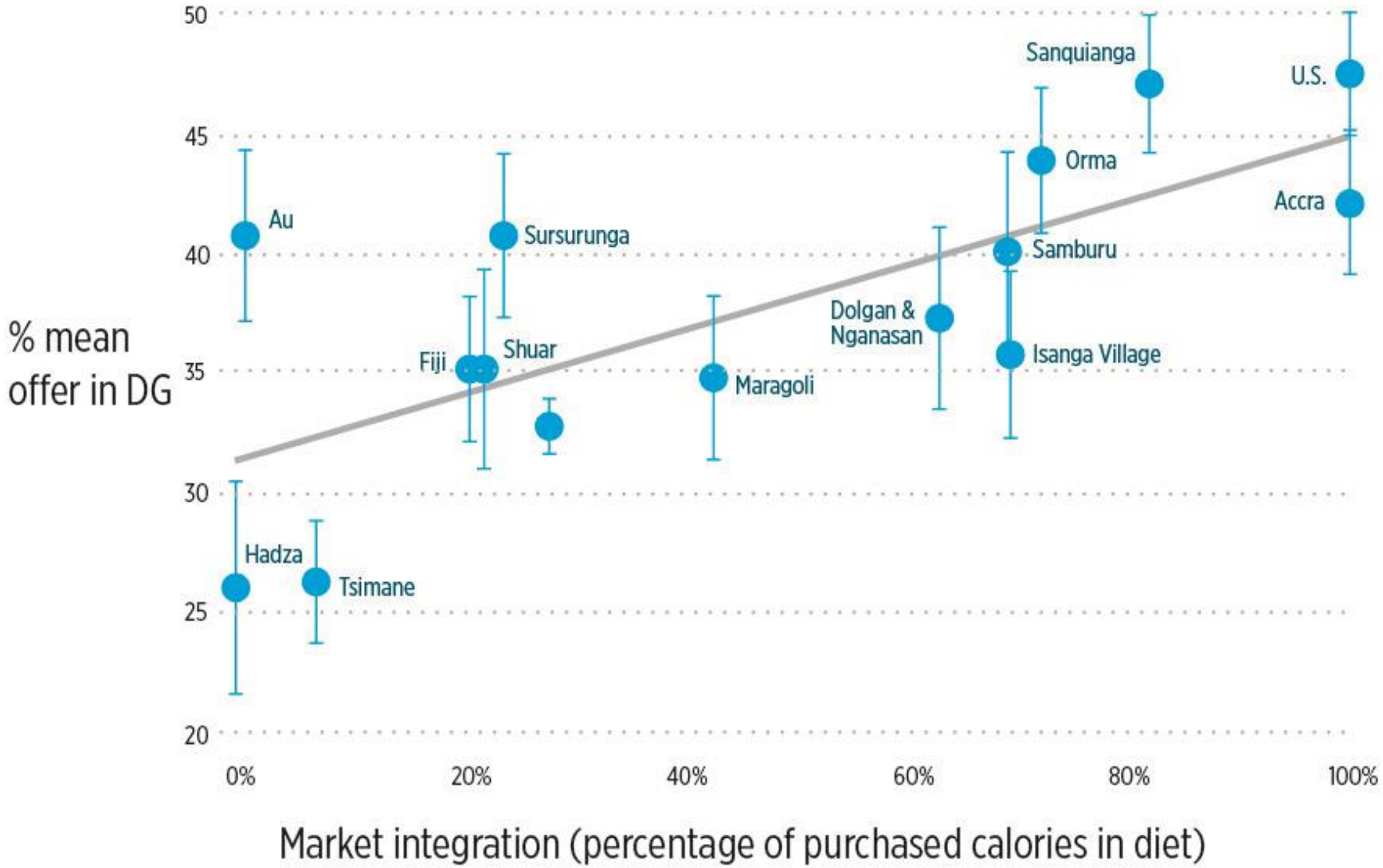

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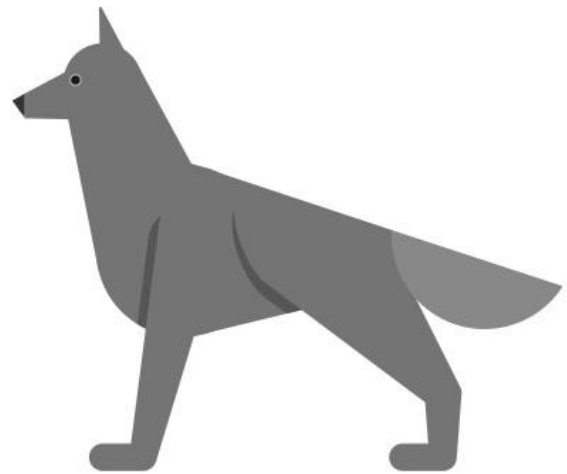
