

Reactions to Colin's paper

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What should the FRB / FRB  
of Boston do?

# Overall feeling

Colin:

Economics should take its building blocks from  
psychology

My reaction:

It will be nice .....

"If psychology had a central theory ..."

But, I am **skeptical**.

# Why skeptical? I

The periodic table is a very interesting analogy  
But, it also means that we are unlikely to have a  
unified theory

Partly because it is unlikely that we will be able to  
measure the "atomic structure"

# Why skeptical? II

As Colin's list demonstrates people exhibit all kind of "irrational" behaviors

Part of them are due to inconsistency, due to emotions, context, distance in time etc.

Can we find a unified theory for these effects?

# Why skeptical? III

Human knowledge-transfer is limited  
(categorization)

Situated cognition

If such inconsistency is a part of human nature,  
how could we hope to have a unified &  
descriptively valid economic theory?

# Why skeptical? IV

## Economics & Psychology?

Easy and hard ideas

Easy:

Hyperbolic discounting, social utility

Hard

Tom sawyer and CA

# The role of experience:

I think that experience can help only in very  
limited cases

Repeated behaviors

A lot of good feedback

No emotional aspect (hot cold)

# So what is the future?

Multiple paths

Traditional economics (game theory, econometrics,  
Macro, International...)

Behavioral economics

Policy science

The difference should be in the application of  
these ideas to policy!



# Policy I

Since it is unlikely that we will have a descriptively valid theory of economic behavior, policy should be an empirical field.

Field studies are not sufficient and experiments are needed

Need to study effect sizes more carefully

# Policy II

The government should start doing experiments  
regularly

Instead of announcing tax cuts for \$350B, test the  
effects of tax cuts on a sample of individuals for a year  
or 2...

(I have been trying and if anyone wants to help me ...)

# Summary

Psychology is important to economics

Psychology is important to policy

But, I doubt that economics can fully embrace  
psychology to optimally inform policy

Policy should have its own goals and not be  
based solely on economics

Thanks

# Other topics

Decisions under sexual arousal

Valuations of future options

Second price auctions

Pricing (CA, Price of 0)

Effects of incentives on performance