

Econ Club – Behavioural Economics and Rational Choice – Paul Ormerod

Questions for Further Discussion/Debate

1. How does behavioural economics challenge the fundamental assumptions of rational choice theory, particularly regarding human decision-making processes?
2. What are the implications of behavioural economics for government policy-making? How might policies change if they are based on behavioural insights rather than on rational choice theory?
3. In what ways does behavioural economics redefine our understanding of 'rationality' and 'irrationality' in economic decision-making?
4. How have insights from psychology and sociology, which are integral to behavioural economics, influenced traditional economic theories and models?
5. What are the limitations and criticisms of behavioural economics as a challenge to the rational choice framework?
6. Can you provide examples where behavioural economics has successfully explained economic phenomena that rational choice theory could not?
7. How does behavioural economics explain the decision-making processes of individuals and institutions in times of economic crisis?
8. What are the ethical implications of using behavioural economics in policy-making, especially in terms of influencing consumer behaviour?

Source Based Questions

The questions below are all linked to the sources above them. Read through the sources prior to answering the questions.

[Beyond Rational Expectations: Alternative Behavioral Approaches to Economics](#) – Berkeley Economic Review

1. Analyse the claim that substantial empirical evidence shows people can be "irrational", challenging the orthodox view of rationality in economics. How does this impact the validity of traditional economic models?.
2. Evaluate the efforts and implications of synthesizing behavioural and neoclassical economics, as well as behavioural and orthodox Keynesian macroeconomics. How has this integration impacted the field of economics?.
3. Discuss the influence of behavioural economics on heterodox approaches like Austrian and Post-Keynesian economics. How do these schools of thought differ in their treatment of rationality and economic decision-making?.
4. Examine how behavioural economics has influenced environmental economics, particularly in applying psychological findings and nudge theory to environmental policy. What are the benefits and limitations of this approach?.
5. Analyse the concept of 'nudge policy' in behavioural economics. How does it propose to guide individuals towards making "better" and "more rational" choices? What are the ethical and practical considerations of such policies?.
6. Discuss the criticisms of nudge policy in the context of behavioural economics. What are the potential dangers and downsides of implementing such policies, especially in democratic societies?.
7. Reflect on the overall impact of behavioural economics on traditional economic thinking. How has it changed our understanding of social and material phenomena, such as climate change?.

General Questions

1. How can concepts from behavioural economics explain consumer behaviour during major sales events like Black Friday? Analyse this behaviour in contrast to the predictions of rational choice theory.
2. Evaluate how behavioural economics can explain market anomalies that rational choice theory struggles with, such as stock market bubbles and crashes.

3. Compare and contrast the implications of using rational choice theory versus behavioural economics in the development of public health policies.
4. Analyse the impact of behavioural economics on understanding financial decision-making processes, particularly in the context of retirement savings and investment strategies.
5. Evaluate the concept of bounded rationality in behavioural economics. How does it challenge the traditional notion of complete rationality in economic decision making?
6. Discuss the role of behavioural economics in understanding market efficiency. Does behavioural economics suggest that markets are less efficient than rational choice theory proposes?
7. Apply Prospect Theory, a key concept in behavioural economics, to analyse how individuals make decisions in situations involving risk and uncertainty.
8. Evaluate the role of heuristics and biases in consumer choice. How do these concepts challenge the assumptions of rational choice in the context of marketing and advertising?
9. Analyse the impact of incorporating behavioural economics insights into economic models. How does this change the predictions and conclusions of these models?
10. Discuss the role of behavioural economics in justifying government intervention in markets. What are the potential benefits and drawbacks of such interventions?

Further Reading

- [Benefits and Critiques of the Field of Behavioral Economics as it has Developed](#) – Michigan Journal of Economics
- [The Bias Bias in Behavioral Economics](#) – Gerd Gigerenzer