

# **THE SABE NEWSLETTER**

## **THE SOCIETY FOR THE ADVANCEMENT OF BEHAVIORAL ECONOMICS**

### **Statement of Purpose**

SABE is an association of scholars who are committed to rigorous economic analysis and are interested in learning how other disciplines – for example, psychology, sociology, anthropology, history, political science, and biology - further our understanding of economic behavior. An important function of SABE is to serve as a forum for research which may not find either comprehension or acceptance in conventional economics societies. SABE also aims at facilitating communication between economists and scholars trained in related disciplines.

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Contributions for the next issue are very welcome – email: S.R.James@ex.ac.uk

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### **Newsletter contents**

<b>Daniel Kahneman, Nobel Laureate 2002: A Brief Comment</b>	<b>2</b>
<b>Get Your Abstract in Now for SABE 2002</b>	<b>3</b>
<b>The 2004 Conference</b>	<b>3</b>
<b>Next IAREP Conference</b>	<b>3</b>
<b>Conference in Turku, Finland, Summer 2002</b>	<b>4</b>
<b>SABE Business Meeting, July 1, 2002 in Turku, Finland</b>	<b>4</b>
<b>Implementing Bylaws and Elections</b>	<b>5</b>
<b>ICAPE</b>	<b>5</b>
<b>SABE at the Eastern Economic Conference in NYC</b>	<b>5</b>
<b>SABE's ASSA Session</b>	<b>6</b>
<b>Books of Interest</b>	<b>7</b>
<b>SABE Executive Board</b>	<b>8</b>

**Please visit SABE at our WEB site: <http://www.usask.ca/economics/SABE/>  
Note that the address is case sensitive.**

### **Daniel Kahneman, Nobel Laureate 2002: A Brief Comment**

By email, I asked Daniel Kahneman, which of his 131 papers was his all-time favorite? On *The Psychology of Prediction* (1973, with Amos Tversky), he responded. It is mine, too. (*Psychological Review*, 80, 1973, pp. 237-251).

This paper began when Kahneman and Tversky were at the Hebrew University in 1968. In tutoring Israeli Air Force flight instructors, they discovered the following: In conflict with psychologists' stock-in-trade (reward is far more effective than punishment in changing behavior), the instructors believed the opposite. The reason: Nearly every time they rewarded their student pilots, their performance declined. And nearly every time they punished their student pilots, their performance subsequently improved.

How should a psychologist respond?

Regression to the mean, explained Kahneman and Tversky. In flight maneuvers, progress between successive maneuvers is slow. It is likely that pilots who did well in one trial deteriorate in the next. Instructors wrongly attributed this 'regression' to the detrimental impact of their positive reinforcement -- an example of attribution error, attributing to human action what is in fact random.

This erroneous and destructive feedback loop is ubiquitous. Armies of school psychologists labor intensively to repair the damage it causes. As Kahneman and Tversky conclude: "We normally reinforce others when their behavior is good and punish them when their behavior is bad. By regression alone, therefore, they are most likely to improve after being punished and most likely to deteriorate after being rewarded. Consequently, we are exposed to a lifetime schedule in which we are most often rewarded for punishing others, and punished for rewarding". (p. 251).

This powerful insight, were it understood and applied in our schools, universities, businesses, families, shops, and public policies, could alone alter human society for the better. And there are 130 more where that came from.

Shlomo Maital

## **GET YOUR ABSTRACT IN NOW FOR SABE 2003**

SABE 2003 will be held at the Cal Neva Resort on the north shore of Lake Tahoe, NV, USA July 28-31. While the deadline for abstract submissions is not until April 31, 2003, the early submission deadline is December 31, 2002. Early submission gives you a higher probability of being placed on the program, which has limited space.

