Comments on Frey and Gallus

In their paper “Aggregate Effects of Behavioural Anomalies: A New Research Area,” Frey and Gallus point out that much research in behavioral economics is focused on individual behavior in a laboratory setting. Since economics is a social science, they continue, economists ought to go further and study the way in which individual behavior is aggregated into social behavior. Throughout, Frey and Gallus refer to this as a “new research area.”

Many behavioral economists have indeed studied individual behavior in a laboratory setting, and the manner in which individual behavior is aggregated into social phenomena deserves more study. There is, however, little new about this effort.

One can quarrel with the label “behavioral economics,” but the noun is there for a reason. While behavioral economics differs from neoclassical economics in various ways – above all, in its use of sophisticated psychology to improve the explanatory and predictive power of economic theory – it remains economics, viz., “the study of how people make choices under conditions of scarcity and of the results of those choices for society” (see Angner and Loewenstein 2012, 643). It follows that the aggregate effects of individual behavior is already an essential part of the subject matter of behavioral economics, and that it does not risk collapsing into psychology.

Unsurprisingly, there are already quite a number of studies on the aggregation of individual behavior. As Robyn Dawes (1998, 498) has emphasized, behavioral anomalies that are small and random, or which for other reasons disappear in the aggregate, would be of little economic interest. Thus, behavioral economists have gone out of their way to establish that the phenomena they have uncovered persist in market settings where participants have the opportunity to learn. As one of many examples, consider the paper “Experimental Tests of the Endowment Effect and the Coase Theorem,” by Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler (1990), in which the authors demonstrate that the endowment effect persists in a series of experiments involving real exchanges of various consumptions goods.

Rather than arguing for the establishment of a new area of research that really isn't, Frey and Gallus might wish to reorient their efforts toward cataloguing existing studies and synthesizing what we can learn from them. This author, for one, would look forward to reading such a paper with the greatest interest.

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References
