

# THE SABE NEWSLETTER

## THE SOCIETY FOR THE ADVANCEMENT OF BEHAVIORAL ECONOMICS

### Statement of Purpose

SABE is an association of scholars who are committed to rigorous economic analysis and are interested in learning how other disciplines – for example, psychology, sociology, anthropology, history, political science, and biology - further our understanding of economic behavior. An important function of SABE is to serve as a forum for research which may not find either comprehension or acceptance in conventional economics societies. SABE also aims at facilitating communication between economists and scholars trained in related disciplines.

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**Please visit SABE at our WEB site: <http://www.usask.ca/economics/SABE/>**

**Note that the address is case sensitive.**

## **The 2001 SABE Conference: Applied Behavioral Economics**

We are very grateful to Hugh Schwartz and Shlomo Maital for all the hard work they put into making the Washington conference such a success. I am sure I am speaking on behalf of everyone who attended in saying that it was not only an intellectually stimulating experience but also a pleasure to be there. Hugh has also kindly summarised the contribution of the papers given at the conference – see page 10. A list of those present starts on page 12.

*Hugh Schwartz writes:*

SABE 2001 was held at the Center for Economic Research of The George Washington University in Washington, June 11-12, 2001. The conference organizers were Hugh Schwartz (the on-site coordinator) and Shlomo Maital (Technion, Israel). Anthony Yezer was the coordinator for George Washington University, and provided major assistance during the conference as well as some administrative assistance in the months of preparation.

To help build on the successes of the past, the conference sought several objectives:

First, to incorporate a large number of SABE members in the conference activities and to attract new members into the organization;

Second, to increase the proportion of discussants who are highly knowledgeable of (or at least quite familiar with) the specific content of the papers they comment on;

Third, to obtain as keynote speakers, individuals who have been making major contributions to behavioral economics, as well as other plenary speakers, one from a business or government background who could reflect on the behavioral nature of decision making in his or her organization;

Fourth, to enlist the participation of economists and other professionals from some of the many public and private organizations in the Metropolitan Washington area; and

Fifth, to give new impetus and direction to SABE.

Many participants observed that SABE 2001 proved to be a most stimulating experience. Seventy-one papers or poster session presentations were given, and nearly 90 persons attended at least

one session, including a number of faculty and graduate students from George Washington University. For somewhat more than half of those registered, this was their first association with SABE. Conference participants originated from 13 countries. Nevertheless, it must be acknowledged that only a few public or private sector organizations from the Metropolitan Washington area were involved--though one organization actively interested in the behavioral approach was represented by a staff member and a consultant.

One of the highlights of the conference was the interaction, not only of presenters and discussants, but also of the others at the sessions. The selection of appropriate discussants (in a few cases, persons who attended the conference solely or principally for that purpose) required a great deal of effort, but definitely contributed to the success of the conference. Also of special note were the efforts of one panel chairperson to get panel members to consider a number of specific matters suggested by their papers well in advance of the conference date. As a general reflection on the conference panels overall, a modification that might be suggested for most future conference sessions would be to allow more time for questions and open discussion from those attending but not participating as paper presenters or discussants.

### **Publication of Papers from SABE 2001 Conference**

A special section of an upcoming issue of the *Journal of Socio-Economics* will include three papers from the SABE 2001 Conference in Washington, DC. The papers of the two keynote presenters, Paul Slovic and Truman Bewley, will be published. Their papers, respectively, are "Rational Actors or Rational Fools: Implications of the Affect Heuristic for Behavioral Economics" and "Interviews as a Valid Empirical Tool in Economics." The third paper is by Jason Shogren of the University of Wyoming and is entitled "A Behavioral Mindset on Environment Policy." Jason's paper integrates material from two presentations that he made at the conference. Several other papers presented at the conference have been submitted to the *Journal of Socio-Economics* and are being evaluated as part of the JSE's regular reviewing process. In addition a number of the papers will be published in other journals.

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### **SABE's 2002 Conference**

SABE and the International Association for Research in Economic Psychology are once again joining forces for their next conference – with a title of Stability and Dynamics of Power.