SABE 2003 is generating interest from a diverse and high quality set of researchers interested in behavioral issues. Robert Frank from Cornell and Richard Day from the University of Southern California will give plenary talks. To date, abstracts for proposed papers have been received from researchers in fields ranging from psychology to experimental economics and from researchers at top quality schools including Cal Tech, MIT, Stanford, and Michigan. Two specific examples of researchers showing an interest in the conference include Dan Ariely at MIT and Tim Cason at Purdue. Dan has been one of the most prolific researchers in behavioral economics over the last few years, effectively finding innovative ways to blend work in psychology and work in economics. Tim is a well known and innovative experimentalist, recently applying experimental methods to look at the role of fairness in decision-making. The point here is that the conference will provide attendees with many interesting sessions to attend, many interesting people to meet, and many opportunities for exposing new research.

See the Call for Papers for the SABE 2003 on the SABE Web site at <http://www.usask.ca/economics/SABE/>.

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### **The 2004 Conference**

The conference is being organized by Bijou Yang Lester, Drexel University and will take place at Sheraton University City in West Philadelphia - July 15-18, 2004.

### **Next IAREP Conference**

The next IAREP Conference will be held in Christchurch, New Zealand between Monday 1st and Thursday 4th September 2003. SABE members are encouraged to attend. Further details can be found at the website: <http://events.lincoln.ac.nz/iarep/default.htm>

### **Conference in Turku, Finland, Summer 2002**

The joint IAREP (International Association for Research in Economic Psychology)/SABE Conference took place at the Sokos Hotel Hamburger Bors in the center square of Turku, Finland from June 30 to July 4, 2002. Turku, the oldest city in Finland, has a population of 170,000. The hotel is not far from the Turku School of Economics and Business Administration at which conference organizer, Satu Lahteenmaki, is a management professor.

The conference was a five day affair, four days of intellectual activity and a one day boat trip aboard one of those large impressive cruise ships to the Finnish Archipelago (southwest towards Stockholm). On each evening, a special event was organized. On the first night, we went to a reception at the Turku School of Economics and Business Administration, on night two to a reception at the Turku City Hall, then a boat trip to Naantali where a nice meal awaited, and finally to a great conference dinner and entertainment (16<sup>th</sup> century style) at the ancient Turku Castle. Keynote speakers were Dr. Kurt Rothschild, an economics professor emeritus at Linz University in Austria and Dian-Marie Hosking, a professor at Tilburg University in the Netherlands. Over 100 people from 29 countries participated in the conference.

Although like many countries, Finland was suffering a bit from the recession affecting many countries, it became clear that Finland's growth in the 1990s had been very rapid and had led it to have one of the highest standards of living in the world. Those of us who visited Helsinki were very favorably impressed; sightseeing and dining there were a treat.

### **SABE Business Meeting, July 1, 2002 in Turku, Finland**

The most important meeting agenda item concerned the transition to operating under the new bylaws, particularly holding elections. To implement staggered terms of SABE Board members, it was decided that a random method (drawing names from a hat) would be used to determine which half of the Board would have two year terms and which would have four year terms starting with the end of the meeting. Based on the drawing the following have two year terms: Simon James, Morris Altman, Art Goldsmith, Shoshana Gross-bard Shechtman, Richard Hattwick, Louis Levy-Garboua, Shlomo, Maital, and Kishor Thanawala. The following have four year terms: John Tomer, Gary Lynne, Bijou Yang, Gerrit Antonides, Ewa Gucwa-Lesny, Flora Gill, Harinder Singh, and Hugh Schwartz. All are eligible to seek reelection in the first election. The regular Board term is four years. At the end of two years (in 2004), the second election will be held to determine who will hold the Board positions now held by those on the two year list, assuming they sought reelection and won the first election. In another two years (2006), the remainder of Board members may seek reelection if they choose to do so. It was decided that the first election should be held in the Fall of 2003 if possible. This first election should involve 22 candidates seeking 16 Board seats. Subsequent elections, after the staggering has taken effect, should have 11 candidates for 8 Board positions. In the first election, it is also necessary to elect a President and President-elect. Voting would take place by e-mail.

