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Book review

Indeed “We Are All Behavioral Economists Now!”.

Twelve years ago, “*Experiments in Economics: Playing Fair with Money*” (Chaudhuri, 2009) was a rare and novel attempt to introduce the uninitiated reader to some rapidly developing strands of research in experimental/behavioral economics. A key sign of acceptability for a sub-discipline is whether the conclusions and insights from its research program have become common enough to be narrated not just to the graduate student pushing the frontier, but shared with the relatively non-specialist, and the undergraduate student populace. After multiple Nobel prizes awarded to economists in this area of research, behavioral economics sits securely into the mainstream discussions. Chaudhuri’s new book “Behavioral Economics and Experiments” signifies just how far the sub-discipline has come from its “Anomalies” days (Thaler, 1988a, 1988b; Dawes & Thaler, 1988; Tversky & Thaler, 1990) that it now warrants 400 odd pages dedicated to introducing topics in behavioral economics along with advances in experimental economics research not just for the consumption of advanced undergraduates but for readers who need not be trained economists. As Angner (2019) pointed out recently: “We are all behavioral economists now.”

Although research in behavioral economics along with experimental economics has fired on all cylinders in the past five decades, along with a steady stream of texts describing its scope, outreach, and advances (Davis & Holt, 1992; Kagel & Roth, 1995; Camerer, Loewenstein, & Rabin, 2003; Fréchet & Schotter, 2015; Dhami, 2017; Kagel & Roth, 2020), offerings at the undergraduate level or for policy-practitioners remained particularly thin for a while. Offering a course in behavioral/experimental economics often poses a pedagogic challenge, especially at the undergraduate level. The dilemma that an instructor might face is where to start and how far to go. A move towards a synthesis between the neoclassical and behavioral economic theories (Angner, 2019) makes it an even more challenging task. One obvious way to go might be to follow a historical path from its “Anomalies” days and introduce the findings from this long research program as departures from standard neoclassical models. This is not always practical or feasible. It almost begs a two-course sequence and possibly micro theory and game theory pre-requisites.

Chaudhuri’s recent textbook seems to provide a way out, organizing topics and ideas in a way that solves this conundrum and serves as a text for a stand-alone course in behavioral economics. Behavioral Economics, after all, is preoccupied with providing evidence on how we *actually behave* based on insights from choice data collected in experimentally controlled laboratory or field environments. By approaching it as a course on theories of decision-making, I feel the book has successfully overcome the problem of where to start and how much to cover in an introductory course to the discipline. It is not surprising then that Chaudhuri starts with a chapter titled “How we decide” and introduces key topics as evidence and theories on how we make decisions and choices. So we are treated to chapters such as “Gut feelings and effortful thinking,” “Probabilistic thinking,” “Thinking strategically,” “Trust and Trustworthiness in everyday life,” “Cooperation in social dilemmas,” “I will if you will,” etc., 15 chapters in all.

In each chapter, the author provides a lucid introduction to the relevant theory along with suitable examples. The book does an excellent job of providing some of the core intuitions of reasonably complicated behavioral economic theories. For example, the section on prospect theory does just enough to introduce the idea and its core elements, including an intuitive/semi-formal introduction to the weighting function. The chapters do three important things: They introduce the workhorse experiment game, explain the possible questions, and take the reader through the most important papers and results in that topic. Unlike some of the other textbooks in this genre, this text carves out a special niche for itself by reviewing the canonical experimental papers in detail, unpacking the motivations, design implications, results, and insights from each. Being an experimental economist by training, I find it particularly refreshing that a text pitched at the undergraduates or policy-practitioners is able to go beyond reporting the results and dwell on the finer points of underlying experimental designs. All through the book, there is a consistent focus on explaining the intuitions behind a specific design and the hypotheses that were being tested. There is a clear attempt to nudge the reader to think about design choices and their implications for decision-makers: for example, fixed vs. random matching in the context of a public goods game, or the importance of a “surprise restart” and how that allows the researcher to separate out potential learning attempts of subjects when discussing the classic paper due to Andreoni (1988). These discussions can be quite useful for students who are interested in learning not just the broad results, but more!

