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Book Review

Experiments. Behavioural Economics and Experiments, Ananish Chaudhuri. Routledge, London and New York (May 14, 2021). pp. 428. Suggested Retail Price of Book: \$59.95, ISBN number: 978-0367463939. Date of Publication:

As you read through Behavioural Economics and Experiments – one thing becomes crystal clear: Ananish Chaudhuri is a consummate storyteller. The Merchant of Venice, Princess Bride and Scarface, all show up in the book, as do Buddy Holly, Don Mclean and Leonard Cohen! Browse through the bibliography section of the book and you will get a sense of the size of the canvas and the nature of the work that you hold in your hands. Actually, I looked at the complete reference section after having read the book and I had to ask myself – when does Ananish Chaudhuri find the time to read all this and process it – let alone write about it!

A quick word about the design of the book before I go into the material itself. The book looks striking: on the cover a thoughtful primate gazes at you inviting you to turn the pages and delve into the complex nature of human behaviour. For me there was also a surprise lurking inside: unlike most other black and white textbooks, when you turn the pages, you will be surprised by the book's colored illustrations. Inside you will find everything from a T. Rex to a bored man, followed by pictures of individuals with forced and genuine or Duchenne smiles. I also learned how to tell when some is putting on a fake smile by looking at whether the muscles around their eyes are crinkled or not. Actually, the book abounds in trivia like this about many facets of human behaviour. Another very interesting feature of the book are the boxed items in each chapter which clearly spell out whether the material is for the advanced reader or not. I found every boxed item worth reading. Overall, I think the author owes a big thanks to his book designer and I am happy that I have an actual copy of the book.

The book is written like a textbook that introduces students to economic behaviour through the lens of behavioural economics and insights from experimental economics with exploratory links to neuroeconomics and neuroscience in general. The first six chapters may be viewed as providing a framework by introducing the reader to individual decision-making, experiments and the tools to analyse them, decision-making under uncertainty, heuristic driven behaviour and game theoretic situations. The rest is more like an idiosyncratic collection of experimental work with a summary of insights from them. The chapters themselves build a clear bridge from homo economicus and homo ludens depending on the situation to behavioural economics. Nowhere is this more apparent than in Chapter 6 where Chaudhuri introduces the idea of the Nash equilibrium. He argues that typically, equilibrium implies the famous condition that there is no incentive for unilateral deviation for any of the players from the outcome that maximises their own utility. Yet, people exhibit altruistic behaviours which is at odds with the behaviour implied by Nash equilibrium and the assumption of self-

interest. To explain this apparent contradiction, Chaudhuri argues that a more realistic way forward is to realise that people are neither purely self-interested nor purely altruistic. Rather, they are conditional co-operators, their behaviour being determined by their assessment of what the other players believe and will do in a strategic situation. In fact, unlike some work that introduces behavioural modeling approaches by simply altering payoffs that lead to different outcomes from what we see in the original game, this book offers great clarity. It is made clear to the reader that the behavioural approach analyses situations where the game is different from what is originally presented because the payoffs are not the same either because of players' beliefs or because they have endogenised certain types of behaviours. The book abounds in nuanced insights like this.

Another noteworthy aspect of this book is its global approach. It goes beyond the usual examples of Alice and Bob and talks of Indira and Isha. In its pages, you will encounter tales about Chairman Mao's Red Guards, COVID related policy making in New Zealand, the Romanian dictator Nicolae Ceaușescu, environmental issues in coffee growing and non-coffee growing regions of the Andes in Columbia, and the Grameen Bank's joint liability group lending programme. Incidentally, Chaudhuri asserts that although Md. Yunus won the Nobel Prize for Peace, he should be considered a behavioural economist and I concur with this assertion. However, I will disagree with him on the fact that we still use the suboptimal QWERTY keyboard because the producers and users of keyboards could not coordinate. The players in that instance chose not to cooperate – I could easily think of a payoff matrix for the game where not-coordinating would be the equilibrium. The producers would have to reconfigure their production process and the users would have to relearn typing on the new keyboard format.

