In this book, I undertake a reexamination of *rationality*, or *rational behavior*, in the history of economic thought, review strands of scholarly criticisms of rationality, and develop defenses for the continued use of rationality in economic analysis. The emphasis will be on how economists have employed the rationality premise in the post-World War II era, during which time the premise became widely recognized for being at the core of fully formed neoclassical economics and during which time the premise has come under ever more serious attacks that, in no small way, have undermined the credibility of economics as a scientific endeavor (at least according to many behavioral psychologists and behavioral economists whose work will be reviewed later in this book).

Economists are a diverse group, which means my reexamination of rationality must be confined. I have chosen to adopt the perspective on rationality that is generally represented by mainstream or (what I equate with) neoclassical economics, widely adopted in modern intermediate microeconomic theory textbooks. I give special attention to two methodological perspectives on rationality that have emanated from the modern Chicago school identified by history of thought economist Steven Medema (2008): The first Chicago perspective is best represented in Milton Friedman’s classic methodological essay (1953) and his textbook (1962), with Friedman focusing on the motivational force of rationality, or just self-interest, within market settings. The other perspective is best represented by George Stigler’s and Gary Becker’s textbooks written separately (Stigler 1952, last published in 1987 with significant evolved changes in the treatment of rationality; and Becker 1971a) and their joint methodological essay (1977), with Stigler and Becker accepting much of Friedman’s methodology but untying the rational behavior premise from narrowly confined market analysis and using the premise as the founding motivational force undergirding a method of thinking, with the application of the method no longer contained by subject matter (for example, business or markets outcomes).

In giving shape to mainstream, neoclassical economics for purposes of this volume, I remain fully aware that any school of thought has boundaries that are fuzzy and changing, with adherents within the loosely defined school of thought differing significantly on many details of analysis (which is especially true of
neoclassical economics that took shape in the relatively recent past, after World War II). Nevertheless, I focus on the work of Friedman, Stigler, and Becker because the perspectives on rationality they represent have been, in recent decades, at the core of intense scholarly scrutiny, especially from behavioral psychologists and behavioral economists (although the critics, who have become advocates of a behavioral premise of irrationality, have not fully recognized the divergence of methodological views within the Chicago sector of neoclassical economics, or the importance of the divergence).

Clearly, I must assume people possess some level of rationality in the development of this book. Otherwise, it is hard for me to understand how we economists and others can have thoughtful, purposeful discussions about the concept of rationality and human behavior spawned by human decision making, as well as pursue the development of a deductive science. A question that guides (and dogs) this investigation is whether an assumption of human rationality – and, more specifically, perfect rationality (to be defined with care as the book develops) – will advance our understanding of human behavior, and the science of economics, more than some other more descriptively accurate behavioral premises. That is to say, the question at the heart of the book is whether an assumption of human rationality, imbued with imperfections, that melds better with credible evidence on how people actually make economic and other decisions will actually better serve an important goal of economic analysis, which is to generate insights and testable hypotheses relating to the way people behave, individually and collectively, as they seek to improve their stations in life.

The Economics of the Human Brain and Rationality

The rationality premise frames a great deal of mainstream economists’ discussions of a wide-range of human choices under conditions of scarcity, normally conceived as human wants far outstretching people’s capacity to fulfill them. I devote several chapters to the intellectual history of the motivational foundations of economic analysis, covering the methodological thinking of notable economists from Adam Smith to Alfred Marshall to Frank Knight and Becker, and others, but with some emphasis on the methodological position of Friedman. I review the discipline’s history of thought because that history reveals an evolution of the motivational foundations of economic analysis, from an expansive to a fairly narrow motivational foundation. This history reveals that behavioral economists are not the first disciplinary insiders to take issue with the descriptive accuracy of the rationality premise.