The conference takes place, June 30-July 4, 2002, in the beautiful and historic Turku, Finland. The Conference Coordinator is: Professor Satu Lahteenmaki (email: [satu.lahteenmaki@tukkk.fi](mailto:satu.lahteenmaki@tukkk.fi)) of the Turku School of Economics and Business Administration, Department of Management, Rehtorinpellonkatu 3, FIN-20500 Turku, Finland, Tel. +358 2 338 311, Fax + 358 2 338 3 285.

Further information can be found at the conference web site:

<http://www.tukkk.fi/iarep-sabe2002/>

## **The 2003 Conference**

We are very grateful to Mark Pingle who is organizing the 2003 conference. Mark is Professor and Chair of the Department of Economics at the University of Nevada at Reno. He is making excellent progress with the conference and writes:

The tentative plan is to have the conference at the Cal-Neva Resort on the North Shore of Lake Tahoe. Lake Tahoe was recently named by Rand McNally as the #1 outdoor tourist destination in the nation, so the setting will be fantastic. It truly is one of the most beautiful places in the world. The tentative dates are July 27-30, 2003. (The mid-week timing makes the hotel accommodation affordable, and because Reno is a tourist destination, you do not have to have a weekend stay in order to get a reasonably priced airfare.) The tentative organizing theme for the conference is, "Behavioral Economics: What's the Next Step?"

As I was thinking about a theme for the conference, I asked myself and a few others, "What is behavioral economics?" All answers pointed to the notion that the term describes extensions to or deviations from the neoclassical paradigm. By relaxing the assumptions such as perfect foresight, unchanging preferences, costless optimization, and market equilibrium, contributions in behavioral economics offer explanations for economic phenomena that depend upon how people behave. Psychological and sociological issues are often pertinent. Today, this behavioral perspective is much more mainstream than it used to be. Experimental economics, for example, is largely behavioral. Labor economics now has a large behavioral component. Even macroeconomics has not escaped the behavioral influence. Because so much of economics can now be described as behavioral, the term behavioral economics may not now have much meaning. So, the question for those who think incorporating behavioral issues into economics is useful is, "Where do we go from here?" This is what I am thinking would be good to have our featured speakers think about, as well as those attending the conference.

Richard Day has agreed to be one of the invited speakers. His founding and 20 year editorship of the *Journal of Economic Behavior and Organization* gives him a perspective that will provide for an interesting talk. His own work focuses more on the macroeconomic side of the house. He will be able to provide a nice discussion of the microfoundations of macro from a behavioral perspective.

## **The 2004 Conference**

The 2004 conference is planned for Philadelphia jointly with the International Association for Research in Economic Psychology and is being organized by Bijou Yang Lester, Drexel University.

## **Editorial Changes in the Journal of Socio-Economics**

The new Editor of the JSE is Morris Altman who replaces long time editor and founder of the JSE, Richard Hattwick. John Tomer is the new Co-Editor, responsible for special issues and book reviews. The journal, which is now owned by Elsevier Science, welcomes theoretical and empirical submissions from any methodological perspective, especially those papers which have a bearing on the real world. Of course, the door is always wide open for papers relating to behavioral and experimental economics. The JSE encourages and welcomes submissions from SABE members. Given its Elsevier connection, the JSE authors will see their work widely distributed and read. Check the JSE out at:  
<http://www.elsevier.com/homepage/sae/econworld/econbase/soceco/frame.htm>

## **New Journal – Call for Papers**

*Review of Economics of the Household* - A New Journal from Kluwer Academic Publishers

Edited by

Shoshana Grossbard-Shechtman

San Diego State University

The Review of Economics of the Household intends to become a major outlet for high-quality empirical and theoretical research on the economic behavior of households. Articles are expected to explicitly consider the concept of household production or to deal with issues of household composition or household decision-making. Policy relevance is encouraged. Household economics encompasses the following topics:

Population Economics

The Economics of Labor Supply

Macro Issues in Household Economics

The Economics of Health Decisions by Households

Issues of Intra-Household Allocation

Selected Issues in Public Economics

Consumer economics

The Economics of Agricultural Households  
Household Demand for Environmental Goods  
Household Demand for Transportation  
The Economics of Gender and Households  
Households and Economic Development

Four copies of submitted manuscripts should be forwarded to: Professor Shoshana Grossbard-Shechtman, Editor, Review of Economics of the Household, Journal Editorial Office, Kluwer Academic Publishers, 101 Philip Drive, Norwell, MA 02061, USA

