won, tails you lost—for every case like that, there were 50 banks where nobody was watching very closely, and so the guys running these banks decide to lend a lot of money to their brothers-in-law or to pay a really big dividend or to sponsor the mother of all golf tournaments. How do we control for that kind of behavior? How do we set and establish norms that reduce those kinds of inherent risks? I don't know the answer to that question either, but what these five examples all have in common is that they raise really important issues. These are questions that you almost cannot begin to talk about within a neoclassical paradigm, and yet it seems to me that the kinds of considerations that might or might not be important for the types of behaviors we consider standard are almost dominant here.

A final observation: if the Federal Reserve Act were being legislated today, there would be no consideration of having 12 regional banks. But one of the virtues of having 12 regional Federal Reserve banks has been that over time it has been possible for some of the banks to develop distinctive research perspectives and to become centers of thought of a particular kind. My own view that the monetarist St. Louis Fed has said much that was new and much that was true, and that something close to that impact could be said of the Minneapolis Fed acting as a center of rational expectations in economics. I have no doubt that they have made an enormous contribution to the quality of the policy debate and the range of the perspectives that are open for consideration by the economics profession and in the setting of monetary policy. I humbly submit that the Boston Fed, having made an excellent start with this conference, consider adopting a distinctive thrust around behavioral economics through what they do in their research department.

# Contributors

**George P. Baker** is the Herman C. Krannert Professor of Business Administration at the Harvard Business School, where he teaches in both the M.B.A. and the doctoral programs. Baker's recent work has focused on the problem of managerial performance measurement and its role in the design of incentive systems, and on the structure and performance of organizations. He has published articles and case studies on management incentives, leveraged buyouts, organizational economics, and the relationship between a firm's ownership structure and its management. He co-authored *The New Financial Capitalists: Kohlberg, Kravis, Roberts and the Creation of Corporate Value*. Prior to joining Harvard, Baker worked as a consultant with Temple, Barker, and Sloane, and as a marketing manager with Teradyne, Inc. Baker holds an M.B.A. from the Harvard Business School and a Ph.D. in business economics from Harvard University.

**Alan S. Blinder** is the Gordon S. Rentschler Memorial Professor of Economics at Princeton University, where he has been on the faculty since 1971, and is co-director of Princeton's Center for Economic Policy Studies, which he founded in 1990. He is also the vice chairman of the Promontory Interfinancial Network. Blinder has written scores of scholarly articles on such topics as fiscal policy, monetary policy, and the distribution of income. From January 1993 through January 1996 Blinder served in the U.S. government—first as a member of President Clinton's original Council of Economic Advisers from January 1993 until June 1994; in this position he was in charge of the administration's macroeconomic forecasting and also worked intensively on budget, international trade, and health issues. From June 1994 until January 1996 Blinder was the Vice Chairman of the Board of Governors of the Federal Reserve System. In this capacity he represented the Fed at various international meetings, and was a member of the Board's committees on bank supervision and regulation, consumer and community affairs, and derivatives instruments. Blinder is a member of the American Academy of Arts and Sciences, the American Philosophical Society, the Bretton Woods Committee, the Bellagio Group, and the Council on Foreign Relations. He earned his A.B. at Princeton University, M.Sc. at the London School of Economics, and Ph.D. in economics at the Massachusetts Institute of Technology.

**Andrew Caplin** is a professor of economics at New York University and is the co-director of the Center for Experimental Social Science. Previously he taught at Harvard University and at Princeton University. Caplin's research interests include macroeconomic theory, psychology and economics, and the economics of residential real estate finance. Starting with the 1997 MIT Press book, *Housing Partnerships*, co-authored with Sewin Chan, Charles Freeman, and Joe Tracy, he has written extensively on defects in the U.S. residential real estate finance market. Caplin co-authored the recent Fannie Mae Foundation paper, "Shared-Equity Mortgages, Housing Affordability, and Homeownership," which anticipated some of the recent problems in the subprime mortgage market. It proposed a new class of economically viable shared-equity mortgages that would expand housing affordability without giving rise to the systemic financial risk that arose in the subprime market. Caplin earned a B.A. in economics from Cambridge University, and a Ph.D. in economics from Yale University.

**Rafael Di Tella** is the Joseph C. Wilson Professor of Business Administration at the Harvard Business School, where he teaches courses in macroeconomics, business history, business, government, and the international economy. He is also a research associate with the National Bureau of Economic Research. Di Tella specializes in political economy, with a particular focus on institutional development. One strand of research has used subjective data on happiness and on beliefs to address long-standing macroeconomic issues such as the inflation-unemployment tradeoff, as well as the structure of the welfare state and broad topics on fiscal policy.