In this book, I take the discussion of rationality where few economists have, recognizing that there also must be an economics of rationality, given that all human decisions are ultimately constrained, not so much by scarcity in the external physical world – the familiar domain for economic analysis – as by the more
pressing constraints of human beings’ mental faculties to cope with the virtually unlimited volume of sensory information flowing daily to and through the human brain. The ever increasing flow of sensory information in modern sophisticated societies, enhanced by the growing reach of markets (and nonmarket forms of collaborations), is no doubt taxing people’s rational capacities as never before, pressing them to find heuristics to manage the flow within the limits of their mental abilities.

In the economics of the human brain lie potential explanations for why people are not, and cannot be – and would not want to be – as rational as so many economists assume. After all, economists widely presume that the economic actors in their behavioral models carefully, if not precisely, weigh virtually all costs and benefits of all decisions, always appropriately discounting raw costs and gains for time and risk and always equalizing marginal discounted values and optimizing their expected net gain. Hence, any conceptual or empirical demonstration that real humans fall short of economists’ behavioral premise is hardly a surprising or notable philosophical and scientific achievement, apart from the fact that some economists themselves might write as if they seem oblivious to the prospect that their behavioral premise is not descriptive of how people actually make decisions and behave.

In the economics of the human brain also lie potential explanations for why many human choices that may deviate from rationality are nothing more than calculated and expected mistakes that people make when struggling to economize as best they can on their mental faculties. Ironically, in the economics of the brain, as well as the economics of doing science, lies a potential explanation for why economists will likely continue to assume that the actors in their models have rational capacities well beyond real people’s acknowledged rational limits, and well beyond the rational limits of economists themselves who pursue science as a matter of model-building and hypothesis-testing. After all, if the subjects of economic analysis have demonstrated mental faculties and rational limitations, economists, who are drawn from the general population, also must harbor those same limitations, more or less. By assuming their subjects are more rational than economists know them to be, economists may simply be seeking a means of containing the complexity of their theories in order to gain more understanding of the complex social interactions of their subjects within the limits of economists’ own mental faculties. In a sense, if people were in fact perfectly rational, as well as had perfect information (as many economists are prone to assume in their models), there would be no point to the analysis, which means no purpose for assuming people are perfectly rational. Ironically, only when people, including economists, have analytical limitations does it make sense to simplify and sterilize the underlying behavioral assumption regarding human motivations, or so I will argue in some detail at various points in this book.

Besides, when economists’ analytics are static, organized around changes in equilibrium, given changes in key variables, the process by which people adjust from one equilibrium to the next is obscured (if not totally obliterated). To the extent that the embedded adjustment process permits, or presses, people to correct
their own and others’ errant and irrational decisions and behaviors, then a rationality assumption descriptive of people’s innate rational tendencies at the start of the process would lose some of its predictive capacity about how the process can be expected to unfold. This is to say that any embedded corrective feedback loops on decision making in real-world settings, such as those in competitive markets (or, for that matter, those corrective feedback mechanisms embedded in the human brain), require economists to assume a level of rationality, for the purpose of enhancing their theories’ predictive accuracy, that is greater than what people are known to possess in laboratory and survey experiments where the feedback competitive pressures are absent or weak and that is greater than what people process at the start of any economic process with built-in feedback loops.

People’s rational capacities have, of course, been shaped by eons of evolutionary forces, with many human decision propensities having been shaped and constrained as much by environmental and group dynamic forces extant in the Pleistocene Epoch, 10,000 years ago and more, as by the particular costs and benefits associated with people’s contemporary choices. Indeed, as evolutionary biologists and evolutionary psychologists advise, an individual’s current subjective assessment of costs and benefits must still be influenced by long-ago environmental conditions and group dynamics that are as alien to modern decision-makers as their influences are unrecognized by the broad swath of practicing economists. These ancient influences necessarily remain entrenched in many contemporary decisions because of how they continue to shape the allocation of the brain’s hundred billion or so neurons and the untold number of synapses and their unifying neural circuits.

