

Economics E-Journal Referee Report
February 7, 2015

Title: Anchoring in Economics: On Frey & Gallus on the Aggregation of Behavioural Anomalies (revised)

Author: Peter E. Earl

Recommendation: Accept as is

Comments: I can be brief. In my initial report I recommended that the paper be accepted more or less as it stood. I offered Professor Earl some comments upon which he might reflect, and he has adjusted the paper to address the issues that I and a second referee raised in the first round. The revised version, however, is nearly twice as long as the initial submission: traces of the short critical comment remain, but the piece has expanded in scope and has taken on the character of a full-scale paper meant to stand on its own. In view of the substantial enlargement of the paper's aims, the editors have asked me to assess whether it should be published in this new, much longer form, or whether, instead, Professor Earl ought to be asked to scale it back to something less ambitious and closer to its original length.

The longer revised version of the paper merits publication; it needs no substantive adjustment. The scope of the piece has grown, and it can no longer be described as a comment on Frey & Gallus, as it was originally intended to be. This is different from the prospectus offered to the editors when the first version was submitted. But the revised version is a considerably stronger and more useful piece than the initial submission, which was already quite good. This latest version uses the Frey & Gallus article as a jumping-off point for an insightful survey of the issues that behavioral economics raises for mainstream microeconomics. The paper provides a very useful assessment of the current state of play in microeconomics, and argues persuasively that non-neoclassical analytical frameworks are more hospitable than the rational choice outlook to the findings of behavioral economics.

As someone who is not deeply immersed in the issues addressed by Professor Earl, I find the revised version of the paper to be especially useful in describing the analytical issues with crystal clarity, in putting those issues in historical context, and in elucidating the practical ramifications of those issues.

I noticed a few typographical errors and several possible verbal infelicities that Professor Earl will want to correct:

- **In the Abstract, line 8:** "It seeks to forestall potential moves by rational choice theorists to argue that such processes, imposed by competitive pressures, will swiftly **eliminate** anomalous behaviour." [not "**eliminated**"]
- **P. 1, first line of last paragraph:** "Economists can use the Frey and Gallus perspective in a reflexive **way** – that is, in relation" [word dropped: **way**]
- **P. 4, line 5: macro-economy**, not macro=economy.
- **P. 6, fourth line from bottom:** "Shareholders, managers and those who are managed are all consumers, too, and it is far from obvious...." I would not write "are all consumers too". The context here, as I understand it, has to do with how the wellbeing of different economic actors are affected by asymmetric information etc. Shareholders, managers and those who are managed are affected not in their capacity as consumers, but in their non-consumer roles in the economic process. I would write instead: "Shareholders, managers and those who are managed **have preference sets too**, and it is far from obvious...."

- **P. 6, last line:** **firm's**, not **firm's**.
- **P. 14, bottom:** "... optimization approach, but most mainstream economists seem **unaware that** the problem exists." [delete "of"]
- **P. 15, lines 8–9:** "As the old saying goes, 'It takes one to know one.'" I believe the quoted expression is not pertinent to the point Professor Earl wishes to make here. The saying applies to a person who is able to discern a particular bad character trait in someone else because he, the first person, has that selfsame bad trait. It hasn't anything to do with the way our cognitive biases affect the way we go about solving problems.
- **P. 20, line 19:** "Winter's (1971) critique of Day applies **here** as well...." [**here**, not **her**]
- **P. 22, third line from bottom:** "From this standpoint, **heuristics** that rational choice theorists see...." [**heuristics**, plural]
- **P. 23, bottom line:** I would omit the parenthetical comment "(and there was plenty of room to do so)".
- **P. 24, bottom:** "...a cartographer building a map of the London Underground that has line drawn between stations the depict direct routes that do no actually exist, purely because these lines are easy to draw." Something got mangled here. Try this instead: "a cartographer building a map of the London Underground that has **lines** drawn between stations **depicting** direct routes that do **not** actually exist, purely because these lines are easy to draw."
- **P. 30, line 7:** "**Consumers** who lack any underlying preference ordering...." [**Consumers**, plural]
- **P. 30, line 15:** "... jeopardized by a small majority **who** overweight the probability...." [insert **who**]

All right then. I look forward to the publication of this paper in due course.

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