

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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Editor: Simon James

School of Business and Economics, University of Exeter, Streatham Court,
Exeter, EX4 4PU, United Kingdom

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

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The Role of the Adaptive Unconscious in Economic Decision-Making

by Shlomo Maital

Allo? Sam, CEO of Global Widgets, this is me, your gut, speaking. Your gut, your gut! Pick up the phone. Please! Why don't you pick up? Ok, I'm leaving a voice message -- for the tenth time. Sam! The guy you're about to hire? Chuck? Don't hire him! I know, I know, he's got loads of experience, a Harvard MBA, highly recommended..smart as a whip! But don't hire him. He's not a team player. He'll ruin your senior management team. He'll step all over you. You know I'm telling the truth! Why don't you listen? Sam -- pick up the damn phone!....

Malcolm Gladwell has a message for decision-makers. Trust your gut.

Who is he, and what does he mean?

Malcolm Gladwell understands nothing about global management or behavioral economics, yet has written a very interesting and important book about them. It is called "Blink: The Power of Thinking Without Thinking".¹ His message is this:

Our snap judgments and first impressions can be educated and controlled. Often they are far better than our systematic decisions based on encyclopedic data.

Each of us has what psychologists call an "adaptive unconscious". This is the *unconscious part of our brain that works like the Fire Department* -- alert while we sleep, always on guard, processing information and sending us warnings. Great decision-makers know when and how to listen to it. Mediocre ones never do.

Gladwell's book contains a wealth of evidence, based on interviews with researchers. He describes intuitive decision-making as Thin-Slice Decisions -- the ability to deduce, like Sherlock Holmes, a major conclusion from tiny fragments of evidence, just as forensic experts track a criminal from a few molecules of DNA. Often, he shows, we make far *worse* decisions by collecting more and more data.

This is *not* a book about snap judgments. Those of us who are management educators work very hard to train global managers to build systematic informed and disciplined decisions. *It is about how the unconscious part of our mind knows things the conscious brain does not -- and how to consult with it, and listen to it.*

Rather than recite the evidence, I choose to present one short case study, taken from *Blink*, about a manager who listened to his A.U., against fierce opposition, and succeeded.

¹ Malcolm Gladwell. *Blink: The Power of Thinking Without Thinking*. Little Brown, Boston: 2005. 277 pages.

Case Study: The Aeron Chair (Herman Miller)

An industrial designer named Bill Stumpf designed a radically new office chair for furniture maker Herman Miller. He called it the Aeron. Stumpf made the most ergonomically correct chair ever conceived. The seat pan and the back of the Aeron chair move independently, because otherwise undue stress is placed on our backs. The arms are fully adjustable. There is support for our shoulders - the top of the chair is wider than the bottom. It had a wire frame, and --it looked weird.

The chair was tested for comfort. It scored 4.75 on a scale of 1 to 10. "Chair of Death", joked Herman Miller managers. Everyone thought it was a monstrosity. After changes, the comfort score rose to 8. But when people were asked if they liked how it looked, it scored below zero. So they put together a focus group of facility managers and ergonomic experts. They all said it would never sell to corporate clients. Dump it, they said.

Aeron project manager Bill Dowell had a hunch and went ahead anyway. The chair attracted attention from the cutting-edge of the design community. It won awards. In Silicon Valley it became a cult object. It was cool. It appeared in films and on TV. By the end of the 1990s, Herman Miller realized that it had on its hands the best-selling chair in the history of the company. What seemed ugly had become beautiful -- and had changed the rules of the game for office chairs.

Action Learning: Do You Listen to Your A.U.?

1. List on a piece of paper the last three important decisions you made. 2. For each, state whether your 'gut feeling' played a role -- and if it did, how important? Did your 'gut feeling' match what the data told you, or did it contradict them? 3. State whether each decision turned out to be right, wrong, or in between.

In general: What do you do, when your 'gut feeling' goes directly against expert opinion and data?

SABE Poster Session at the ASSA Meetings January 2005

Another successful SABE poster session took place during the ASSA meetings on January 8 sponsored by the Industrial Relations Research Association. The session was organized by Morris Altman, Department of Economics, University of Saskatchewan and the chair was John Tomer, Department of Economics and Finance, Manhattan College

The participants were:

Reconstructing of Buddhist Economics of Empress Wu Tse T'ien (625 - 702)
By: Glen Alexandrin, Economics Department, Villanova University, Retired

Effort Discretion and Economic Agency: Transforming Economic Theory and Public Policy
By: Morris Altman, Department of Economics, University of Saskatchewan

Thirty Five Years and 100 Research Papers Later. Empirical Evidence on X-Efficiency Theory."
By: Roger Frantz, Economics Department, San Diego State University

Will I Be a Welfare Mother When I Grow Up? A Theory of Women's Welfare Dependency, Marriage, and Labor Supply
By Shoshana Grossbard, Department of Economics, San Diego State University

Behavioral Economic Studies of Suicide
By Bijou Yang Lester, Department of Economics and International Business, Drexel University, Philadelphia,

Impact of Different Imitation Risks on Entry Modes by Multinational Firms
By: Thitima Puttitanun, Department of Economics, San Diego State University

Price and friends: is there relationship?
By: Natalia Ovchinnikova, Department of Economics, University of Nebraska-Lincoln

Why We Need a Commitment Approach to Environmental Policy
By: Thomas R. Sadler and John F. Tomer, Department of Economics and Finance, Manhattan College.