The Growing Critiques of Rationality

In undertaking this reexamination and organizing defenses of rationality in economic theory, I am well aware of the intensifying, and often caustic, critiques of rationality by many non-economists (cognitive psychologists, sociologists, political scientists, evolutionary biologists, and neurobiologists) and some economists (mainly behavioral and experimental economists and neuroeconomists). The critics point to an array of “decision-making biases,” which lead to a host of observed “irrationalities” (or decisions and behaviors not consistent in form and consequence with those expected from the standard of perfect rationality). I cover a representative share of this scholarly evidence coming from behavioral economists and psychologists in this book (full coverage is not practical or economic). Indeed, these critiques have motivated the development of this book because they have elevated to scholarly prominence a question that goes to the heart of what mainstream economists do: “If irrationalities pervade human decision making and behaviors as extensively as the critics maintain, how can mainstream economists continue to justify reliance on the premise of perfect rationality in their models?”

The critics of neoclassical economics insist people are so pervasively irrational that they are systematically and “predictably irrational” (Ariely 2008). I have
chosen my main title, *Predictably Rational?*, to stand in contrast with the critics’ thesis in two regards. First, the obvious, the use of “rational” and second, the insertion of the question mark. Have the critics settled the debate to the extent they seem to suggest with the absence of a question mark after “predictably irrational”? Might not economic theory, devised with the intent of deducing tentative hypotheses subject to testing, require people to be more rational than neoclassical economists know them to be? Might people be more predictably rational than they are naturally inclined to be when people can correct their own and others’ decision-making ways in social processes in which feedback loops affect eventual outcomes?

My subtitle, *In Search of Defenses for Rational Behavior in Economics*, was chosen with equal care. I began writing this book years back when a prominent university colleague in cognitive psychology challenged me in a casual conversation over some topic of mutual interest, “Richard, do you really believe in this rationality crap?” My only response at the time was a quip, “If I did not believe it to some extent, I do not know how we can have a meaningful discussion over your question.” At the time, I had only a nodding acquaintance with the vast scholarly and popular literature challenging economists’ rationality premise that my colleague had in mind. I began this book as a true exploration for better answers, if any flawless ones could be found, to my colleague’s implied suggestion that economists (including me) were delusional. Might there be defenses for the continued use of the rationality premise that goes beyond Friedman’s seminal defense more than a half-century ago (1953), especially since Friedman’s (and Stigler’s and Becker’s) methodological defense has been found wanting by behavioralists? Might there be defenses that the critics would take seriously, if not shake their confidence in their own caustic assessments of what mainstream economists do? The writing of this book has been a true search with strictly academic and personal intentions in mind, which means at the start I truly did not know how the book would evolve (although I had to believe that there were defenses to be found, given the success that so many neoclassical economists seem to have had with their methods over the past half century or more). And as with all intellectual explorations, undertaken honestly and with care, discoveries were inevitable, with one or more of the defenses uncovered surprisingly straightforward.

Criticisms of mainstream economists’ methodological approach are hardly new. Throughout the history of the discipline, non-economists have continually charged that any theory founded on a premise as demonstrably false as fully rational behavior must be grossly misleading, if not totally empty and useless. Even economists, as far back as Adam Smith, the much heralded founder of the discipline, have recognized that self-interest-directed and maximizing behavior (Smith never uses “rationality,” “rational,” or “maximizing” behavior in his two classic treatises on moral philosophy and political economy (1759 and 1776)) is necessarily an incomplete view of human behavior. Observed, real-world decisions and behaviors are founded on many motivations and group and cooperative dynamics, with market forces being a group dynamic of primary concern to Smith and almost all subsequent classical and neoclassical economists.
The Old and New Worlds of Economics

What is new to the modern debate concerning the premise of full human rationality are two scholarly forces set afoot during the past half-century. The first is the growing body of credible scientific evidence that casts doubt on the premise that human decisions are guided by anything close to perfect rationality. People just do not seem to make their decisions with anywhere near the care, accuracy, and consistency – or rationality – that economists have long presumed. Although economists, generally, have understood that people are imperfectly rational, they have probably been surprised at the extent of the deficiencies in human rationality, when the implications for choices have been empirically tested. No doubt, some have begun to worry about whether economists’ fallback position on rationality – that a premise of full rationality is a reasonable approximation for how people do in fact behave – is sustainable.