### **Implementing Bylaws and Elections**

Progress on moving toward elections has been slower than hoped for. First, a message was sent to all SABE members soliciting nominations for new Board members and the positions of President and President-elect. Relatively few nominations were received. Current Board members were asked whether they wanted to seek reelection. Four current members indicated that they did not wish to continue: Shlomo Maital, Dick Hattwick, Art Goldsmith, and Harinder Singh. Possibly due to incorrect or outdated e-mail addresses, it has been difficult making contact with several Board members. Six people have been nominated for the SABE Board. If all the people not yet contacted want to continue on the Board, we would only have 18 people seeking 16 positions, four short of the 22 decided upon at the business meeting. Also, we have only one nominee for President and no nominees for President-elect. It looks like the SABE Board will have to make a decision on how to proceed in this situation.

## **ICAPE**

Morris Altman has made a case for upgrading SABE's membership. ICAPE is a major umbrella organization whose heterodox member organizations incorporate perhaps 30-40 percent of all members of the AER. It embraces economists from a variety of perspectives (hence the name International Association for the Advancement of Pluralistic Economics). It is fighting for fair representation during the ASSA meeting for all member organizations and provides information for individuals doing work which is open to different methodological perspectives. Because of its efforts the ASSA has been unable to cut back non-AEA sessions to the extent desired by many in the AEA executive. With regard to ICAPE membership, the next step up in ICAPE gives an organization 1 director with a \$100 fee. As Morris suggests \$100 payment seems to be a small price to pay to support ICAPE and to have a strong say in its policy which will ultimately affect SABE.

## **SABE at the Eastern Economic Conference in NYC**

Laura Blanciforti of the National Institute for Occupational Safety and Health has taken the initiative to organize a SABE sponsored session at the Eastern Economic Association Conference in New York City on February 22, 2003 with some help from John Tomer. The session is entitled "Perspectives in Behavioral Economics". Four papers will be presented; the authors are Mie Augier of Stanford University, John Tomer of Manhattan College, Jim Granato of the National Science Foundation, and Laura Blanciforti. Harold Hochman of Lafayette College has agreed to serve as a discussant. Further details can be obtained from the Eastern Economic Association website.

## **SABE's ASSA Session**

As we have done for the past ten ASSA meetings, SABE will hold a Poster Session in conjunction with the Industrial Relations Research Association (IRRA) during the forthcoming ASSA meeting in Washington, D.C. The SABE poster session takes place on Saturday, January 4, 2:30-4:30 PM, 2003 Hyatt Regency Capitol Hill, Yorktown RM.

This session is organized by Morris Altman and includes the following papers:

Freedom to Choose and Choice and Production X-inefficiencies: The Role of Information, Power and Gender in Preference Formation and Economic Wellbeing

Morris Altman

Alfred Marshall as Metaphysician and Economist

Roger Frantz, San Diego State University

Are Firms And Labor Markets More Or Less Flexible? Divergence Of Hours And Employment Dynamic Adjustment Behavior

Stuart Glosser, University of Wisconsin at Whitewater and

Lonnie Golden, Penn State University Abington College

The Rise of Rational Expectations Hypothesis At Carnegie: Was John Muth Influenced by the 1954 papers by Simon and Modigliani/ Grunberg

Hamid Hosseini, Kings College

Transactional Theory and the Relevance of Inconsistent Information to the Making of Final Choices

Shabnam Mousavi, Virginia Polytechnic Institute and State University

Depression and Occupational Back Injury: Implications for Employers

Pamela B. Peele, Health Policy & Management, University of Pittsburgh

Gene Ginchereau, Medical Director, HAPPI Occupational Health Clinic, Pittsburgh, PA

Sociotechnical and Socioeconomic Interpretations of the ILWU-PMA Conflict of 2002

Doug Rebne, University of Koblenz, Germany

Human Well-Being: A New Approach Based on Overall and Ordinary Functionings

John Tomer, Manhattan College

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## BOOKS OF INTEREST

Morris Altman, *Human Agency and Material Welfare: Revisions in Microeconomics and their Implications for Public Policy*, Boston, Dordrecht, London: Kluwer Academic Publishers, 1996.