Other research explores the causes of illegal behavior, with applications to corruption and common crime. His current research studies reversals of free-market reforms and, more generally, why capitalism fails to flow to poor countries. Di Tella earned his undergraduate degree from the University of Buenos Aires, and his M.Phil. and D.Phil. from Oxford University.

**Ernst Fehr** is a professor of economics at the University of Zurich, where he directs the Institute for Empirical Research in Economics. He is an affiliated faculty member in economics at the Massachusetts Institute of Technology, and a fellow at the Centre for Economic Policy Research, CESifo, and the Institute for Labor Economics (IZA). Fehr's core research area is behavioral economics, and he is one of the pioneers in bringing experimental methods—both laboratory experiments and field experiments—to bear on many applications in economics, including labor economics, macroeconomics, and public economics. Fehr is also one of the leading researchers in the burgeoning new discipline of neuroeconomics, a field that combines economics, neuroscience, and psychology to study how humans make choices. His work in this area has contributed to a better understanding of social norms and social sanctions, and has been published by leading journals such as *Science* and *Nature*. Fehr earned his master's and doctoral degrees in economics from the University of Vienna.

**Jonas D. M. Fisher** is a vice president and an economic advisor in the economic research department of the Federal Reserve Bank of Chicago, where he leads the macroeconomic group. Fisher conducts research and analysis on topics related to business cycle theory and helps oversee the monthly release of the Chicago Fed National Activity Index, a monthly index designed to better gauge overall economic activity and inflationary pressures. Since joining the Chicago Fed in 1996, Fischer has served as a visiting associate professor at the Wharton School of the University of Pennsylvania. Before joining the Chicago Fed, Fisher was an assistant professor of economics at the University of Western Ontario, and a visiting scholar at the Federal Reserve Bank of Minneapolis. He holds a B.Sc. in economics and quantitative methods from the University of Toronto, an M.A. in economics from Queens University, and a Ph.D. in economics from Northwestern University.

**Christopher L. Foote** is a senior economist and policy advisor in the research department at the Federal Reserve Bank of Boston, which he joined in 2003. He previously served as the acting director of the Bank's Center for Behavioral Economics and Decisionmaking. From 1996 to 2002 Foote taught in the department of economics at Harvard University, where he also served as director of undergraduate studies. In July 2002 he became a senior staff economist with the Council of Economic Advisers (CEA), and became the CEA's chief economist in February 2003. From May 2003 to September 2003 he served as economic advisor to the Coalition Provisional Authority in Baghdad, returning for a brief time in early 2004. Foote has a B.A. from the College of William and Mary and earned his Ph.D. in economics at the University of Michigan.

**Lorenz Goette** is a professor of economics at the University of Lausanne, which he joined in August 2009. He is also a research fellow at the Institute for the Study of Labor (IZA) in Bonn, a research affiliate at the Centre for Economic Policy Research in London, and a visiting scholar at the Boston Fed's Center for Behavioral Economics and Decisionmaking. Goette uses the experimental approach to focus on behavioral applications in labor markets. Some of his current projects examine the extent and consequences of downward wage rigidity and how departures from full intertemporal maximization can have a surprising impact on labor supply. Goette is also interested in how social identity shapes organizations and incentives within organizations. Prior to his current position, Goette was a professor of economics at the University of Geneva from January 2009 to August 2009, and an economist at the Federal Reserve Bank of Boston from December 2006 to December 2008. From 2003 to 2006, Goette was an assistant professor at the University of Zurich's Institute for Empirical Research in Economics, and from 2001 to 2003 he was a research fellow at the University of California, Berkeley. Goette earned his M.A. and Ph.D. in economics from the University of Zurich.

**Alan B. Krueger** is the Assistant Secretary of Economic Policy and Chief Economist for the U.S. Department of the Treasury. He is on leave from Princeton University, where he is the Bendheim Professor of Economics and Public Affairs and holds a joint appointment in the Princeton economics department and the Woodrow Wilson School—Krueger's affiliation when he made his contribution to this book. Krueger has published widely on the economics of education, income distribution, labor demand, labor market regulation, social insurance, and environmental economics. Krueger is the founding director of the Princeton University Survey Research Center, and a research associate of the National Bureau of Economic Research and of the Institute for the Study of Labor (IZA). In 1994–1995 he served as chief economist at the U.S. Department of Labor. Krueger is a fellow of the Econometric Society, a fellow of the Society of Labor Economists, a fellow of the American Academy of Arts and Sciences, and a fellow of the American Academy of Political and Social Science. Krueger, along with David Card, was awarded the 2006 IZA Prize for Labor Economics. Krueger has a B.S. from Cornell University, and an M.A. and a Ph.D. in economics from Harvard University.