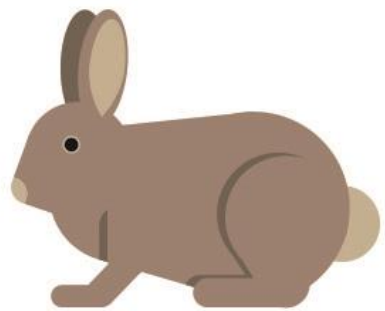
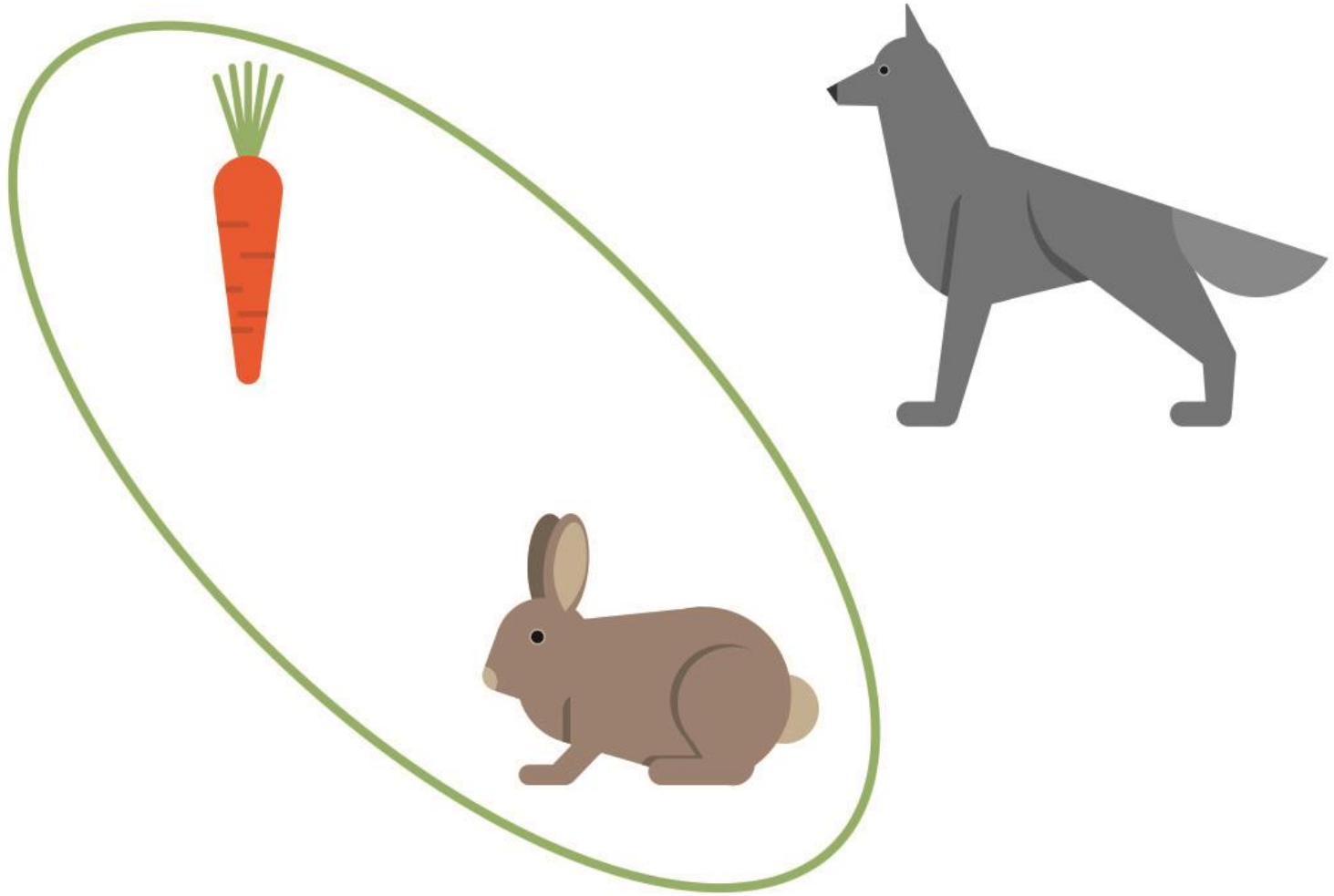
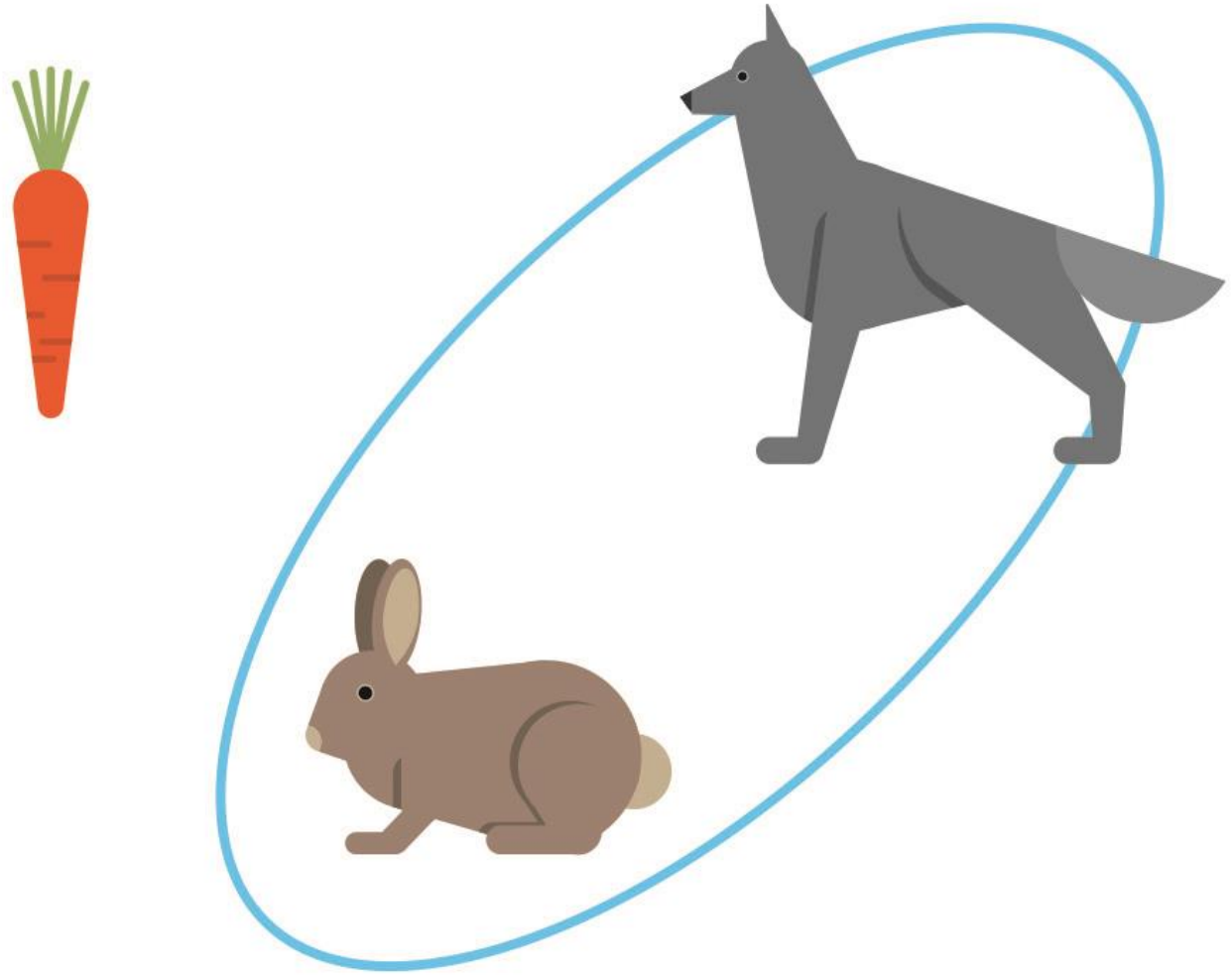