IAREP 2005 Conference in Prague

This conference 'Absurdity in the Economy' will take place in Prague, Czech Republic between 21st and 24th September 2005. Abstracts should have reached the National Organizer by May 1, 2005. The latest details are available at: <http://iarep2005.unas.cz/>

SABE/IAREP 2006 Conference in Paris

The Conference will be held on July 5-8, 2006, which is the beginning of the summer vacation period in France and usually one of the best times of the year to visit Paris. All sessions will take place on the premises of the Panthéon and Sorbonne, in the heart of the 'Quartier Latin'. Louis Lévy-Garboua will be in charge of the organization of this Conference in association with Christine Roland-Lévy for IAREP, under the auspices of the University of Paris I and the University of Paris V.

SABE 2007 Conference in New York

The possibility of holding the 2007 SABE Conference at New York University is still being explored.

Call for Papers on Understanding the Behavior of the Firm

for a special issue of the *Journal of Socio-Economics*

Topics of interest include but are not limited to the following:

- Writings in the tradition of X-Efficiency Theory
- Writings related to intangible capital (social capital, organizational capital, personal capital, etc.) formation in firms
- Writings related to High Performance Organizations, High Performance Work Systems, etc. and associated types of organizational innovation
- Writings related to the social/environmental responsibility performance of firms
- Writings using a sociological economic perspective on the firm, especially the firm as embedded in society
- Writings regarding the performance and behavior of firms from different nations: Japanese, German, Swedish, Chinese, Korean, Eastern European, etc.
- Writings on multinational firms and firms in less developed countries
- Writings related to the performance and behavior of producer cooperatives and other alternatives to the standard capitalist firm
- Writings related to the entrepreneurial behavior of the firm
- Writings related to declining competitiveness and productivity in some types of firms
- Writing related to the failures of firms (e.g., Enron, WorldCom)
- Writings related to firms' response to important social and cultural change
- Writings related to firms' response to different degrees of market competition

Editor of special issue: John F. Tomer, Co-Editor, *Journal of Socio-Economics* (Elsevier)
Professor of Economics, Department of Economics & Finance
Manhattan College, Riverdale, NY 10471
518 273-1851 (h); 718 862-7462 (o); jtomer@juno.com
Mail: 5 Grand View Ave., Troy, NY 12180 USA

Call for Papers for the Allied Social Science Association Meetings Boston, January 6-8, 2006

The Society for the Advancement of Behavioral Economics (SABE) will hold a poster session in conjunction with the ASSA annual meetings in Boston, Saturday, January 7 (afternoon), 2006, Park Plaza Hotel, in association with the Labor and Employment Relations Association-LERA (formerly the Industrial Relations Research Association—IRRA) 58th Annual Meeting. You are invited to submit a proposal for a poster-paper to be presented in this session.

LERA will publish information on this SABE session including the names of all SABE Poster participants in both the on-line and hardcopy versions of its program.

LERA's website address is: www.lera.uiuc.edu. This year we also invite posters for new books in print or in press as well the traditional type posters dealing with ones research.

Poster sessions encourage interaction between presenters and the viewers. Posters can portray succinctly and visually, either a model, theory, or an empirical study, and invite viewers to discuss the paper with the presenter.

The SABE tradition is to allocate about 5 minutes to each poster presenter of a regular paper to discuss her or his work as all presenters and other participants tour the SABE posters. Posters of books, on the other hand, will simply be on display. Below are instructions on how to prepare a poster.

If you've attended poster sessions before (such as SABE's poster session at the ASSA meetings in Atlanta, New Orleans, Chicago, New York, Boston, San Diego, and Washington, D.C., etc.), you know how effective they can be. If you've never attended one—we invite you to try your hand at preparing one. We look forward to seeing you, either as a presenter or viewer, in Washington.

Please send a brief proposal to Professor Morris Altman: email: Altman@sask.usask.ca

Preparing a Poster

Posters are mounted on poster boards. The space available for SABE's posters permits about 10 poster-papers to be mounted. Specific instructions:

1. Prepare 4-5 pages on ordinary letter-sized paper (8.5" x 11"). The written or graphic material should fit inside a box measuring 5" x 6" (11.5cm x 15 cm).

2. Enlarge each page on 11" x 17" paper. For example, if you enlarge each page 41% twice, you get an 11" x 17" page twice the size of the original. If you use 12-point print in your original, then after enlargement your print will be 24 point--big enough to read easily, even from a distance.

3. After enlargement, your poster-paper should comprise 4-5 pages, each 11' x 17'. Each page should be numbered so that they can be arranged in logical order on a Poster Board.

Page One: Title, Author(s), and a short Abstract

Page Two: Main Results (perhaps as a "bullet" list)

Pages Three and Four: Tables, Figures, and/or Verbal Description of the Model.