**David I. Laibson** is a professor of economics at Harvard University, where he has taught since 1994, and a research associate at the National Bureau of Economic Research. His broad area of interest focuses on behavioral economics and neuroeconomics, and spans both macroeconomic and microeconomic topics. Laibson's seminal contributions on time-inconsistency, especially his model of quasi-hyperbolic discounting, have been very influential for understanding how individuals allocate their resources in the short run and in the long run. He has applied this theoretical work to studying retirement savings and other investment behavior. Laibson is a member of the Russell Sage Behavioral Economics Roundtable and the Health and Retirement Survey Monitoring Committee run by the National Institutes of Health. He received his undergraduate degree from Harvard University, an M.Sc. from the London School of Economics, and a Ph.D. from the Massachusetts Institute of Technology.

**John Leahy** is a professor of economics at New York University, a research associate at the National Bureau of Economic Research, and a visiting scholar at the Federal Reserve Banks of New York, Philadelphia, and Kansas City. His research interests include macroeconomics, behavioral economics, and economic theory. Recent articles by Leahy pertaining to behavioral economics include "Measuring Self-Control Problems" (co-authored with John Ameriks, Andrew Caplin, and Tom Tyler), published in the *American Economic Review* and "The Recursive Approach to Time Inconsistency" (co-authored with Andrew Caplin), published in the *Journal of Economic Theory.* Leahy earned a B.A. in mathematics, history, and German from Williams College, an M.S. in foreign service from Georgetown University and a Ph.D. in economics from Princeton University.

**John A. List** is a professor of economics at the University of Chicago and a research fellow at the Institute for the Study of Labor (IZA). He is also an extramural fellow at Tilburg University in the department of economics, a university fellow at Resources for the Future (RFF), and a research associate at the National Bureau of Economic Research. List is known for his innovative use of field experiments in economics. His published research includes theoretical and empirical inquiries into both positive and normative issues in economics. List's experimental field work has provided insights into the valuation of nonmarketed goods and services, public good provisioning, behavioral anomalies, charitable giving, auction theory, and the role of the market in the development of rationality. He served as a senior economist on the President's Council of Economic Advisers for Environmental and Resource Economics from May 2002 to July 2003, and he has been deputy director of the Joint Global Change Research Institute. List earned a B.S. in economics from the University of Wisconsin, Stevens Point, and a Ph.D. in economics from the University of Wyoming.

**Annamaria Lusardi** is a professor of economics at Dartmouth College and a research associate at the National Bureau of Economic Research. Her main areas of research are saving, social security and pensions, financial literacy, and household finance in the United States and in other countries. She has published widely on the impact of risk on wealth accumulation, the effects of liquidity constraints on occupational choice, the importance of planning costs, and the effects of financial literacy and financial education on savings and portfolio choice. She is a member of the Technical Review Committee for the National Longitudinal Surveys Program of the Bureau of Labor Statistics, a member of the academic advisory board of the Center for Private Equity and Entrepreneurship at the Tuck School of Business, and a member of the scientific committee of the Center for Research on Pensions and Welfare Policies (CeRP), Turin, Italy. Lusardi has won numerous research awards, including a research fellowship from the Irving B. Harris Graduate School of Public Policy Studies at the University of Chicago, a faculty fellowship from the John M. Olin Foundation, and junior and senior faculty fellowships from Dartmouth College. Lusardi earned a B.A. from Bocconi University and a Ph.D. in economics from Princeton University.



**Robert MacCulloch** is director of the doctoral program at the Imperial College Business School in London. His main research interest is political economy, and his particular focus is on the determinants of conflict and the security of property claims, corruption and regulation, and the role of economic and political forces in shaping welfare state institutions. He has also studied happiness and the way it is affected by inequality and macroeconomic fluctuations, as well as the connection between beliefs and economic performance. After receiving his undergraduate degree, he worked for the Reserve Bank of New Zealand, helping to implement their inflation targeting regime. He did post-doctoral work at the University of Bonn, the London School of Economics, and Princeton University before accepting his current position. MacCulloch holds a B.Sc. in mathematics and an M. Com. in accounting and finance from Auckland University, and an M. Phil. and D. Phil. in economics from Oxford University.