Holistic thinking

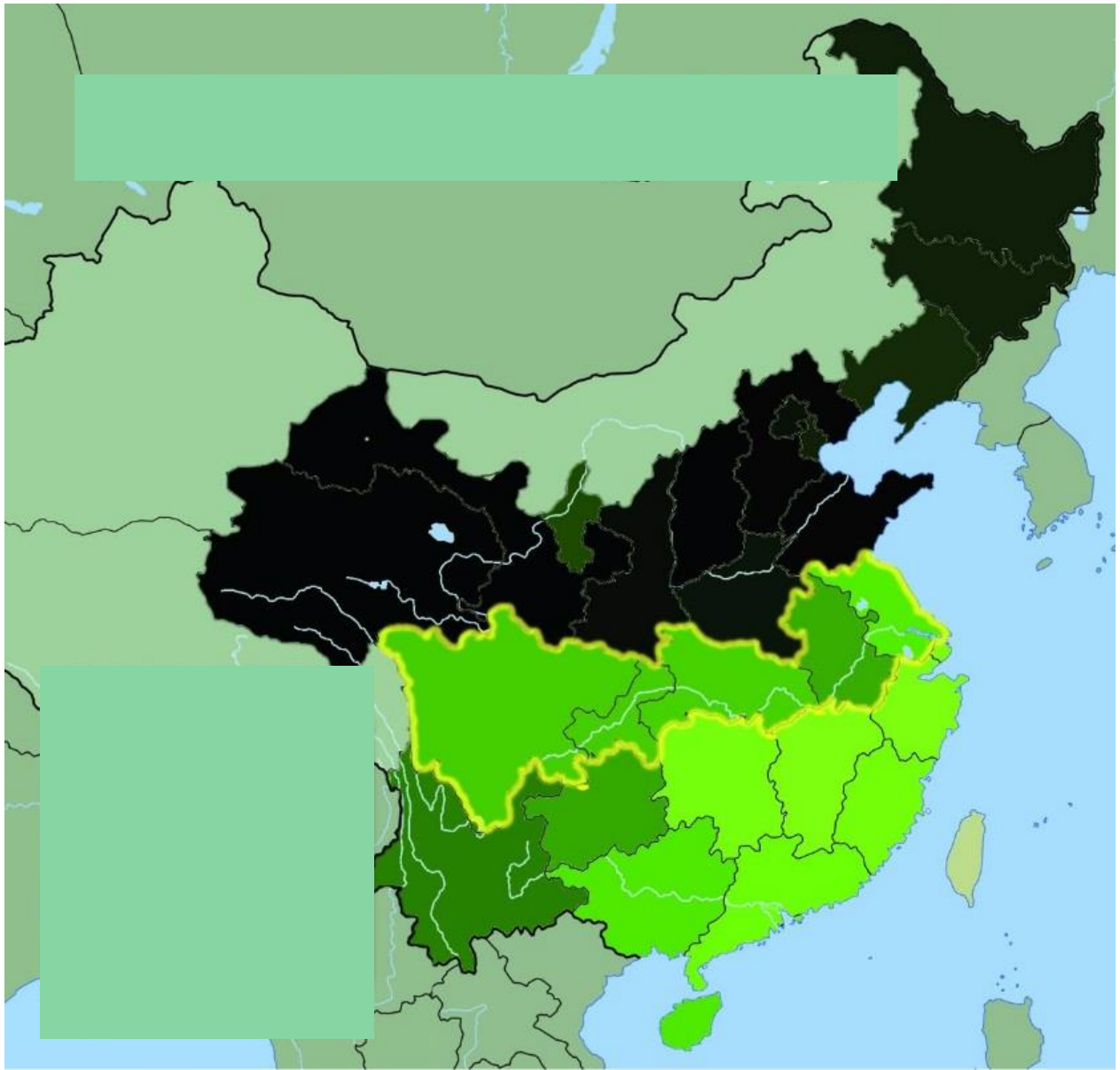


Non-holistic thinking—Pairing items because they belong to the same abstract category