I have a simple rule for evaluating new books for teaching purposes – I call it my Pad Thai Test. If I want to figure out how good a new Thai restaurant is, I simply try their Pad Thai. Similarly, in a new book I look for a topic that I will certainly teach and also for one that I have read in a number of different books. For me, in Chaudhuri's book that translated to Chapter 6 – all about strategic decision-making. In fact, that was the first chapter I read after reading through all the introductory material. While the chapter has many fascinating examples and ideas, it uses one of my favourite O. Henry stories, The Gift of the Magi, to explain the nature of coordination problems and the misery that miscoordination can create. She cuts her hair to buy him a watch strap and he sells his watch to buy her a nice comb. If only they had been able to coordinate their actions somehow, they would both not be left with somewhat pointless gifts. The chapter then continues to discuss how the familiar Battle of the Sexes game would not end in this hopeless manner if we moved to playing a sequential version of this game. Yossarian from Catch-22 makes an appearance in the Prisoner's Dilemma section as do Bonnie and Clyde and 6000-pound male elephant seals. The chapter also covers Stag Hunt and entry games along with insights about first mover advantage. In my opinion this book passes the Pad Thai Test with flying

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colors! I will also confess that my second favourite chapter was Chapter 5 which goes by the name of “Probabilistic Thinking.” Unlike many textbooks on this topic, this chapter provides a succinct toolkit of statistical tools to analyse and draw conclusions from data. I see this as a valuable addition.

The experimental chapters or what I call the “applications” part of the book follows from the initial framework part with chapters on markets, asset bubbles, coordination and cooperation, social dilemmas, and of course different types of trust games. While much of the material can be found in survey papers or in handbook type volumes, this book presents the material in the textbook format, i.e., introducing and gradually building on the material. Instructors looking to devote limited time to these topics will find these chapters to be of great value. I must confess however that I was puzzled by the order in which the chapters are presented. If the author had a rationale for the specific chapter order, I would have liked it to be more explicit. A little note on why topics like “contests” have not been touched upon would also have been a good addition.

It is now time to answer the proverbial “What’s in it for me” question, and my response is, “That depends.” The book will be useful to both economists as well as non-economists. For those in economics, I feel that the book will be useful for advanced undergrads or masters level graduate students, although doctoral students can also use it to gain a first introduction to several of the experimental topics. What types of courses can use this book? I would recommend it for any introductory course in decision-making, behavioural economics, and experimental economics. This can be done by choosing a subset of the fifteen chapters depending on the need. I personally would be hesitant to cover all the chapters in a one semester course since the volume of information might simply overwhelm the students. Given the interdisciplinary nature of

behavioural economics, among non-economists, this book is ideal for masters students in psychology. As David Cooper in his endorsement of this book cogently put it, you can “... learn about state-of-the-art research without being smothered by technical details.” I would also recommend the book (at least a few of the chapters) to neuroscientists looking for an introduction to economic theory without being swamped by it.

I do have one major quibble with the book. Currently, I find that the framework chapters (Chapters 1–6) are not really integrated with the application section of the book. In other words, the discussion on experiments (Chapters 7–15) is separate. Given the title of the book and the nature of the topic (behavioural economics), I was really expecting that the experiments and the framework would all have been woven together. However, I can also imagine why the author chose to do it this way – the current version of the book can be used in a variety of classes. It is unique and has no other competitors in the market with such breadth while still keeping the material accessible. Everybody looking for an introduction to economic theory from the behavioural perspective or experimental economics would be able to use this book. Personally, however, I would be willing to sacrifice the pedagogical flexibility for a deeper integration of the theory and experiments. It is also clear from reading the book that the author could also have delivered such a book, which is why I have a quibble. Still, in the final analysis it is a no brainer: read the book – you will find it useful and enjoy it too.

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