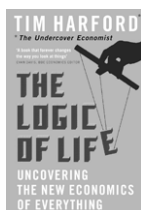
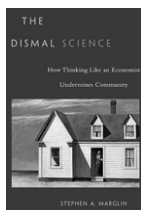


The Economic Naturalist: Why Economics Explains Almost Everything
by Robert H Frank



The Logic of Life: Uncovering the New Economics of Everything
by Tim Harford



The Dismal Science: How Thinking Like an Economist Undermines Community
by Stephen A Marglin

BOOKS

Jonathan Derbyshire

1 Popular economics hit the bestseller list in 2005 with Steven D Levitt’s *Freakonomics*, which sold by the bucketload and 9 that, for the time being at least, no aspiring economic populariser would dare to tamper with. Certainly Tim Harford’s *The Logic of Life* and Robert H Frank’s *The Economic Naturalist* stick closely to Levitt’s formula – right down to their subtitles, which promise, as *Freakonomics* did, that economics will explain “everything” or, in Frank’s case, “almost everything”.

2 That word “almost” might suggest a doubt or two about the explanatory power of economics, but it doesn’t occur all that often in the work of those economists Harford calls the “new breed”, for whom economics is about much more than graphs and calculus, the stock market and the money supply

– it’s nothing less than a general theory of human behaviour.

3 The emergence of popular economics is a sign of the confidence, therefore, of a discipline in rude health with imperial designs on the territory of its competitors. If how economics analyses things is as important as what it analyses, then, as Levitt recognised, “no subject, however offbeat, need be beyond its reach”. The astonishing success of *Freakonomics* owed a good deal to Levitt’s nose for quirky subject matter – bout-rigging among sumo wrestlers, the resemblance of Ku Klux Klansmen to estate agents or the changing fortunes of children’s names – as well as his unerring ability to find evidence for some bracingly counterintuitive conclusions.

4 11. Harford wants to show that economic theory is not only useful but “fun”. He chooses his case studies accordingly, examining, among other things, the probabilities of winning at poker. Frank’s book, meanwhile, is based on an assignment he gave to students taking his introductory course in economics at Cornell University. The students were asked to pose and answer a question about observed events or behaviour, and what they came up with certainly wasn’t the staple fare of Economics 101: why did kamikaze pilots wear helmets, they asked. Why is coyness often considered an attractive attribute? Why do women endure the discomfort of high heels?

5 All these phenomena 12 what Frank calls “economic logic”, the fundamental law of which is the cost-benefit principle. This says that an action ought to be taken only when the extra benefit that accrues from taking it outweighs the extra cost. So when a woman decides to squeeze her feet into

a pair of stilettos, for example, she has weighed the benefit of being “more likely to attract favourable notice”, as Frank puts it, against the costs of discomfort.

6 Now one could be forgiven for thinking that this is just a dubious bit of folk-wisdom dressed up as economic theorising and the same could be said of many of Harford’s “insights”. Yet for all the demotic breeziness of their style, both writers have a serious purpose. In Harford’s case, it is to defend a version of rational choice theory, which tries to explain human behaviour in terms of the maximisation of individual preferences or “utility”. According to this model, which Harford thinks applies more or less universally, human beings respond to trade-offs or incentives: “When the costs and benefits of something change, people change their behaviour.” The important point for Harford is that those costs needn’t be financial.

7 Proponents of rational choice theory say that to act in accordance with the cost-benefit principle is to behave “rationally” – in a distinctive (and drastically circumscribed) sense of the word. And Harford’s contention is that we’re much more rational than we’re inclined to think.

8 One problem with this approach is that it seems to apply better to an ideal creature called Homo economicus, whose preferences are perfectly consistent, than it does to flesh-and-blood human beings. Harford, however, dismisses Homo economicus as a “crude caricature”. Rational choice theory doesn’t require that we conceive of human beings, implausibly, as always thinking explicitly in terms of rational self-interest. 14 that their behaviour conforms to the model.

9 Whether our calculations are conscious or not, for rational choice theory the preferences we express are always self-interested and utility-maximising. Frank devotes a chapter to so-called behavioural economics, which disputes this view. Behavioural economists are interested in cognitive errors, especially in so-called preference reversals, where the introduction of an apparently irrelevant extra option can have a decisive effect on the preference expressed. Homo economicus would never change his preference for a roast beef sandwich over chicken salad just because the waitress remembers they’ve also got tuna on the menu. This may seem to imply a fairly radical revision of the rational choice framework, but, according to Stephen A Marglin in *The Dismal Science*, it’s not radical enough. Marglin is a professor of economics at Harvard, but *The Dismal Science* reads like the confession of someone who has abandoned his guild.

10 Marglin argues that to think about people as always rationally calculating their self-interest is at odds with the way non-economists think about people. Non-economists know that people can sometimes act on virtuous motivation. But mainstream economics applies what Hume, nearly 300 years ago, called the “knaves principle”, according to which “every man ought to be supposed a knave, and to have no other end in all his actions than private interest”.

11 And you don’t have to agree with Marglin’s view, that the non-individualist way of life of the Amish people of Pennsylvania is the best counter-example to that, to think there’s something drastically wrong with it.

Guardian Weekly, 2008

Tekst 5

- 1p 9 Which of the following fits the gap in paragraph 1?
A came up with evidence
B established a template
C introduced an ideology
- 1p 10 Which of the following does **not** apply to the examples in paragraph 3?
A On the surface they appear to have little to do with economics.
B They are meant to illustrate the curious ways in which people may behave.
C They contribute towards people's interest in Levitt's book.
- 1p 11 Which of the following fits the gap in paragraph 4?
A Both Harford and Frank choose the opposite direction
B Both Harford and Frank have taken an original approach
C Both Harford and Frank have taken this to heart
D Both Harford and Frank stick to their own view
- 1p 12 Which of the following fits the gap in paragraph 5?
A explain
B frustrate
C obey
- 1p 13 Which of the following can be concluded about the writer of the article from paragraph 6?
A He believes that Harford's theory has little to do with economics.
B He is clearly impressed with Harford's new theory.
C He is sceptical about the theories discussed by Frank and Harford.
D He wishes to avoid giving the wrong impression of the books by Frank and Harford.
- 1p 14 Which of the following fits the gap in paragraph 8?
A It's admirable
B It's enough
C It's hardly likely
D It's logical

- 1p **15** Which of the following statements about “Behavioural economists” is true according to paragraphs 9 and 10?
- A** They approve of economic models based on equality and solidarity.
 - B** They argue that preferences are not likely to change, even if people know better.
 - C** They believe people are capable of taking actions which are not in their own best interests.
 - D** They consider altruism the most profitable economic basis.
- 1p **16** To which of the following does “it” in the last line refer?
- A** “virtuous motivation” (paragraph 10)
 - B** “the ‘knaves principle’” (paragraph 10)
 - C** “the non-individualist way of life” (paragraph 11)
 - D** “the Amish people” (paragraph 11)

Bronvermelding

Een opsomming van de in dit examen gebruikte bronnen, zoals teksten en afbeeldingen, is te vinden in het bij dit examen behorende correctievoorschrift, dat na afloop van het examen wordt gepubliceerd.