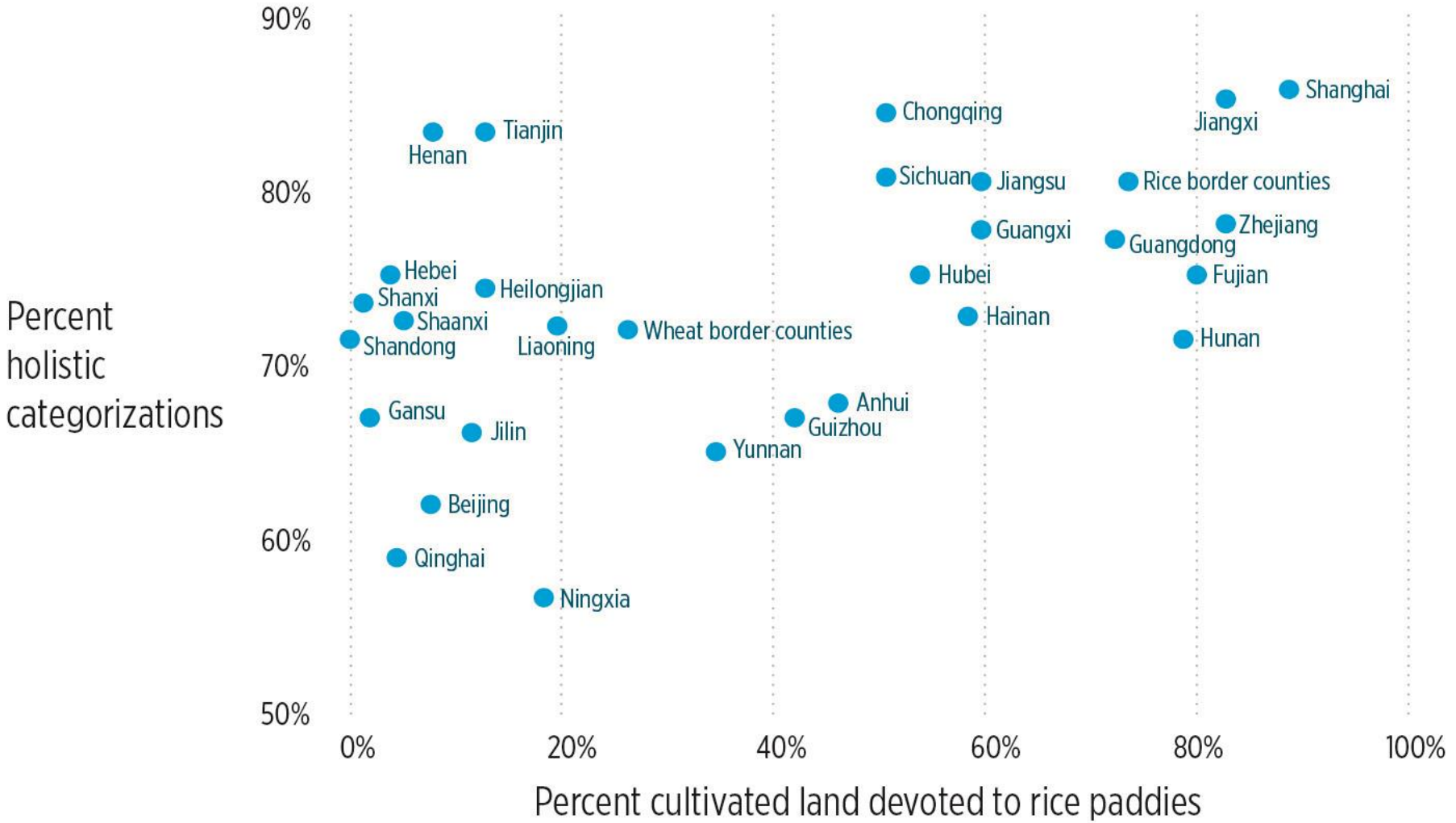
Farmland devoted to rice paddy

0% 90%



Source: Talhelm et al 2014

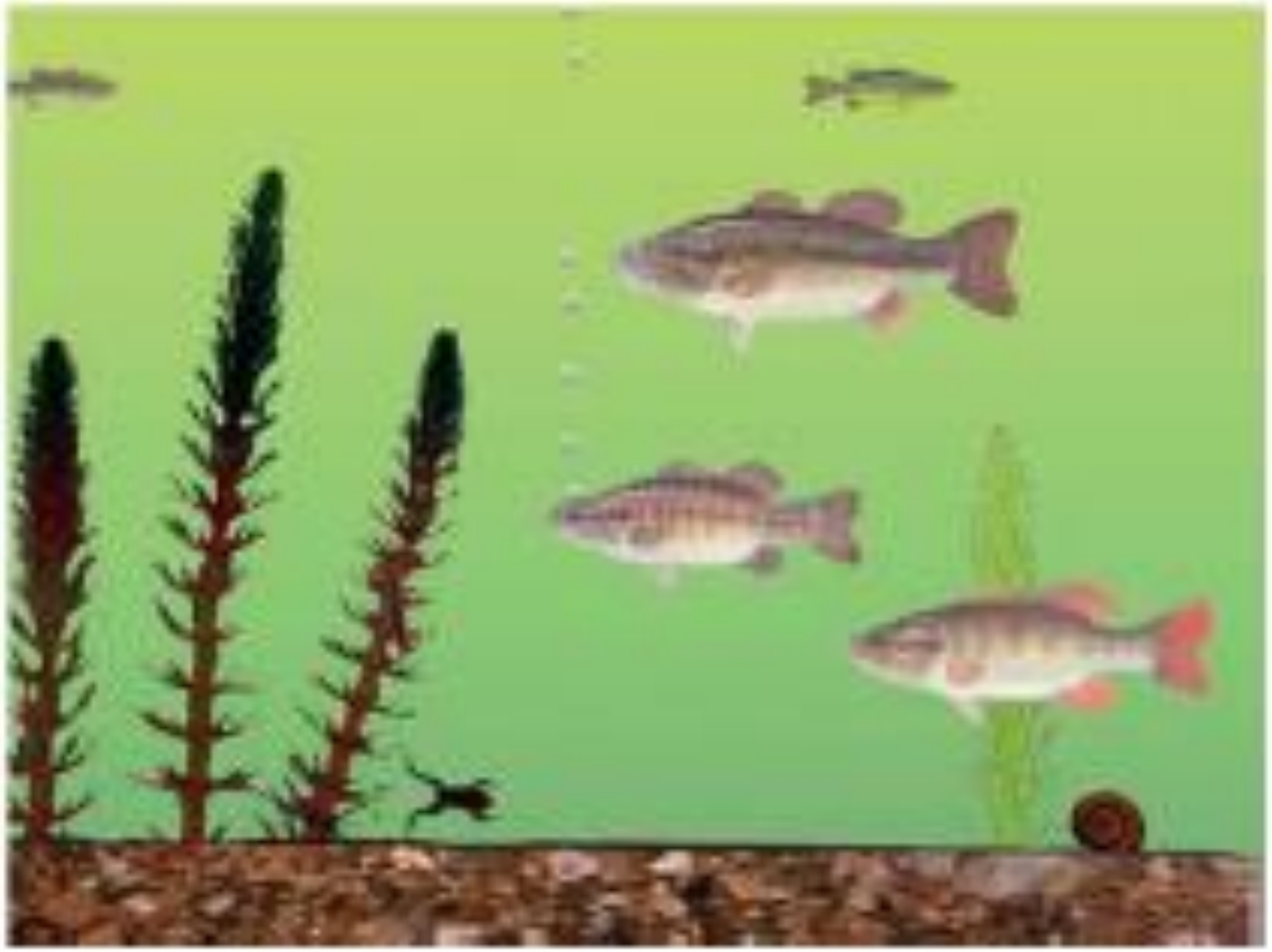
Cultural thought style by percentage of cultivated area devoted to rice paddies, by province.