The second scholarly force that has been gaining momentum in recent decades has been economists’ inclination to apply their models of human decision making and hypothesis testing to topics further and further removed from strictly market arenas, crossing the disciplinary boundaries of psychology, sociology, political science, and neuroscience. James Buchanan won the Nobel Prize in Economics for modeling the behavior of rational, self-interest-directed constitutional decision makers and politicians.¹ Becker subsequently won his Nobel for greatly expanding the array of research topics – from human capital to discrimination to family life to addiction – all investigated with mainstream models of behavior, grounded in fully rational decision making guiding the analysis and with the implications of the theories often tested with progressively more sophisticated econometric techniques.²

As a matter of full disclosure, I assumed this book project as an economist, who has spent a career following in the Buchanan and Becker traditions, researching and writing about a variety of personal and public policy topics – from the economics of lying, panics, donor exploitation, sex, and dying, covered in The New World of Economics (McKenzie and Tullock 1976) to the likely ineffectiveness of minimum wage laws (1995) to a frontal assault on conventional monopoly theory (McKenzie and Lee 2008). At every step in my career, I have employed economic models fully grounded in rational precepts (with these precepts being laid out with care in Chap. 1).

As we will see, at the turn of the twentieth century, British economic luminary Alfred Marshall preferred to relegate the study of economics to the study “of men as they live and move and think in the ordinary business of life” (1890, Sect. I.II.1). During the last half of the twentieth century, economics gradually became defined

¹Of Buchanan’s many writings see, for example, Buchanan and Tullock (1962); Buchanan (1975); and Brennan and Buchanan (1985).
²Of Becker’s many writings see, for example, 1994, 1996, 1997; Becker and Murphy (1988); and Becker and Becker (1997).
not so much by the arenas studied (markets and businesses) as by the method of inquiry, which is anchored in the constructs of rationality, optimization and equilibrium, and statistical testing of hypotheses. Indeed, some casual observers might now mistakenly see the discipline as having become totally unbounded by subject matter and constrained only by its methods, given the recent publication of a spate of academic and popular economics books dealing with topics, which one or two generations before would have been considered unusual, if not bizarre. Becker is renowned for his economic imperialism, or academic forays into the economics of discrimination and the family (1971b and 1993). The more popular new books include the runaway best seller (for an economics book!) *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* that takes up, among other topics (all tied to academic journal articles), the impact of legalized abortion in the United States in the early 1970s on the decline in the country’s crime rates in the 1990s (Levitt and Dubner 2005) and *More Sex is Safer Sex* (Landsburg 2007) with the topic in the book’s title explained with reference to a tragedy of the (dating market) commons attributable to rational and suboptimally coordinated individual decision making.

Other recent and widely read books suggest that the economic way of thinking about everything is more or less natural. Consider two popular books released as I began developing this book: *Discover Your Inner Economist: Use Incentives to Fall in Love, Survive Your Next Meeting, and Motivate Your Dentist* (Cowen 2007) and *The Economic Naturalist: In Search of Explanations for Everyday Enigmas* (Frank 2007). Implicit (if not explicit) in these books is the admonition that economic thinking is a natural but latent skill that has the potential for improvement. Readers of such books are advised that they can hone their economic thinking skills by considering an array of questions and puzzles that can be unraveled by uncovering embedded costs, benefits, and incentives (and misguided incentives) in observed behaviors. I have since followed with a book covering popular topics with an academic thrust of my own, *Why Popcorn Costs So Much at the Movies, and Other Pricing Puzzles* (2008) that gives rational explanations for the high price of theater popcorn, as well as for why queues can be seen everywhere, ink cartridges can cost as much as printers, all movies (no matter how popular) carry the same ticket prices, and so many prices end with “9.”