### **Post-Autistic Economics**

This movement began in France in June 2000, when a group of economics students, under the banner 'autisme-économie', published on the web a petition protesting against matters such as the 'uncontrolled use' and treatment of mathematics as 'an end in itself' The movement has gone from strength and its email journal now has nearly 5000 subscribers, mostly academics, from over 100 countries. Subscriptions are free at [www.paecon.net](http://www.paecon.net) and recent contributors to the journal include: James Galbraith, Frank Ackerman, André Orléan, Hugh Stretton, Jacques Sapir, Edward Fullbrook, Gilles Raveaud, Deirdre McCloskey, Tony Lawson, Geoff Harcourt, Joseph Halevi, Sheila C. Dow, Kurt Jacobsen, Paul Ormerod and Geoffrey Hodgson.

### **SABE Board Changes**

Simon James, a current Board member, has agreed to take on the duties of Newsletter Editor, a position vacated by Morris Altman. Hugh Schwartz has become the newest Board member. The death of valued Board member Noah Meltz (noted elsewhere in the Newsletter) leaves us with one less member. John Tomer is supposed to make a transition from President to Executive Director as we slowly implement our new Bylaws.

*John Tomer*

### **Implementation of New Bylaws and Nominating Committee**

Unfortunately, progress on the implementation of the new SABE Bylaws and the nominating of new officers has gone much more slowly than expected. John Tomer appointed a Nominating Committee consisting of Art Goldsmith, Morris Altman, and Shlomo Maital to deal with this matter in July 2001; all agreed to serve. Art was designated as chairperson of the Committee. It turned out Art's other obligations did not allow him time to devote to this effort. This was discovered after quite a

few months had passed. In March 2002, Gary Lynne agreed to join the Committee and serve as chairperson.

In December, Morris Altman proposed a few changes to SABE's Bylaws as well as an "Implementation Protocol for the New SABE Bylaws". Morris shared this with SABE Board members, several of whom commented on it. Morris' proposal seems to be a good starting point for developing an improved proposal that would allow SABE to make a transition to operating under its new Bylaws. There are a number of issues and problems that need to be addressed before we are ready to proceed with the implementation. Hopefully, the Nominating Committee along with John Tomer will make significant progress on this in the next month so that important decisions can be made at the SABE business meeting in Turku.

*John Tomer*

### **Noah Meltz -- In Memoriam**

Longtime SABE Board member Noah Meltz passed away at his home in Jerusalem in early April. Noah was a Professor of Economics at the University of Toronto, and Principal of Wordsworth College. As one of Canada's leading experts in labor relations, he authored numerous reports that influenced Canada's industrial relations policies, and was instrumental in shaping the University of Toronto's Center for Industrial Relations into a world-class center. After retiring from the University of Toronto, Noah and his wife Rochelle moved to Israel, where he taught at Netanya Academic College.

Noah was a strong supporter of SABE, and helped organize one of SABE's more memorable bi-annual conferences, held at Wordsworth College. One of the keynote speakers Lloyd Axworthy later went on to hold senior ministerial positions in the Government of Canada.

On a personal note: Noah was a warm, caring human being, who never raised his voice and fought a long battle against cancer with dignity and courage. Noah and I jointly taught one of his last classes at Netanya College, in February. Together with Rochelle, we trundled his oxygen machine into the classroom. The class was lively and interactive, and the students quickly forgot about the tubes that Noah needed in order to breath.

For all his friends and acquaintances, Noah was a role model. The standards he set - as a scholar, a teacher, and a friend - will, for most of us, be unattainable.

He will be greatly missed.

*Shlomo Maital*



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## BOOKS OF INTEREST

Morris Altman *Human Agency and Material Welfare: Revisions in Microeconomics and their Implications for Public Policy*, Boston, Dordrecht, London: Kluwer Academic Publishers, 1996.

Morris Altman. *Worker Satisfaction and Economic Performance: Microfoundations of Success and Failure*. Armonk, NY: M.E. Sharpe.

Gerrit Antonides, *Psychology in Economics and Business*, Dordrecht: Kluwer, 1991.

J.L. Baxter, *Behavioral Foundations of Economics*, Marmillan Press/St Martin's Press, 1993.

