

John Martin Ramsay's "take away" on MISBEHAVING by Richard H. Thaler

My son Martin loaned me his copy of [Misbehaving](#) to read—he knows his dad well. Perhaps he thought of me because of the title? Or is something else going on? Thaler (page 330) describes himself as a “radical, troublemaker, rabble rouser, nuisance.” I have been called a “splendid maverick,” so Thaler and I are somewhat similar.

Getting into the book was difficult, however. I didn't know what to look for and was too quickly thrown into the jargon of economic theories and Thaler's memoir writing style. I was amused to find on pages 160-161 how Thayer described Kenneth Arrow's writing style: “Arrow's mind goes at light speed, and his talks tend to be highly layered fugues, with digressions inserted into digressions, sometimes accompanied by verbal footnotes to obscure scholars from previous centuries, followed by a sudden jump up two or three levels in the outline he has in his head. While you work to digest a profound nugget disguised as a throwaway line, he has leapt back to the main argument and you are left scrambling to catch up.”

Then I found the Thaler's nugget on (page 163):

- “two false statements.
1. Rational models are useless.
 2. All behavior is rational.”

Aha! Thayer and I are cut of the same cloth. I am fond of saying that I learned two important things in my five years at Iowa State which ended with a Ph.D. in Animal Breeding. But my two statements are true instead of false:

1. The scientific method is a potent model to keep us from making judgmental mistakes.
2. The scientific method is often misused when it is applied and we are better off using our own good judgement. *

Thayer spent his life applying the scientific method to human activity in a careful attempt to bring the human element into economic theory. He won a Nobel Prize for economics in 2017 for his efforts. On page 349 he says, “...an understanding of Humans is essential to choosing...policies wisely.” He was addressing economists but also politicians!

At Iowa State, [Jay L. Lush](#) used the scientific method to help answer a question about dairy cows. He designed an experiment using a herd of identical twins to help answer whether we should select cows to be fed on corn as opposed to grass.. The experiment's answer was that a good cow is a good cow whether you feed her corn or grass. The potent scientific method was to ask a question and then design an experiment to help find the answer.*

Thaler takes this potent procedure a step further. He noticed (page 174) that there were “...empirical facts that did not line up with theoretical predictions.” In other words, we do not always ask the right questions. He then looked to empirical data to help him formulate new questions and made (page 336) “..rounds of experimentation at increasing levels of sophistication...[to] help us do a better job,” of designing empirical tests. He noticed (page 186) “...people get themselves into trouble by treating events one at a time rather than as a portfolio.” And (page 170) “...supposedly irrelevant factors actually matter.” It was the anomalies which appeared when theories were applied to real life which sparked his early interest in what he called “behavioral economics.”

*I have written more about this in [The Answer is a Question](#).

After “rounds of experimentation” Thaler noted (page 169) that “Paradigms change only once experts believe there are a large number of anomalies that are not explained by the current paradigm.” It seems to me that news media and political strategists in many countries have become adept at rounds of poll taking with the intent to nudge public opinion in a desired direction.

Other insights which Thaler uncovers during his career which are useful for humans:

(Page 325) “No society can exist without rules and regulations” which raises his next question, how far could one “take the policy of helping without ordering anyone to do anything?” Thayer champions nudging instead of paternalistic rules and regulations. As a good example he calls attention to rumble strips along the edge of highways. There are no rules forbidding drivers from driving over them. But, when you do drift over one, the noise nudges you to pay attention.

(Page xiv) Quoting from a note Amos Tversky had written a few days before he died to his son, “...there is a long Jewish tradition that history and wisdom are transmitted...through anecdotes, funny stories, and appropriate jokes.”

Three weeks ago when my Son Martin gave me Misbehaving at a reunion at Berea College, I met some of my old students. The things we talked about were the anecdotes, funny stories, and appropriate jokes which bound us together. Misbehaving is partly Thaler’s passing on the history and wisdom which he has garnered during his lifetime—including the anecdotes and funny stories,

I add one last quote from Misbehaving for my other son, Loren, a college professor living and teaching in Denmark. Quoting Schiller, Thaler notes (page 168), “I could teach...with more relish if I could describe them [academic theories] as special cases before moving on to more realistic models.”

Thanks, Martin, for sharing Misbehaving with me!

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Richard H. Thaler (/ˈθeɪlər/; born September 12, 1945) is an American [economist](#) and the Charles R. Walgreen Distinguished Service Professor of Behavioral Science and Economics at the [University of Chicago Booth School of Business](#). In 2015, Thaler was president of the [American Economic Association](#).^[1]

He is a theorist in [behavioral finance](#), and collaborated with [Daniel Kahneman](#), [Amos Tversky](#) and others in further defining that field.

In 2017, he was awarded the [Nobel Memorial Prize in Economic Sciences](#) for his contributions to [behavioral economics](#).^{[2][3][4][5]} In its Nobel prize announcement, the [Royal Swedish Academy of Sciences](#) said that his "contributions have built a bridge between the economic and psychological analyses of individual decision-making. His empirical findings and theoretical insights have been instrumental in creating the new and rapidly expanding field of behavioral economics.