In some ways, parts of the book read like what could be a handbook of experimental results for undergraduate students! It focuses

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on some of the core results that have been established and chooses the most critical literature in a topic to bring the reader up-to-date with where the literature currently stands. This is not an easy feat to achieve! For example, in the chapter on trust and trustworthiness, we learn that trusting behavior need not be about altruism only, but can be indicative of reciprocal motives as well; here we also learn about the role of expectations in influencing trusting behavior and whether trust and trustworthiness go together for the decision-maker. The chapter “Cooperation in social dilemmas” is particularly illuminating as it unpacks some of the important strands of work in this exploding area of research and ends with a deeper set of thoughts from the author. Again, the focus remains on explaining behavior and theories introduced in response to experimental findings. For example, in explaining alternative avenues for contribution behavior in a public goods environment, Chaudhuri introduces the framework of conditional cooperators (Fischbacher, Gächter, and Fehr (2001)), talks about the importance of incorporating fairness in strategic environments (Rabin (1993)), and how beliefs, especially those of optimists and pessimists influence behavior in coordination problems as explained by Fehr and Schmidt’s (1999) inequity aversion model; we also learn the importance of costly punishments and the difference between antisocial and prosocial punishments. In these discussions, many small experimental details and how it has informed our current understanding of motives make it a very useful read. I particularly like the fact that the chapters on many instances spend time discussing graphs from the original experiments allowing a glimpse into how an experimenter/researcher thinks about gleaning and interpreting from a set of results. On that note, I must point out that these graphs are beautifully reproduced in color which improves the readability considerably, and the overall production of the book looks very slick, albeit the slightly small font sizes adopted by the publishers!

It is probably useful to end this review with a bit of comparison with the slow stream of undergraduate behavioral economics texts that have finally started showing up in the past decade. The three books that I know of, and have found to stand out particularly, are Angner (2012), Just (2013), and Wilkinson and Klaes (2012). Chaudhuri’s “Behavioural Economics and Experiments” is an excellent addition to this list. Both Just and Angner are reasonably heavy with algebra by undergraduate standards. Wilkinson and Klaes also uses sufficient algebra, enough to warrant a pre-course in microeconomics or maybe some prerequisites. Additionally, all three predominantly focus on the behavioral theories, use the axiomatic approach to introduce them, and mention some of the key experiment results in the discussions. My impression is that these texts approach the course in behavioral economics as an enhancement to standard theories in economics and anomalies that led to the behavioral theory movement. Chaudhuri’s current offering differentiates itself from them in providing a much heavier focus on the nitty-gritty of experiment designs as foundation pillars for the theories that have emanated from them. Chaudhuri provides a more applied set of discussions, and strives to build the intuitive foundations of behavioral theories, and importantly, introduces results from canonical research papers in close detail. In the process, it extensively uses numerical examples, along with payoff matrices to build the analytical foundations for each discussion while keeping algebra at a minimum. This provides considerable flexibility of using this as a text for teaching students outside the discipline as well (for example a course that might consist of mid and senior-level policymakers who might not necessarily have the standard training in economics).

Overall, the writing style is lively and avoids sermonizing! The topics are presented in a folksy style in a first-person narrative. In parts, a reader might feel the Professor in Chaudhuri standing out there, introducing the topics and ideas bit by bit in an interactive lecture, that promises to hold the attention of undergraduates – not just the Seniors but the new and uninitiated ones as well. I will end with one curious observation: often, while introducing results from research papers, Chaudhuri introduces the authors along with their home institutions instead of the more standard author-last-name-year format. I found this quite clever! This might help the slightly more interested students, especially those considering graduate school to google up the mentioned school or department and discover the research of additional faculty members who are pursuing related research or even different ones; in the process, the student might stumble upon what could become their future homes as graduate students!

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