

# Misbehaving: The Making of Behavioral Economics

Richard H. Thaler, Norton, 2015

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**B**efore reading Richard H. Thaler's *Misbehaving: The Making of Behavioral Economics*, I had sat through numerous conference presentations and read journal articles and best-selling books on this topic and thought of myself as pretty well informed about behavioral economics. Thaler showed me that there is still a lot more to learn.

Behavioral economics is the integration of psychology's behavioral science with the world of economics and helps us understand why people make irrational decisions even when they have the necessary information to make a rational decision. Knowing more about behavioral economics will enhance how you think about and design qualitative research methodologies.

Richard H. Thaler is an economist and is uniquely qualified to write the definitive book on the history and evolution of behavioral economics theory and application. Thaler is a key player in both the creation of the field of behavioral economics and getting it recognized as an integral component of economic theory. He has had a role in formulating the main concepts, conducting the studies, and writing many of the key papers that laid both the foundation and ongoing growth of the field of behavioral economics. He is also the co-author, along with Cass Sunstein (a Harvard law professor), of a previous best-selling book on behavioral economics, *Nudge: Improving Decisions About Health, Wealth, and Happiness*.

In writing *Misbehaving: The Making of Behavioral Economics*, Thaler manages to cram a lot of interesting background, anecdotes, and scientific studies into this book without making the reader feel overwhelmed. He has an eye for detail and a witty, self-deprecating writing style, as he provides the history of how behavioral economics began and its transformation from a derided science to one of acceptance.

In the late 1970s, Thaler began to challenge traditional microeconomic theory, the premise of which was that people make rational decisions based on the information available to them.

His first paper challenged the "Learning Theory," which Thaler described as assuming "we all live in a world like the Bill Murray movie *Groundhog Day*. Bill Murray's character keeps waking up and reliving the same day, over and over. Once he figures out what is going on, he is able to learn because he can vary things one at a time and see what happens. Real life is not as controlled...and as a result, learning can be difficult."

But it was Thaler's 1987-1990 quarterly columns, *Anomalies*, in the *Journal of Economic Perspectives*, which he sometimes wrote with co-authors, that helped shake the framework of traditional economic theory. In *Anomalies*, he documented individual instances where economic behavior seemed to violate traditional microeconomic theory. Most of the columns—and he gives some examples in the book—related to challenging the premises of long-accepted finance/economic theory.

Traditional economists did not take kindly to these challenges, so Thaler has a lot of fun as he recounts in this book how the University of Chicago, the bastion of seven Nobel Prize Laureates for economics, recruited him and created the Ralph and Dorothy Keller Distinguished Service Professor of Behavioral Science and Economics at the Booth School of Business at the University of Chicago, specifically for him.

In this book, Thaler takes us through an extensive list of behavioral science studies. Even with those that I was previously familiar with, Thaler adds additional depth by providing the backstory of why something was explored and who the people were who came up with the hypotheses, designed the studies, and wrote the papers. Many of the studies he discusses focus more on the psychology of behavior, while others focus more on quantitative economic theory/stock market studies with lots of charts and statistics. Even if you skip over the stock market ones, you will still get a lot of insight from this book.

This book made me think of behavioral economics in a much broader and serious light and prompted numerous ideas of how I could better integrate behavioral economics into my qualitative research practice. *Misbehaving: The Making of Behavioral Economics* has something for those new to behavioral economics as well as those who feel well versed. 🇺🇸