Source: Talhelm et al. 2014

How we categorize (holistically or not) relates to how we focus (broadly or narrowly).

Test of Perception



Narrowness of focus varies between East and West

Fish with Original Background

Fish with No Background

Fish With Novel Background

How do people arrive at conventions?

Standard view: it's an information problem.

> With fixed pairs, nearly all quickly settle on the efficient, cooperative convention
>
> Van Huyck et al. 1990

A behavioral finding

> A history of miscoordination is an "insult to honor" that can block the emergence of a convention
>
> (Brooks et al. 2015)

Stag Hunt: “The exemplar of the social contract”

—Skyrms (2003)

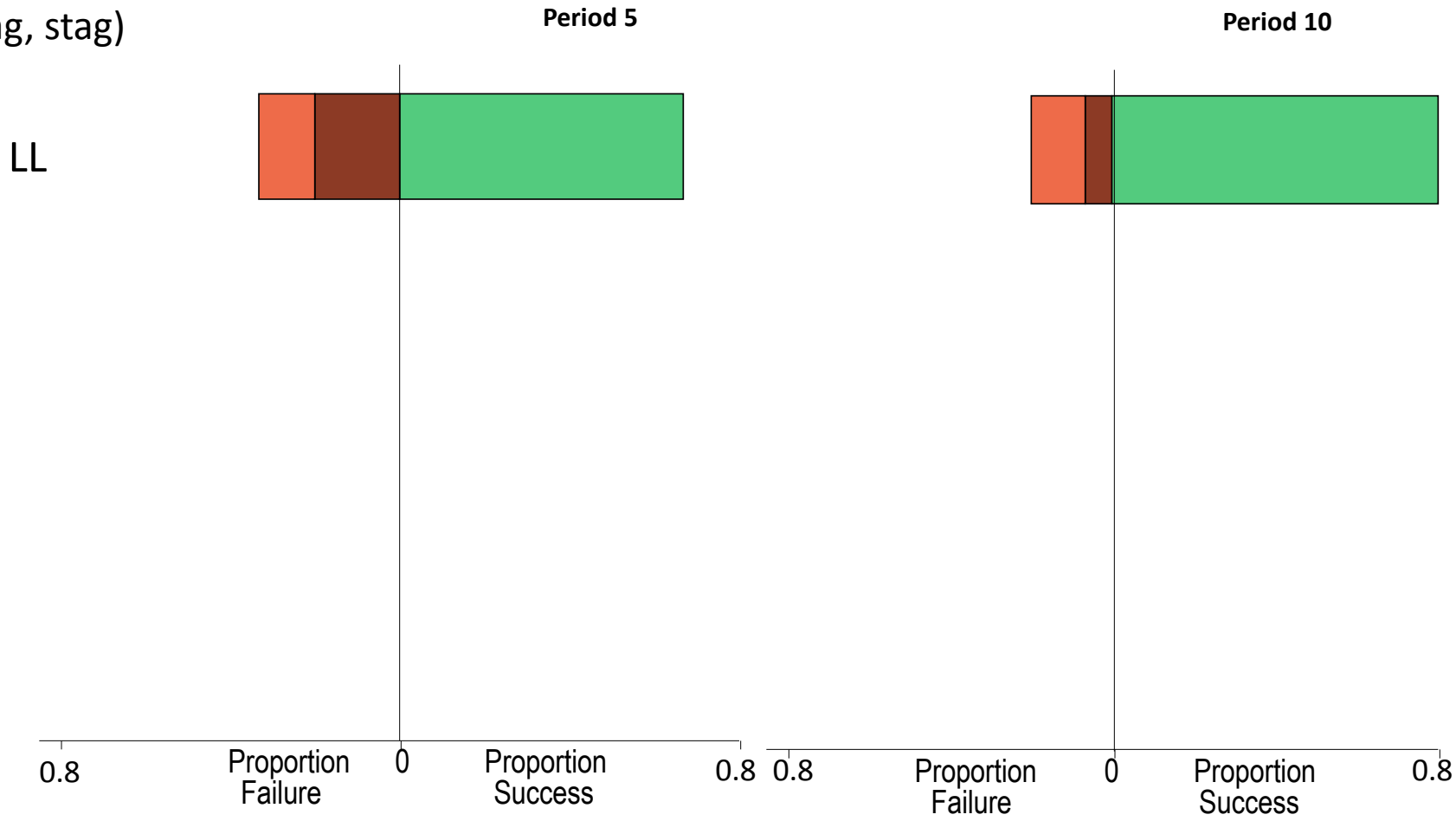
Payoffs of column player

	Hare	Stag
Hare	Small payoff	Loss
Stag	Small payoff	Big gain

Cy dit le commencement ou doit aler lassiet pour le cerf

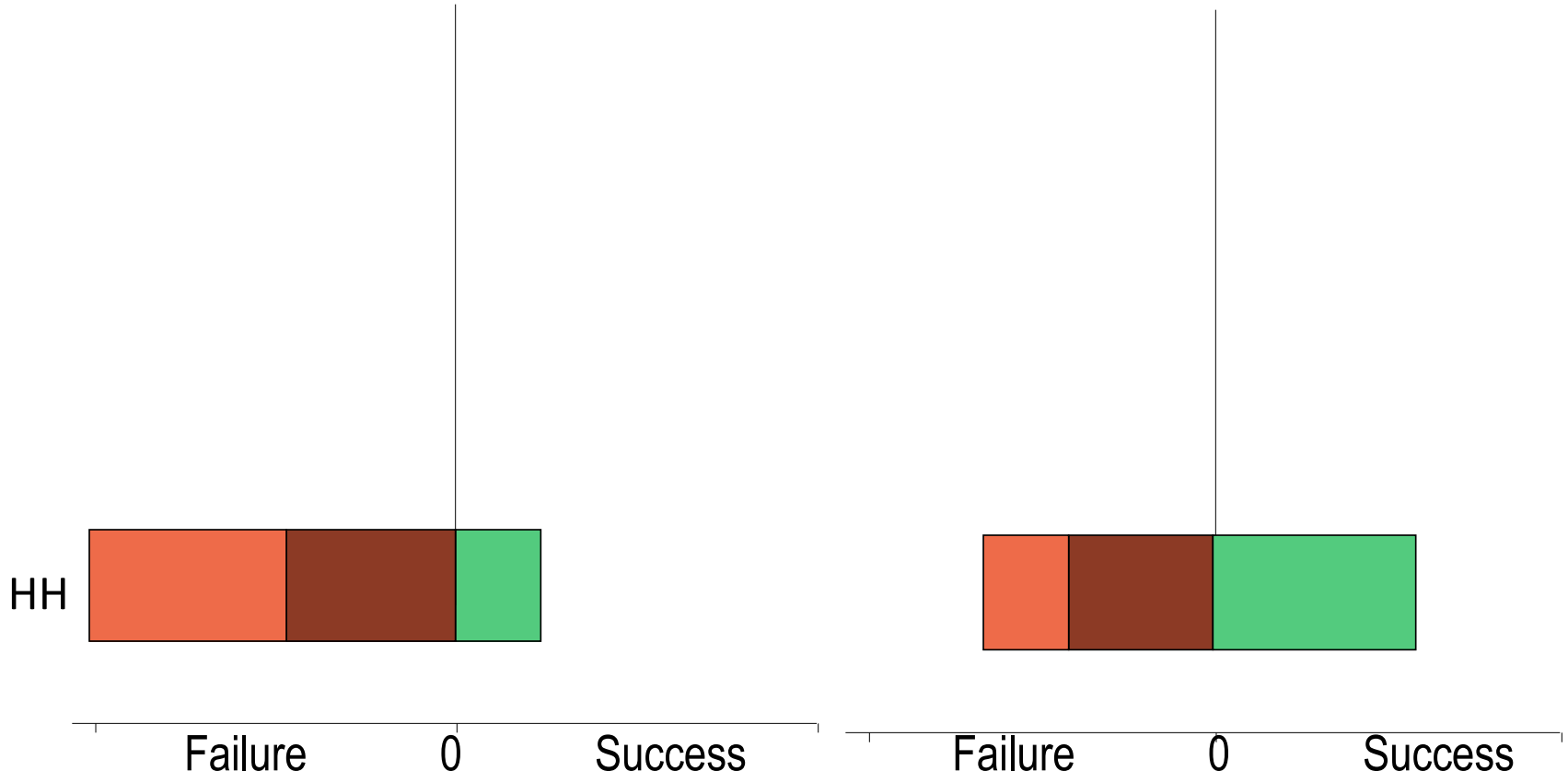