Kenneth Button, ed., *The Collected Essays of Harvey Liebenstein*, 2 Vols. New York University Press, 1989.

Young Back Choi, *Paradigms and Conventions: Unverstanty, Decistion Making and Entrepreneurship*, Ann Arbor: University of Michigan Press, 1993.

Richard Cyert and James G. March, *A Behavioral Theory of the Firm*, 2<sup>nd</sup> ed. Cambridge, Mass.: Blackwell Business, 1992.

Peter E. Earl, *Behavioral Economics*, Edward Elgar Publishing, 1998

Roger S. Frantz, *X-Efficiency: Theory, Evidence and Applications*, Boston: Kluwer, 1988.

Roger S. Frantz, Hardinger Singh and James Gerber, eds, *Behavioral Decision Making: Handbook of Behavioral Economics*, Greenwich: JAI Press, 1991.

Bruno S. Frey, *Economics as a Science of Human Behavior: Towards a New Social Science Paradigm*, Boston, Dordrecht and London: Kluwer, 1992.

Daniel Friedman and Shyam Saunders, *Experimental Economics: A Primer for Economists*, New York: Cambridge University Press, 1994.

Benjamin Gilad and Stanley Kaish, eds., *Handbook of Behavioral Economics*, 2 vols. Greenwich: JAI Press, 1986.

Shoshana Grossbard-Shechtman, *On the Economics of Marriage: A Theory of Marriage, Labor, and Divorce*. Boulder, Colorado: Westview Press, 1992.

Charles Hampden-Turner and Alphons Trumpenaars, *Seven Ways of Wealth Creation*. New York: Doubleday, 1993.

Daniel Kahneman, Paul Slovic and Amos Tversy, eds, *Judgement Under Uncertainty:Heuristics and Biases*, Cambridge; Cambridge University Press, 1982.

Simon James, ed., *Taxation: Critical Perspectives on the World Economy*. Four volumes, London and New York, Routledge, 2002.

Simon James and Christopher Nobes, *The Economics of Taxation, Principles, Policy and Practice*, 7<sup>th</sup> ed., Prentice Hall, 2000.

Bill Jordon, Simon James, Helen Kay and Marcus Redley, *Trapped in Poverty: Labour Market Decisions in Low Income Households*. London: Routledge, 1992.

Bill Jordan, Marcus Redley and Simon James, *Putting the Family First: Selves, Decisions and Citizenship*, University College London Press, 1994.

Robert Kuttner, *The Economic Illusion: False Choices Between Prosperity and Social Justice*. Philadelphia: University of Pennsylvania Press, 1987.

Stephen E.G. Lea, Paul Webley and Brian M. Young, eds., *New Directions in Economic Psychology: Theory, Experiment and Application*. United Kingdom: Edward Elgar Publishing, 1992.

Harvey Leibenstein, *Inside the Firm: The Inefficiencies of Hierarchy*. Cambridge, Mass.: Harvard University Press, 1987.

Tony Lawson, *Economics and Reality*, London and New York, Routledge, 1997.

Lewis, Alan, Paul Webley and Adrian Furnham, *The New Economic Mind: The social Psychology of Economic Behaviour*. New York and London: Prentice Hall, 1995.

George Lowenstein and Jon Elster, eds, *Choice over Time*, New York: Russell Sage Foundation, 1992.

Shlomo Maital and Sharon Maital, eds., *Economics and Psychology*. United Kingdom: Edward Elgar Publishing, 1993.

Shlomo Maital, *Executive Economics: Ten Essential Tools for Managers*. New York: The Free Press, 1994.

Roger McCain, *A Framework for Cognitive Economics*, New York: Praeger, 1992.

Marvin E. Rozen, *The Economics of Organizational Choice: Workers, Jobs, Labor Markets, and Implicit Contracting*. Ann Arbor: University of Michigan Press, 1991.

Hersh Shefrin, *Beyond Greed and Fear; Understanding Behavioral Finance and the Psychology of Investing*, Boston: Harvard Business School Press, 2000.

Robert J. Shiller, *Irrational Exuberance*, Princeton University Press, 2000.

Andrei Schleifer, *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford University Press, 2000.

Hugh Schwartz, *Rationality Gone Awry? Decision Making Inconsistent with Economic and Financial Theory*, Praeger, 2000.