Page Five: References

Call for papers: 'Behavioral Economics, Business Decision-Making and Applied Policy'

Nathan Berg is guest editing a special issue of *Global Economics and Business Review* on 'Behavioral Economics, Business Decision-Making and Applied Policy'. The deadline is March, 2006 but he is encouraging interested authors to submit ASAP to begin the review process. His email address is: nberg@utdallas.edu

Journal of Socio-Economics

The mission of the Journal of Socio-Economics is to promote interdisciplinary dialogue about economic processes, institutions and policies. The core disciplines of interest to the journal are those belonging to the social sciences. But other sciences and the humanities are relevant and welcome. Biology, history and philosophy are of particular interest. The journal is interested in pure theory, empirical studies, policy analyses and literature reviews. The JSE is a widely distributed, peer reviewed journal with a long historical association with SABE. For further information see:

<http://www.elsevier.com/homepage/sae/econworld/econbase/soceco/frame.htm>

Books of Interest

- Paul J. Albanese, *The Personality Continuum and Consumer Behavior*, Westport, CT: Greenwood Publishing Group, 2002.
- 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, 2001.
- Gerrit Antonides, *Psychology in Economics and Business*, Dordrecht: Kluwer, 1991.
- Samuel Cameron, *The Economics of Sin: Rational Choice or No Choice At All?* Northampton, MA: Elgar, 2002.
- Young Back Choi, *Paradigms and Conventions: Uncertainty, Decision Making and Entrepreneurship*, Ann Arbor: University of Michigan Press, 1993.
- Gerald A. Cory, Jr. *The Reciprocal Modular Brain in Economics and Politics*, Kluwer Academic/Plenum Publishing, 1999.
- Gerald A. Cory, *The Consilient Brain: The Bioneurological Basis of Economics, Society, and Politics*. Kluwer Academic/Plenum Publishing, 2004.
- Richard Cyert and James G. March, *A Behavioral Theory of the Firm*, 2nd ed. Cambridge, Mass: Blackwell Business, 1992.
- Peter E. Earl, *Behavioral Economics*, Edward Elgar Publishing, 1998.
- Nancy Folbre, *Economics and Family Values*, New York: The New Press, 2001.
- Roger Frantz *Two Minds. Intuition and Analysis in the History of Economic Thought*, Springer (Kluwer), 2004.
- Roger S. Frantz, Hardinger Singh and James Gerber, eds, *Behavioral Decision Making: Handbook of Behavioral Economics*, Greenwich: JAI Press, 1991.
- Gerd Gigerenzer and Reinhard Selten (eds.) *Bounded Rationality: The Adaptive Toolbox*, Cambridge, MA: The MIT Press, 2002.
- David George, *Preference Pollution: How Markets Create the Desires We Dislike*, Ann Arbor: University of Michigan Press, 2001.
- Shoshana Grossbard-Shechtman, *On the Economics of Marriage: A Theory of Marriage, Labor, and Divorce*. Boulder, Colorado: Westview Press, 1992.
- Simon James, ed., *Taxation: Critical Perspectives on the World Economy*. Four volumes, London and New York, Routledge, 2002.
- Simon James and Christopher Nobes, *The Economics of Taxation, Principles, Policy and Practice*, 7th ed., revised, Prentice Hall, 2004.
- Bill Jordon, Simon James, Helen Kay and Marcus Redley, *Trapped in Poverty: Labour Market Decisions in Low Income Households*. London: Routledge, 1992.
- Bill Jordan, Marcus Redley and Simon James, *Putting the Family First: Selves, Decisions and Citizenship*, University College London Press, 1994.
- Margaret Lamb, et al. (eds.) *Taxation: An Interdisciplinary Approach to Research*, Oxford University Press, 2005.

- Tony Lawson, *Economics and Reality*, London and New York, Routledge, 1997.
- 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.
- David Lester & Bijou Yang, *The Economy and Suicide: Economic Perspectives on Suicide*, Commack, NY: Nova Science Publishers, 1997.
- David Lester & Bijou Yang, *Suicide and Homicide in the 20th Century: Changes Over Time*, Commack, NY: Nova Science Publishers, 1998.
- Alan Lewis, Paul Webley and Adrian Furnham, *The New Economic Mind: The Social Psychology of Economic Behaviour*. New York and London: Prentice Hall, 1995.
- 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.
- 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.
- A. Allan Schmid, *Conflict and Co-operation: Institutional and Behavioral Economics*, Blackwell, 2004.
- 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, 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.
- John F. Tomer *The Human Firm: A Socio-Economic Analysis of Its Behavior and Potential in a New Economic Age*, New York: Routledge, 1999.
- Karl-Erik Warneryd, *The Psychology of Saving: A Study on Economic Psychology*, Edward Elgar, 1999.
- Karl-Erik Warneryd, *Stock Market Psychology: How People Value and Trade Stocks*, Edward Elgar, 2001.

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If you have a change of email or regular mail address please e-mail Nancy Rekart at nrekart@unl.edu or send her a note – to Nancy Rekart, Office Supervisor, 102 Filley Hall, University of Nebraska-Lincoln, NE 68583-0922, USA.