**N. Gregory Mankiw** is the Robert M. Beren Professor of Economics at Harvard University, and a research associate at the National Bureau of Economic Research. His academic work includes research on business cycles, consumer behavior, economic growth, financial markets, monetary and fiscal policy, and price adjustment. Mankiw served as the chairman of the Council of Economic Advisers from mid-2003 until early 2005. A prolific writer and a regular participant in academic and policy debates, Mankiw has published in top scholarly journals and in more widely accessible newspaper and magazine articles. Mankiw has been an advisor to the Federal Reserve Bank of Boston and the Congressional Budget Office. Currently, he is a visiting scholar at the American Enterprise Institute, where he is focusing on entitlements, fiscal policy, international economic policy, and trade. He earned an A.B. in economics at Princeton University, and a Ph.D. in economics at the Massachusetts Institute of Technology.

**Christopher J. Mayer** is the Paul Milstein Professor and director of the Paul Milstein Center for Real Estate at Columbia Business School, and a research associate at the National Bureau of Economic Research. Mayer previously held positions at the Wharton School, the University of Michigan, and the Federal Reserve Bank of Boston. His research explores a variety of topics in real estate, including real estate cycles, capital markets, housing, public and private real estate values, and debt securitization. He has also written on the market for reverse mortgages, the link between local government activities and housing values, and the economics of airline congestion. Mayer is a member of the board of editors of *Real Estate Economics* and *Journal of Urban Economics,* and a fellow of the Homer Hoyt Institute. He also works as part-time research director and member of the board of directors of Oak Hill REIT Management, a REIT hedge fund. Mayer earned a B.A. in mathematics and economics from the University of Rochester and a Ph.D. in economics from the Massachusetts Institute of Technology.

**Stephan Meier** is an assistant professor of management at Columbia Business School, which he joined in July 2008, and a visiting scholar at the Federal Reserve Bank of Boston's Center for Behavioral Economics and Decisionmaking. His main research focuses on behavioral strategy through investigating the impact of psychology and economics on human decisionmaking and the implications for firms' strategy and public policy. His current projects include how nonselfish behavior affects organizations and the effect that borrowers' decisionmaking has on financial institutions' strategy. Before his current position, Meier was a senior economist at the Boston Fed's Center for Behavioral Economics and Decisionmaking from October 2005 to June 2008. From January 2005 to September 2006 he also was a research fellow at Harvard University's Kennedy School of Government; he was an adjunct lecturer there in Spring 2007. While an advanced graduate student, Meier was a research affiliate at the



London School of Economics from October to December 2004. From the University of Zurich he earned an M.A. in history, economics, and political science and a Ph.D. in economics.

**James M. Poterba** is the Mitsui Professor of Economics as the Massachusetts Institute of Technology and president of the National Bureau of Economic Research. His research focuses on how taxation affects the economic decisions of households and firms. Poterba's recent work has emphasized the effect of taxation on the financial behavior of households, particularly their saving and portfolio decisions. He has been especially interested in the analysis of tax-deferred retirement saving programs, such as 401(k) plans, in the role of annuities in financing retirement consumption, and is a trustee of the College Retirement Equity Fund (CREF) and a former member of the MIT 401(k) Plan Oversight Committee. Poterba served as a member of the President's Advisory Panel on Federal Tax Reform in 2005, and has been an Alfred P. Sloan Foundation Fellow, a Batterymarch Fellow, a fellow at the Center for Advanced Study in Behavioral Sciences, and a distinguished visiting fellow at the Hoover Institution at Stanford University. He is a fellow of the American Academy of Arts and Sciences, a fellow of the Econometric Society, is president of the National Tax Association, and is a vice president of the American Economic Association. Poterba has an A.B. in economics from Harvard College, and earned his M.Phil. and D.Phil. in economics from Oxford University, where he was a Marshall Scholar.

**Julio J. Rotemberg** is the William Ziegler Professor of Business Administration at the Harvard Business School (HBS), a fellow of the Econometric Society, and a research associate at the National Bureau of Economic Research. A scholar with wide-ranging interests spanning both macroeconomics and microeconomics, he has published in many leading journals. Rotemberg's recent research includes work that focuses on the effects of altruism on the labor market and on voting behavior. At the HBS, he has taught business history, a course on the environment of business called "Business, Government and the International Economy" as well as "Marketing" in the first year of the M.B.A. program. From 1980 to 1996, he was on the faculty at the Sloan School of Management of the

Massachusetts Institute of Technology, where he taught macroeconomics and international economics. Rotemberg earned a B.A. in economics from the University of California, Berkeley, and a Ph.D. in economics from Princeton University.

