

**Nick Wilkinson and Matthias Klaes**

**An  
Introduction  
to Behavioral  
Economics**

**THIRD EDITION**



palgrave

# Detailed Table of Contents

---

<b>List of Figures</b>	x
<b>List of Tables</b>	xi
<b>Preface</b>	xii
<b>Acknowledgments</b>	xvi

## **PART I INTRODUCTION**

<b>CHAPTER 1 Nature of Behavioral Economics</b>	2
<b>1.1</b> Behavioral economics and the standard model	4
<b>1.2</b> History and evolution of behavioral economics	14
<b>1.3</b> Relationship with other disciplines	16
<b>1.4</b> Objectives, scope and structure	21
<b>1.5</b> Summary	22
<b>1.6</b> Review questions	22
<b>1.7</b> Applications	22
<b>Case 1.1</b> Loss-aversion in monkeys	23
<b>Case 1.2</b> Money illusion	25
<b>CHAPTER 2 Methodology</b>	28
<b>2.1</b> Theories	29
<b>2.2</b> Evidence	38
<b>2.3</b> Consilience	48
<b>2.4</b> Summary	53
<b>2.5</b> Review questions	54
<b>2.6</b> Applications	54
<b>Case 2.1</b> Altruism and the brain	54
<b>Case 2.2</b> Riots in the UK	56

## **PART II FOUNDATIONS**

<b>CHAPTER 3 Values, Preferences and Choices</b>	61
<b>3.1</b> The neoclassical model	63
<b>3.2</b> Axioms, assumptions and definitions	67
<b>3.3</b> The evolutionary biology of utility	70
<b>3.4</b> The neuroscientific basis of utility	72
<b>3.5</b> Broadening rationality	76
<b>3.6</b> Visceral factors	88
<b>3.7</b> Types of utility	93
<b>3.8</b> Policy implications	100
<b>3.9</b> Summary	108
<b>3.10</b> Review questions	108

<b>3.11</b>	Applications	109
<b>Case 3.1</b>	Drug addiction	109
<b>Case 3.2</b>	When abstention is better than moderate consumption	110
<b>Case 3.3</b>	The psychology of supermarket selling	113
<b>CHAPTER 4</b>	<b>Beliefs and Expectations</b>	116
<b>4.1</b>	The neoclassical model	118
<b>4.2</b>	Probability estimation	120
<b>4.3</b>	Self-evaluation bias	128
<b>4.4</b>	Magical beliefs	136
<b>4.5</b>	Causes of irrationality	139
<b>4.6</b>	Summary	146
<b>4.7</b>	Review questions	147
<b>4.8</b>	Review problems	147
<b>4.9</b>	Applications	148
<b>Case 4.1</b>	Trading on testosterone	148
<b>Case 4.2</b>	Celebrity contagion and imitative magic	149
<b>Case 4.3</b>	Trump, Brexit and post-truth politics	151
<b>CHAPTER 5</b>	<b>Decision-making under Risk and Uncertainty</b>	154
<b>5.1</b>	Background	156
<b>5.2</b>	Conventional approaches to modifying expected utility theory	163
<b>5.3</b>	Prospect theory	167
<b>5.4</b>	Reference points	171
<b>5.5</b>	Loss-aversion	175
<b>5.6</b>	Shape of the utility function	179
<b>5.7</b>	Decision-weighting	184
<b>5.8</b>	Criticisms of prospect theory	195
<b>5.9</b>	Recent theories and conclusions	204
<b>5.10</b>	Summary	213
<b>5.11</b>	Review questions	215
<b>5.12</b>	Review problems	215
<b>5.13</b>	Applications	216
<b>Case 5.1</b>	The endowment effect	216
<b>Case 5.2</b>	Loss-Aversion In Golf	219
<b>Case 5.3</b>	Serving size and eating habits	222
<b>CHAPTER 6</b>	<b>Mental Accounting</b>	223
<b>6.1</b>	Nature and components of mental accounting	224
<b>6.2</b>	Framing and editing	225
<b>6.3</b>	Budgeting and fungibility	229
<b>6.4</b>	Choice bracketing and dynamics	237
<b>6.5</b>	Policy implications	244
<b>6.6</b>	Summary	255
<b>6.7</b>	Review questions	256
<b>6.8</b>	Applications	257
<b>Case 6.1</b>	The equity premium puzzle	257
<b>Case 6.2</b>	Why you can't find a cab on a rainy day	260
<b>Case 6.3</b>	The housing market and debt	262