Low-caste pairs establish a cooperation convention within 5 periods

Orange = (stag, hare)
Brown = (hare, hare)
Green = (stag, stag)



High-caste pairs do not

Orange = (stag, hare)
Brown = (hare, hare)
Green = (stag, stag)



When does high-caste behavior diverge from low-caste's ?

It occurs after a player gets the loser's payoff.

Players who switch to Hare after getting the loser's payoff:

In HH	32%
In LL	68%

The difference is robust to controls for education, wealth, and trust

Hypothesis: The high caste retaliate to uphold their honor

- “[Honor] has to be continually reaffirmed” (Mandelbaum (1993).

Survey of attitudes to retaliation

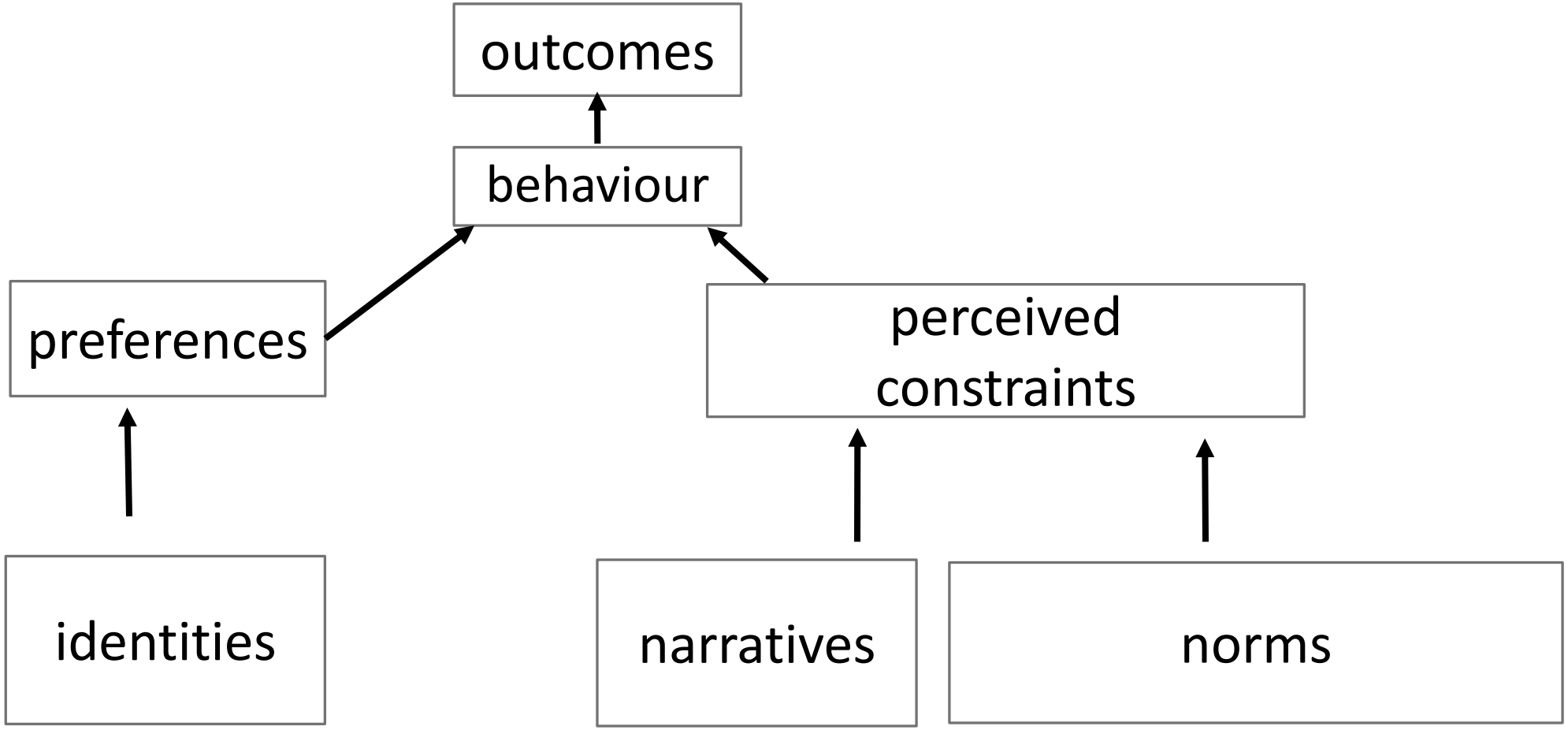
- Respondents each get 2 vignettes and comment on the actions
- We find that that if one man causes another man a loss,
  - Then high-caste men tend to think the right response is to retaliate
  - But many low-caste men say: “ let it go”