**Robert J. Shiller** is the Stanley B. Resor Professor of Economics at Yale University, where he holds appointments in the department of economics and the Cowles Foundation for Research in Economics, and is a fellow at the International Center for Finance, Yale School of Management. Since 1980 he has been a research associate at the National Bureau of Economic Research, and he has co-organized the NBER workshop on behavioral finance with Richard Thaler since 1991, and the NBER workshop on macroeconomics and individual decisionmaking with George Akerlof since 1994. Shiller has published extensively in academic journals and in the popular press on financial markets, financial innovation, behavioral economics, macroeconomics, real estate, statistical methods, and on public attitudes, opinions, and moral judgments regarding markets. Shiller is a member of the American Philosophical Society and a fellow of the American Academy of Arts and Sciences. He is the co-founder of MacroMarkets LLC, and he co-founded the real estate research firm Fiserv Case Shiller Weiss, Inc., which publishes the widely regarded Standard & Poor's/Case-Shiller Metro Area Home Price Indices. He received his B. A. from the University of Michigan, and his Ph.D. in economics from the Massachusetts Institute of Technology.

**Todd Sinai** is associate professor of real estate at the Wharton School of the University of Pennsylvania, and a research associate at the National Bureau of Economic Research. He has previously been a visiting scholar at the Federal Reserve Bank of Philadelphia and at the Haas School of Business of the University of California at Berkeley. Sinai's current areas of focused research include housing prices, the riskiness of homeownership, housing at retirement, and public policy and housing markets. Sinai is currently conducting research on the causes and effects of differences in long-run house price growth across cities and towns in the United States. He has also studied real estate investment trusts as well as the airline industry and air traffic delays. Sinai is a board member of the American Real Estate and Urban Economics Association. He earned a B.A. in economics and mathematics from Yale University and a Ph.D. in economics from the Massachusetts Institute of Technology.



**Lawrence H. Summers** is the director of the National Economic Council, a position to which he was appointed by President Barack Obama in late November 2008. Until January 2009 Summers was the Charles W. Eliot University Professor at Harvard University, and is on leave from his position as a research associate at the National Bureau of Economic Research. Summers served as the 27th president of Harvard University from July 2001 until June 2006. As an academic economist, Summers has made seminal contributions in labor economics, macroeconomics, monetary economics, and public finance. In 1987 he was the first social scientist to receive the annual Alan T. Waterman Award of the National Science Foundation, established by Congress to honor an exceptional young American scientist or engineer whose work demonstrates originality, innovation, and has a significant impact within his or her field. In 1993 Summers received the John Bates Clark Medal, given every two years to the outstanding American economist under the age of 40. He has taught at Harvard University and at the Massachusetts Institute of Technology. Summers previously served in a series of senior public policy positions, beginning in 1991 when he left Harvard to serve as the chief economist of the World Bank, and then in various posts in the Clinton administration, including political economist for the President's Council of Economic Advisers and Secretary of the Treasury of the United States from 1999 to 2001, when he returned to Harvard. Summers received his B.S. in economics from the Massachusetts Institute of Technology and his Ph.D. in economics from Harvard University.

**Janet L. Yellen** is president and chief executive officer of the Federal Reserve Bank of San Francisco and professor emeritus at the University of California at Berkeley, where she was the Eugene E. and Catherine M. Trefethen Professor of Business, professor of economics, and a faculty member since 1980. She has written on a wide variety of macroeconomic issues while specializing in the causes, mechanisms, and implications of unemployment. Yellen served as a member of the Board of Governors of the Federal Reserve System from August 1994 through February 1997, when she left to be chair of the President's Council of Economic Advisers through August 1999. She also chaired the economic policy committee of the Organisation for Economic Co-operation and Development from 1997 to 1999. Yellen is a member of both the Council on Foreign Relations and the American Academy of Arts and Sciences, and is a research associate at the National Bureau of Economic Research. She also serves on the board of directors of the Pacific Council on International Policy. Yellen received the Wilbur Cross Medal from Yale in 1997, an honorary Doctor of Laws degree from Brown in 1998, and an honorary Doctor of Humane Letters from Bard College in 2000. She holds a B.A. from Brown University and a Ph.D. from Yale University, both in economics.

**Christian Zehnder** is a postdoctoral fellow in organizational economics at the Harvard Business School. His main research interests are in the fields of behavioral and experimental economics, game theory, and labor economics. Zehnder's current projects are investigating the consequences of social preferences for decisions in markets and organizations, and the impact of relational contracts and information sharing on credit market performance. Zehnder is a visiting scholar at the Federal Reserve Bank of Boston's Center for Behavioral Economics and Decisionmaking from August 2007 to June 2008. Before locating to Boston, Zehnder worked as an assistant professor at the Institute for Empirical Research in Economics at the University of Zurich. He holds an M.A. and a Ph.D. in economics from the University of Zurich.

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