Morris Altman, *Worker Satisfaction and Economic Performance: Microfoundations of Success and Failure*. Armonk, NY: M.E. Sharpe.

Gerrit Antonides, *Psychology in Economics and Business*, Dordrecht: Kluwer, 1991.

J.L. Baxter, *Behavioral Foundations of Economics*, Marmillan Press/St Martin's Press, 1993.

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Young Back Choi, *Paradigms and Conventions: Uncertainty, Decision Making and Entrepreneurship*, Ann Arbor: University of Michigan Press, 1993.

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Daniel Friedman and Shyam Saunders, *Experimental Economics: A Primer for Economists*, New York: Cambridge University Press, 1994.

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Shoshana Grossbard-Shechtman, *On the Economics of Marriage: A Theory of Marriage, Labor, and Divorce*. Boulder, Colorado: Westview Press, 1992.

Charles Hampden-Turner and Alphons Trumpenaars, *Seven Ways of Wealth Creation*. New York: Doubleday, 1993.

Daniel Kahneman, Paul Slovic and Amos Tversky, eds, *Judgement Under Uncertainty: Heuristics and Biases*, Cambridge; Cambridge University Press, 1982.

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Simon James and Christopher Nobes, *The Economics of Taxation, Principles, Policy and Practice*, 7<sup>th</sup> ed., revised, Prentice Hall, 2002.

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Stephen E.G. Lea, Paul Webley and Brian M. Young, eds., *New Directions in Economic Psychology: Theory, Experiment and Application*. United Kingdom: Edward Elgar Publishing, 1992.

Harvey Leibenstein, *Inside the Firm: The Inefficiencies of Hierarchy*. Cambridge, Mass: Harvard University Press, 1987.

Tony Lawson, *Economics and Reality*, London and New York, Routledge, 1997.

Alan Lewis, Paul Webley and Adrian Furnham, *The New Economic Mind: The Social Psychology of Economic Behaviour*. New York and London: Prentice Hall, 1995.

George Lowenstein and Jon Elster, eds, *Choice over Time*, New York: Russell Sage Foundation, 1992.

Shlomo Maital and Sharon Maital, eds., *Economics and Psychology*. United Kingdom: Edward Elgar Publishing, 1993.

Shlomo Maital, *Executive Economics: Ten Essential Tools for Managers*. New York: The Free Press, 1994.

Roger McCain, *A Framework for Cognitive Economics*, New York: Praeger, 1992.

Marvin E. Rozen, *The Economics of Organizational Choice: Workers, Jobs, Labor Markets, and Implicit Contracting*. Ann Arbor: University of Michigan Press, 1991.

Hersh Shefrin, *Beyond Greed and Fear; Understanding Behavioral Finance and the Psychology of Investing*, Boston: Harvard Business School Press, 2000.

Robert J. Shiller, *Irrational Exuberance. With a New Preface by the Author*, Princeton University Press, 2001.

Andrei Schleifer, *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford University Press, 2000.

Hugh Schwartz, *Rationality Gone Awry? Decision Making Inconsistent with Economic and Financial Theory*, Praeger, 2000.

Herbert A. Simon, *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organizations*, The Free Press, 1997.

Richard H. Thaler, *The Winner's Curse: Paradoxes and Anomalies of Economic Life*. New York: The Free Press, 1992.

Richard H. Thaler, ed., *Advances in Behavioral Finance*, New York: Russell Sage Foundation, 1993.

John F. Tomer, *Organizational Capital: The Path to Higher Productivity and Well-Being*. New York, Praeger, 1987.

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Karl-Erik Warneryd, *The Psychology of Saving: A Study on Economic Psychology*, Edward Elgar, 1999.

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Klaus Weiermair and Mark Perlman, eds., *Studies in Economic Rationality: X-Efficiency Examined and Extolled*. Ann Arbor: University of Michigan Press, 1990.

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## The SABE Executive Board

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