Richard H. Thaler, *The Winner's Curse: Paradoxes and Anomalies of Economic Life*. New York: The Free Press, 1992.

Richard H. Thaler, ed., *Advances in Behavioral Finance*, New York: Russell Sage Foundation, 1993.

John F. Tomer, *Organizational Capital: The Path to Higher Productivity and Well-Being*. New York, Praeger, 1987.

John F. Tomer *The Human Firm: A Socio-Economic Analysis of Its Behavior and Potential in a New Economic Age*, New York: Routledge, 1999.

Karl-Erik Warneryd, *The Psychology of Saving: A Study on Economic Psychology*, Edwards Elgar, 1999.

Karl –Erik Warneryd, *Stock Market Psychology: How People Value and Trade Stocks*, Edward Elgar, 2001.

Klaus Weiermair and Mark Perlman, eds., *Studies in Economic Rationality: X-Efficiency Examined and Extolled*. Ann Arbor: University of Michigan Press, 1990.

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### The SABE Executive Board

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...President and Co-Editor *Journal of Socio-Economics*  
Gary Lynne (University of Nebraska)  
.....Secretary  
Bijou Yang (Drexel University)  
.....Treasurer  
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Morris Altman (University of Saskatchewan)  
.....Editor, *Journal of Socio-Economics*  
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Kishor Thanawala (Villanova University)  
.....Member-at-large



## A Summary of the SABE 2001 Conference Papers

Hugh Schwartz\*

Applied Behavioral Economics: Can It Improve Decisions and Policies? Is It Already Implicit in Successful Decision Making? That was the theme of SABE 2001, the Biennial Conference of the Society for the Advancement of Behavioral Economics, held at The George Washington University in Washington, DC, June 11-12, 2001. This section, Empirical Approaches to Behavioral Economics, features the two keynote addresses and a synthesis of two papers given by a third author.

“Rational Actors or Rational Fools: Implications of the Affect Heuristic for Behavioral Economics,” by Paul Slovic describes two modes of thinking--the reason-based analytic mode, and the experimental mode, the latter based on images to which positive and negative emotional (affective) feelings have been attached through learning and experience. An “affect” heuristic permits us to be rational actors in those situations in which experience serves as an effective learning mechanism. That heuristic fails when the consequences differ a great deal from what is anticipated.

Slovic refers to empirical research illuminating the heuristic affect in which people rapidly consult their affective feelings when making judgments and decisions. He cites studies revealing an inverse relationship between the perceived risk and perceived benefit of an activity, and analyses maintaining that the weight of a stimulus in an evaluative judgment is proportional to the ease with which the value of that attribute can be mapped into an affective impression. Slovic also mentions the deliberative manipulation of our affective reactions by those who wish to control our behavior, natural limitations of the experiential system, and the existence of stimuli that are not amenable to valid representation. The latter refers to situations in which there are inherent biases such as our sensitivity to small changes, visceral factors, and choices over time.

Bewley’s presentation, “Interviews as a Valid Empirical Tool in Economics,” derived from his study of wages and his current work on prices, illustrates the value of interviews for rejecting theoretical assumptions often made by economists and for uncovering explanations missed by more traditional empirical analysis. The interviews enabled him to understand how people go about achieving their objectives, given the constraints they face. He suggests how to deal with major confidentiality issues, considers problems related to sampling, and discusses the relative advantages of loosely as compared to highly structured interviews. Bewley advocates keeping the discussion as concrete as possible and confining it to the realm of the informant’s experience. The paper provides recommendations on the

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organization of the data collected in order to facilitate interpretation. It stresses the importance of ascertaining the relation between the circumstances informants face and their responses, and gives examples based on questioning about “primary” and “secondary” sector jobs. The author then uses interviewee responses to test existing theories of unemployment and to formulate new ones. The paper discusses criticisms of the interview approach. Bewley maintains that a profound understanding of context is required in order to consider changed circumstances or to interpret phenomena for policy purposes.