From my varied writings, I obviously have a personal and professional stake in the debate over rationality in economics, as do a substantial majority of all economists. At the same time, I hasten to add that for much of my career, I have had an abiding interest in the limits of economics as a science (McKenzie 1982). This book project gave me an opportunity to update and refine my thinking on just how expansive economists can be in the topics they consider before their analyses amount to so much formalized academic gibberish that is detached from real-world human behavior. The most fundamental issue in the growing critiques of rational precepts from both inside and outside the economics discipline is whether the research models and evaluative techniques of economics (or of other disciplines subject to economic imperialism) generate better, more useful insights into human behavior than other disciplines using different methodologies, or whether
the methodologies of economics and those of other disciplines are complementary. But, to address such an issue, we must first appreciate a point Frank Knight made with force (1924), that economics is necessarily a partial and limited view of life (made intentionally so by the static, partial equilibrium approach to analysis). But then a partial view cannot be all bad, since, as widely recognized among economists, a theory that is sufficiently complete to explain everything will not be very useful in making predictions of anything. Readers should not be surprised that neoclassical and behavioral economists have much to inform the other groups because of the partial views of decision making they necessarily bring to the academic table.

The Ironies of Economic Education

As I develop my arguments on rationality, I return time and again to two unheralded, if not altogether unrecognized, and unaddressed ironies in economics:

- First, if people are as fully rational as economists assume in their model building, why do economists have to teach students that people are rational? Should students not know that people are rational and understand all the implications of rational behavior laid out in economics courses?
- Second, if markets do what Adam Smith says they do – lead people, as if by an “invisible hand” – to societal ends that buyers and sellers do not seek and cannot know absent the interplay of market forces through time, can people be (and do they need to be) as rational as economists presume? If people are led by an invisible hand as Smith suggests, can the outcomes of market processes, at any time, be known to market participants and, hence, can be in their choice sets, at least not during much of the time that market processes work their magic?

To answer: If people were as rational as economists assume, students need not be taught economics, unless the goal goes beyond the professed chief purpose of most economics instruction, which is to evaluate people’s behavior as it is, not as it should be. I conclude that, as conventionally argued, economics is useful because it can lead to testable hypotheses and that, as not conventionally recognized, economics can be instructive on how people can improve their thinking and decision making, and their rationality – precisely because people are not as innately rational as economists assume them to be. Moreover, people cannot be fully rational in market processes when they are led as if by an invisible hand towards ends that they can only imagine beforehand in terms of their broad “patterns of outcomes” (to use an expression favored by Austrian economist and Nobel Laureate Friedrich Hayek), but not in terms of the patterns’ detailed contents. Paradoxically, people’s inability to be fully rational is all the more reason economists, who seek the development of a deductive science devoted to static model building and hypothesis testing, need to assume their subjects are far more rational than they really are. Moreover,
I stress that economists can assume people are more rational than they are, at least in market settings, because irrationalities will, in varying degrees, be corrected by competitive pressures that are assumed to be at work underneath the static, equilibrium-focused analyses. Without such corrective pressures, the full rationality premise may indeed lose its impact, which can be a reason critics of mainstream economics have emerged in force as economists have applied their methods further and further afield from market settings and in settings where corrective pressures on decision making can be less intense than in competitive market settings. The absence of such corrective pressures can also help explain why subjects exhibit the varieties and levels of irrationalities in surveys and laboratory settings as often as they do. This argument suggests that as economists take up topics further and further removed from social arenas, such as markets, in which competitive pressures can correct decisions and behaviors, the value of the perfect rationality premise can lose its value as a foundation for making predictions.

Plan for the Book

My interdisciplinary reexamination of rationality is wide ranging but is organized along the following lines: I first describe the mainstream, neoclassical position on rational behavior, reviewing the intellectual history of the motivational construct, and then explore the criticisms. I then respond to criticisms, using understandings developed from a review of the burgeoning literature in evolutionary biology and neurobiology. Finally, I develop my own defenses of continued use of the construct that, paradoxically, rely heavily on the proposition that human decision making and behavior cannot be as rational as mainstream economists assume.

More specifically, the book is arranged as follows:

- In the first chapter, I describe the conventional way in which economists understand rational behavior and the implications of that behavior, mainly following construction of markets underlying motivational force in Friedman’s work. I also explain how the pursuit of scientific knowledge imposes requirements on the premises underlying behavioral models.