## PART III INTERTEMPORAL CHOICE

<b>CHAPTER 7 The Discounted Utility Model</b>	266
7.1 Introduction	267
7.2 Origins of the discounted utility model	267
7.3 Features of the discounted utility model	270
7.4 Methodology	274
7.5 Anomalies in the discounted utility model	278
7.6 Summary	283
7.7 Review questions	283
7.8 Applications	284
<b>Case 7.1</b> The measurement of discount rates	284
<b>CHAPTER 8 Alternative Intertemporal Choice Models</b>	288
8.1 Time preference	290
8.2 Time-inconsistent preferences	295
8.3 Hyperbolic discounting	299
8.4 Modifying the instantaneous utility function	307
8.5 More radical models	310
8.6 Empirical evidence	316
8.7 Policy implications	323
8.8 Summary	334
8.9 Review questions	335
8.10 Applications	335
<b>Case 8.1</b> Price plans for gym memberships	335
<b>Case 8.2</b> The savings problem	337
<b>Case 8.3</b> The desire for rising consumption profiles	341
<b>Case 8.4</b> Payday loans	341
<b>Case 8.5</b> Financial crashes	344

## PART IV STRATEGIC INTERACTION

<b>CHAPTER 9 Behavioral Game Theory</b>	348
9.1 Nature of behavioral game theory	350
9.2 Solution concepts	356
9.3 Mixed strategies	361
9.4 Bargaining	369
9.5 Iterated games	374
9.6 Signaling	381
9.7 Learning	385
9.8 Summary	390
9.9 Review questions	392
9.10 Review problems	392
9.11 Applications	393
<b>Case 9.1</b> Penalty kicking in professional soccer	393
<b>Case 9.2</b> Bargaining and self-serving bias	395
<b>Case 9.3</b> Market entry in monopoly	396
<b>CHAPTER 10 Social Preferences</b>	399
10.1 The neoclassical model	401
10.2 The nature of social preferences	404

<b>10.3</b>	Factors affecting social preferences	413
<b>10.4</b>	Modeling social preferences	425
<b>10.5</b>	Inequality-aversion models	429
<b>10.6</b>	Reciprocity models	432
<b>10.7</b>	Empirical evidence	437
<b>10.8</b>	Policy implications	449
<b>10.9</b>	Summary	457
<b>10.10</b>	Review questions	459
<b>10.11</b>	Applications	459
	<b>Case 10.1</b> The Wason test	459
	<b>Case 10.2</b> Public goods and free-riding	463
	<b>Case 10.3</b> Sales force compensation	464
	<b>Case 10.4</b> Obesity, diet and health	466

## **PART V CONCLUSION**

<b>CHAPTER 11</b>	<b>Behavioral Economics: Summary and Outlook</b>	473
<b>11.1</b>	The agenda of behavioral economics	475
<b>11.2</b>	Criticisms of behavioral economics	477
<b>11.3</b>	Methodology	479
<b>11.4</b>	Are we really irrational?	483
<b>11.5</b>	Welfare and happiness	489
<b>11.6</b>	Problems in pursuing happiness	494
<b>11.7</b>	Policy implications	498
<b>11.8</b>	Future directions for behavioral economics	506
<b>11.9</b>	Applications	509
	<b>Case 11.1</b> The effects of brain damage on decision-making	509
	<b>Case 11.2</b> The bioeconomic causes of war	511
	<b>Case 11.3</b> Getting children to eat vegetables	513
	<b>Bibliography</b>	516
	<b>Index</b>	585