Culture of Honor around the world

Honor is important to various groups all over the world. As one Milwaukee police chief said of a disadvantaged community in his city,

> "Maintaining one's status and credibility and honor, if you will, within that peer community is literally a matter of life and death" (*New York Times* 2015)

Returning to Akerlof - Collier



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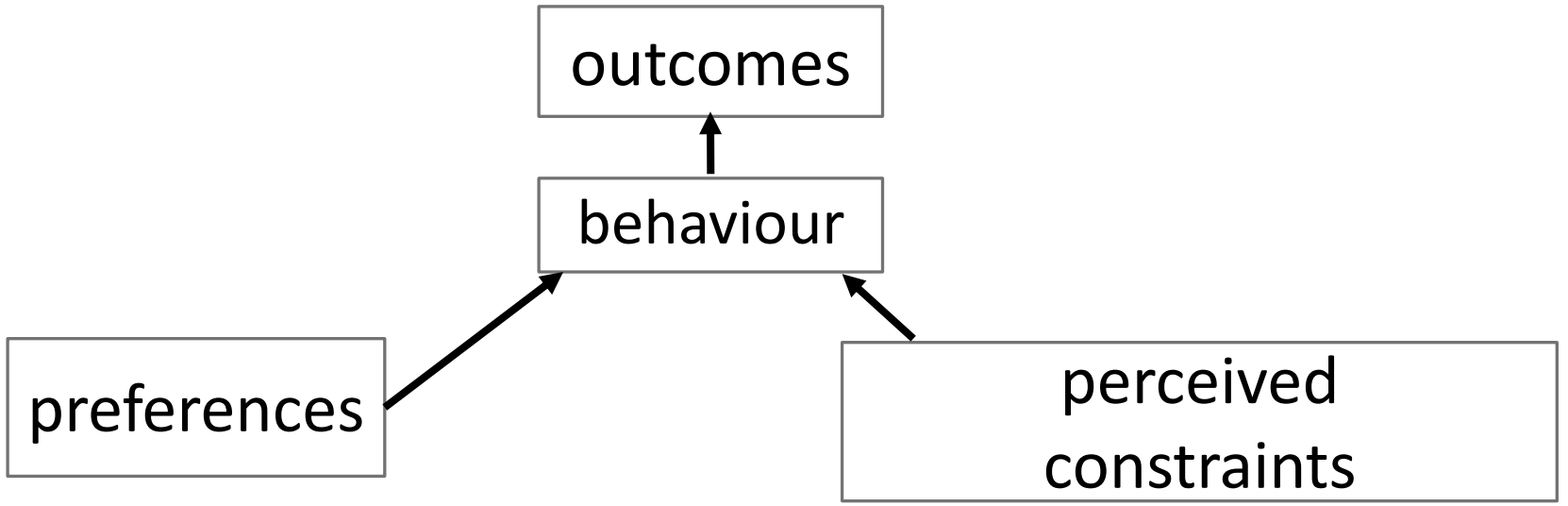


identities

narratives

descriptive norms

prescriptive norms

mental models

Mental models are malleable

identities

When the professional identity of bankers is primed, they become more dishonest
(Cohn et al. 2014)