- Chapter 2 describes four additional analytical functions (other than as a foundation for the conduct of science) that a premise of rationality serves in economics. I argue that the exact nature of the rationality premise economists use depends on their theory of knowledge and the methods (e.g., mathematics) and technology (e.g., regression analysis and computers) employed. Along the way, I explain how perfect rationality, as portrayed in much basic microeconomic theory, amounts to a form of “hyperrationality,” which is irrational in rationality’s own terms.

- In Chapter 3, I review how Adam Smith relied on self-interest and self-love in his analyses. However, I emphasize Smith’s expansive view of human motivations that affected people’s decision making inside and outside of markets.
• Chapters 4 and 5 examine the views on rationality of Thomas Robert Malthus, Stanley Jevons, Alfred Marshall, Frank Knight, Friedrich Hayek and more modern scientists, such as Stigler, Becker, and Buchanan, emphasizing the evolution and refinement of the concept of rational behavior during the past 200 years.
• Chapter 6 provides a broad (but hardly comprehensive) review of the criticisms of rational behavior that have emerged from inside and outside the economics discipline, most notably from Herbert Simon, Daniel Kahneman, Richard Thaler, Cass Sunstein, Dan Ariely, and Robert Shiller – to name just several of a rapidly growing cadre of modern critics.
• Chapters 7 and 8 present findings on the limits of human rationality developed by evolutionary biologists and psychologists, on the one hand, and neurobiologists, on the other hand. From the perspective of evolutionary forces, perfect rationality is all but impossible. From the perspective of neurobiology, perfect rationality is not to be expected or even desired, given the economizing problem that the brain itself faces. Perfect rationality would be irrational, even if perfect rationality was achievable. The brain is likely to seek a rational level of rationality, as well as a rational level of irrationalities (concepts to be developed with some care in these chapters). Indeed, the brain can operate more rationality by accepting decision-making processes that lead to some irrationalities.
• In Chapter 9, I examine the Chicago defense of the premise of rationality, again with emphasis on the methodological positions taken by Friedman, Stigler, and Becker.
• In Chapter 10, I press problems with the methodologies and findings of behavioral economics and psychology, from which one of my own defenses of the rational-behavior premise in economics will emerge. All the while, I acknowledge the (rational) limits to rationality. Nevertheless, I argue that the modern findings relating to people’s limited ability to behave rationally make the presumption of rationality all the more necessary, if economics is to remain a deductive science.
• In Chapter 11, I develop the argument that markets can press people to act more rationally than they might naturally be because of the costs people would incur from irrationalities, causing systematically irrational people to fail and withdraw from markets. This is to say that more competitive and efficient markets likely will lead people, as if by an invisible hand, to a level of rationality that they would not otherwise be inclined to exhibit. I explain how economics, founded on perfect rationality, can be instructive. When people are not fully rational, they can become more rational with the aid of heuristics that can emerge from learning about decision-making deficiencies and about the type of decision making that could be expected from fully rational people. With people less than fully rational, economics as a discipline of study can have a normative intent, to improve people’s thinking and decision making and, hence, to make them more rational and more competitive, and make markets more efficient, than they would otherwise be. That is, competitive markets do more than induce an efficient allocation of resources among given wants. Market also can expand and redefine people’s wants and press market participants to be more rational.
As a consequence, people can benefit from taking courses in mainstream economics because of their limited rationality; they can avoid the waste of resources that can occur from flawed decisions that have to be corrected because of competitive market pressures.

Again, throughout this book, I acknowledge the many imperfections in economists’ rationality premise. But then, all methodologies intended to further our understanding of complex human behavior will have deficiencies. Just as all garden tools have deficiencies – because of the constraining influence of the economics of achieving greater perfection in garden tools – we should not be surprised that analytical tools are imperfect in varying degrees. The relevant question for me is one that Friedman stressed long ago, whether greater insight about human behavior can be acquired by efficiently using the analytical tools of economics or of other disciplines.