Eight presentations at the conference included experimental economics. Two were presented by Jason Shogren, whose paper, “A Behavioral Mindset on Environmental Policy” appraises how behaviorally oriented economists test the power and limits of rational economic rules to guide environmental policy. Attention is given to preference reversals and to the gap between willingness to pay (WTP) and willingness to accept (WTA) measures of value. He discusses how repeated responses in the context of active market trading institutions can reduce, even eliminate reversals, and asks to what extent this can be extended via spillovers to non-market choices. Shogren also considers the circumstances in which observed divergences between WTP and WTA can be reduced.

The other experimental papers presented: “Does Individual-Specific Uncertainty Lead to Resistance to Reform?” (Timothy Cason and Vai-Lam Mui); “A Theory of Social Norms, Fairness and Competition” (Louis Lévy-Garboua and Benoit Rapoport); “Non-Employment Benefits and the Evolution of Worker-Employer Cooperation: Experiments with Real and Computational Agents” (Mark Pingle and Leigh Tesfatsion); “Investing in Human Capital: A Laboratory Experiment with the Working Poor” (Catherine Eckel, Cathleen Johnson and Claude Montmarquette); “Does Reciprocity Trump Inequality Aversion?” (Katherine Willey Wolfe); and “Ambiguity in Individual Choice and Market Environments” (Jonathan Alevy).

Additional plenary presentations were given by Peter Dougherty who related concerns of Adam Smith to a number of current, behaviorally sensitive concerns, and by Barbara Bergmann, who evaluated a range of policy alternatives to child care. More than a dozen papers incorporated findings or reflected significant concern of psychology, notably: Charlotte Phelps’s effort to measure the impact of mothers’ emotion on the motives of mature children and that, in turn, on behaviors rewarded by earnings and family income (prepared with Nalini Ambady); Arthur Goldsmith, Stanley Sedo and William Darity’s consideration of the possible role of cognitive dissonance in the presumed discrimination during job search; Tadeusz Tyszka and Piotr Zielonka’s examination of overconfidence among financial analysts as compared to weather forecasters and that of welfare-increasing overconfidence by Nathan Berg and Donald Lien; Luis Bernardes’ study on reference dependency preference and the speed of economic liberalization; Morris Altman’s concern about the relationship between real wages and working conditions and labor productivity; Linda Pelzmann’s analysis of the chain reaction of investor sentiment; Tomasz Zaleskiewicz and Jacek Radomski’s piece on investors’ risk attitudes and their behavior in the stock market; Hariolf Grupp and Shlomo Maital’s book on

managing new product development and innovation; Hugh Schwartz's critique of a leading text on industrial organization; and Mie Augier's reflections on Herbert Simon and bounded rationality.

Three papers dealt with the environment, two of which offered controversial tests of propositions from cognitive psychology, and a study by Kevin Frick focused on the willingness to pay for lifetime medical benefits in situations of credit constraints. Ten other presentations also considered growth and development, two dealing with income and happiness, two with the need to consider "soft" features in evaluating transition economies, and one of which was a panel on globalization. Learning was the subject of three papers, the most ambitious of which was Roger McCain's "Flexible Learning, Strategy and Randomness: A Behavioral Agent-Based Simulation Study. Simon James, John Hasseldine, Peggy Hite and Marika Toumi presented, "The Role of Tax Agencies in Influencing Taxpayer Response," reflecting UK experience with comparisons for the US from Michael Hayes.

Half a dozen theoretical papers were offered, as well as an equal number on marriage and the family. A number of behavioral as well as institutional concerns were raised in three papers on law and economics. Meta preferences reflecting the role of conscience was the theme of David George.

### **List of Participants of the 2001 SABE Washington Conference**

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5. Augier. Dr. Mie, 70 Cubberley, Stanford University, Stanford, CA 94305-3096 E-Mail: [augier@leland.stanford.edu](mailto:augier@leland.stanford.edu) [Dr. Augier was unable to reach the conference due to visa problems but sent two papers.]
6. Ball, Professor Richard, Dept. of Economics, Haverford College, 370 Lancaster Ave., Haverford, PA 19041. E-Mail: [rball@haverford.edu](mailto:rball@haverford.edu) FAX: 610-896-1041 Tel: 610-896-1437.

7. Bange, Professor Mary. Darla Moore School of Business, University of South Carolina, Columbia, SC 29208. E-Mail: [maryb@darla.badm.sc.edu](mailto:maryb@darla.badm.sc.edu) Tel: 803-777-7632.
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