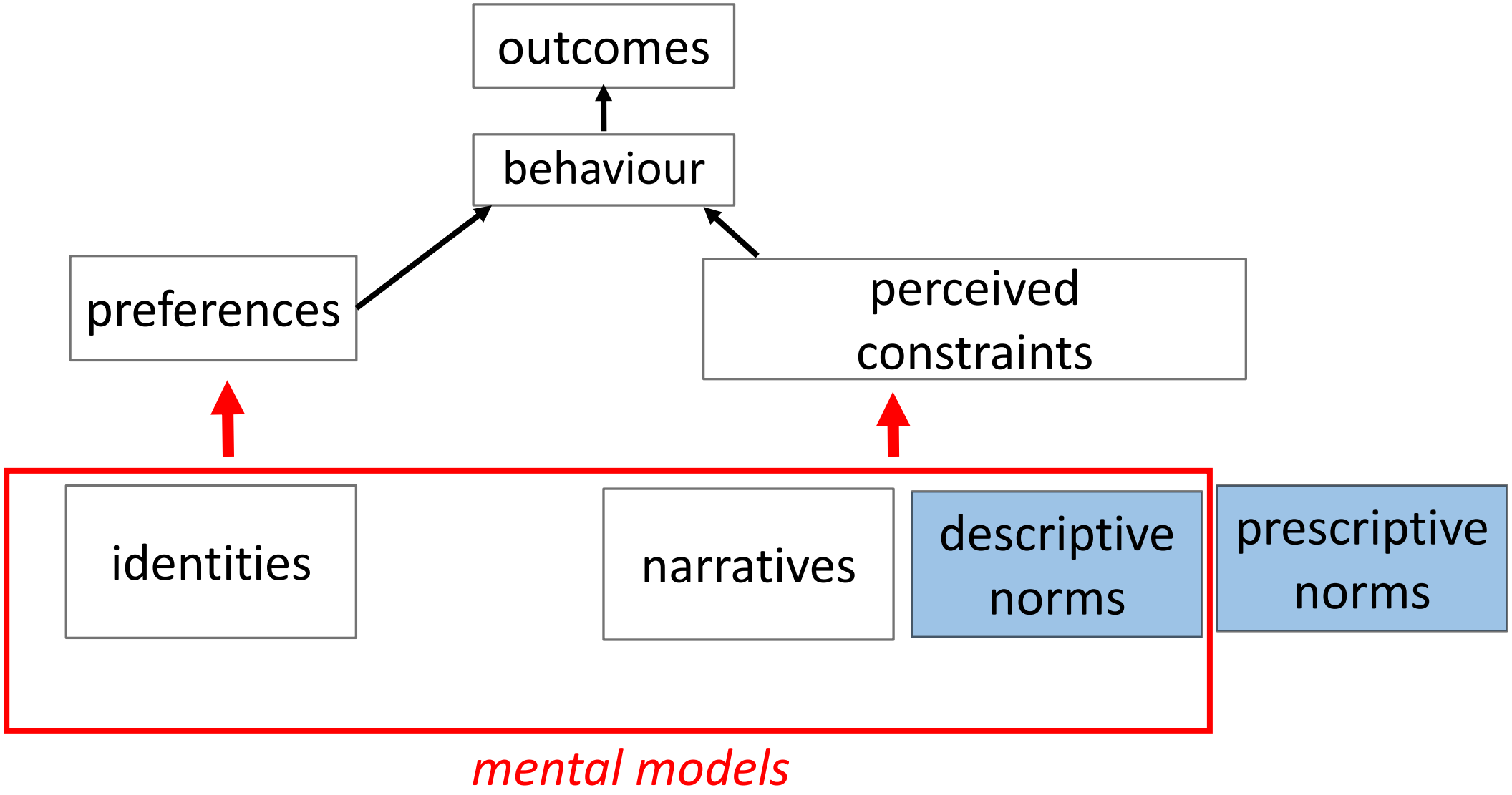
narratives

When Brazilian soap operas portray women with few or no children, fertility declines
(La Ferrara, Chong, & Duryea, 2012)

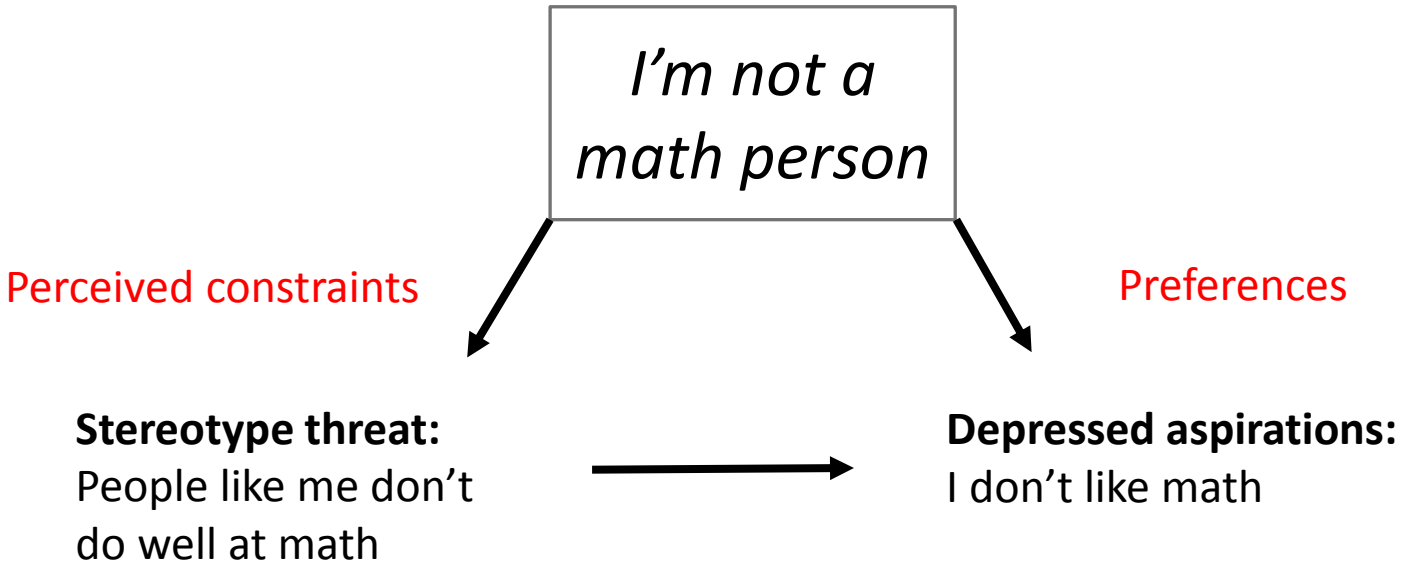
descriptive norms

When Indian villagers see young women getting jobs in the formal labor market, girls marry later and get more education
(Jensen, 2012)

& they affect **both** constraints **and** preferences



Example


I'm not a math person
Perceived constraints
Preferences
Stereotype threat:
People like me don't do well at math
Depressed aspirations:
I don't like math

Conclusion

Why should economic discourse import insights from cultural psychology, sociology, and anthropology?

To reduce the risk of misdiagnosing problems.

To discover new targets for policy