During my academic career, I have observed much success emerging from the work of economists toiling in the mainstream, neoclassical microeconomic tradition. The development of substantial literatures in human capital/education, information, and public choice economics, as well as the fields of law and economics had their intellectual genesis before I began my career, but those fields have certainly flourished in recent decades. Likewise, professional appreciation for the importance of property rights and residual claimants in efficient market systems has grown substantially. Forty years ago, no economist talked of network, experience, and addictive goods. Before the mid-1960s, discussion of organizational issues was far more limited than it is today. Virtually, all meaningful competition that constrained firms was in resource and final product markets, not in the competition for the firms themselves. Virtually, all meaningful monopolies were outside firms and in markets, not inside firms in the form of departments, with few economists applying their monopoly models to governmental bureaucracies and governments more broadly. Now, all of these issues (and numerous other issues), many of which have coalesced into subdisciplines, have worked their way into conventional economics, and into most textbooks.

Moreover, during my career, there has been a revolution in thinking that reversed the reliance on governments in the 1950s and 1960s and has broken down the regulatory regimes of a variety of industries (airlines, trucking, securities, banking, etc.) and privatized many government services, beginning in the 1970s and extending through the publication of this book. And all of these changes in economic paradigms have emerged in large measure, but hardly exclusively, through a war of ideas with economists – following in the Chicago price-theory traditions set by Friedman, Stigler, and Becker and in the Virginia political economy tradition founded by Buchanan and Gordon Tullock – often dominating many intellectual and policy battles with their work firmly grounded in rational/maximizing behavior (with a reversal of regulatory thinking underway as this book was being finalized in 2009, because of the housing price bubble and burst in the early 2000s).

The methodological foundations of mainstream economics may rightfully be deemed imperfect, shaky, and subject to dispute, but it is also hardly reasonable
to damn any methodological approach for having flaws. The test of a methodological approach, it would seem to me, lies in the generated insights. And I have hardly exhausted the categories of economic insights that have been generated from – to paraphrase Becker – pursuing topics “relentlessly and unflinchingly” by using the methodological trinity of “maximizing behavior, market equilibrium, and stable preferences” (1976, p. 5).

Now, with the advent of behavioral economics, there has been a return of proposals to correct people’s errant decision making through various “nudges” and mandates, which almost always involve greater government intrusions in people’s lives. This intellectual trend makes this study of rationality in economics all the more timely and important.

This volume has been an ambitious scholarly effort for me, given the range of the disciplinary boundaries crossed. I have done my best to represent various scholarly positions on rational behavior, but I have not sought to make the study exhaustive or definitive. If an exhaustive study had been intended, there is no way it could have been finished, and no way anyone would have wanted to read such a study. I have had to impose limits on coverage of the various major figures in the history of economic thought and various separate literatures on this ever-expanding subject. My regrets to readers who notice major gaps in this study.

In completing this work, I am indebted to a number of people. I have had the good fortune of having Daniel Hammond, Steven Medema, and Mark Skousen review the book in its entirety and offer detailed and incisive criticisms and comments for improvement. James Buchanan, David Hirshleifer, Robin Keller, Dwight Lee, Mort Pincus, and Paul Zak read and commented on portions of the manuscript of greatest interest to them, always adding improvements and pointing out oversights. Neurobiology is a terribly intense and complex discipline for me to fathom adequately in the time I had to work on this book. I am pleased that Paul Zak, a neuroeconomist, and Jessica Turner, a neuroscientist, joined me as coauthors on Chap. 8 on “The Neuroeconomics of Rational Behavior.” They added details and cogency to the limited arguments I could make on the subject. My research assistant Sarah Hajizadeh made a heroic effort to review the penultimate draft in search of errors in spelling and grammar and arguments that crept into the book as I revised it. She also made sure that all quotations, citations, and bibliographical entries were correct, knotty, and frustrating problems that bedevil all authors. I have also had the considerable advantage of having Laura Long edit the manuscript more than once and offer substantial improvements in the flow of the narrative.

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