Rationality

Notes on Behavioural Economics

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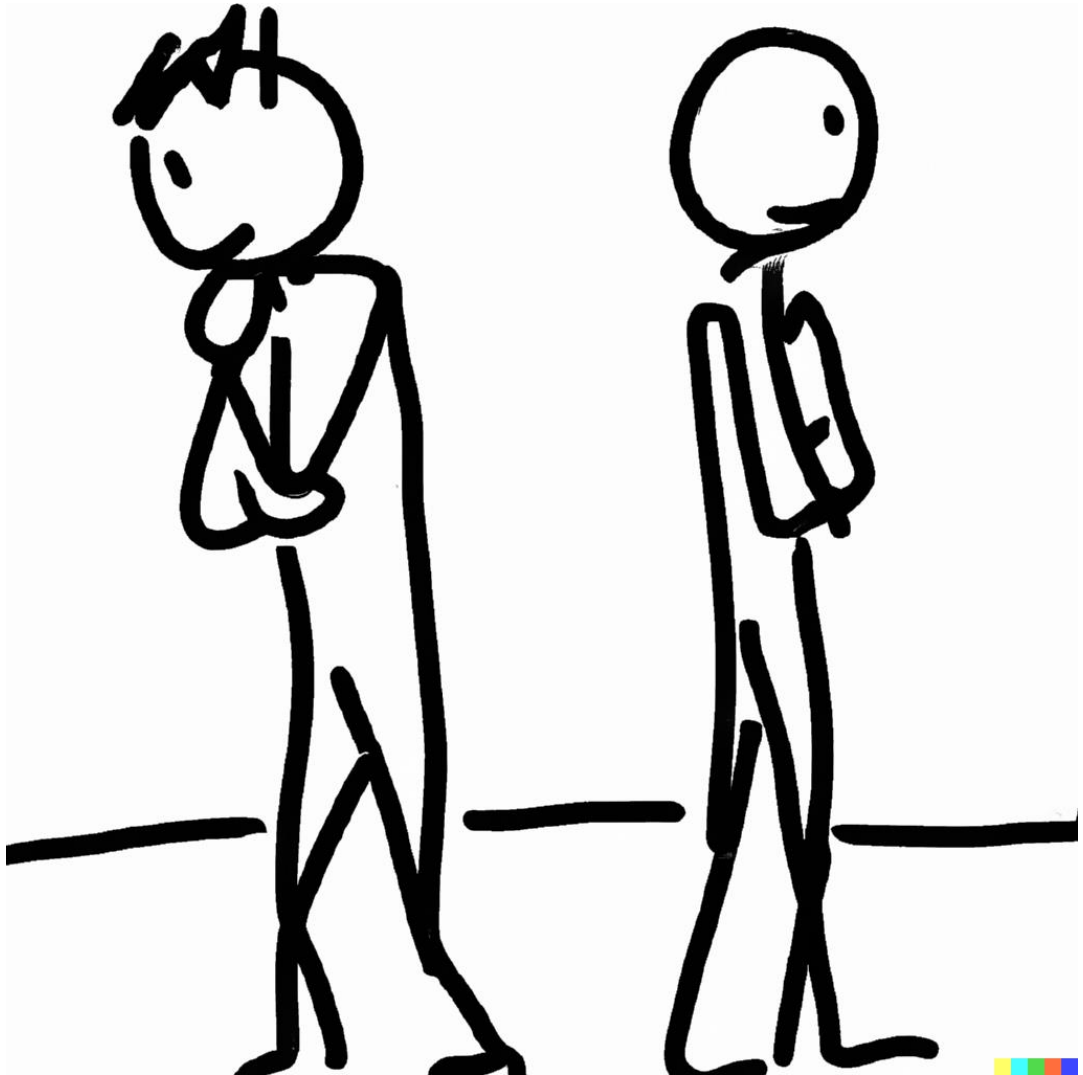

Rationality

economics rationality ≠ lay rationality

Completeness

An agent can always compare any two options

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For all x and y, either $x \succcurlyeq y$ or $y \succcurlyeq x$ (or both).

Transitivity

If a person prefers A to B and B to C, they will prefer A to C.

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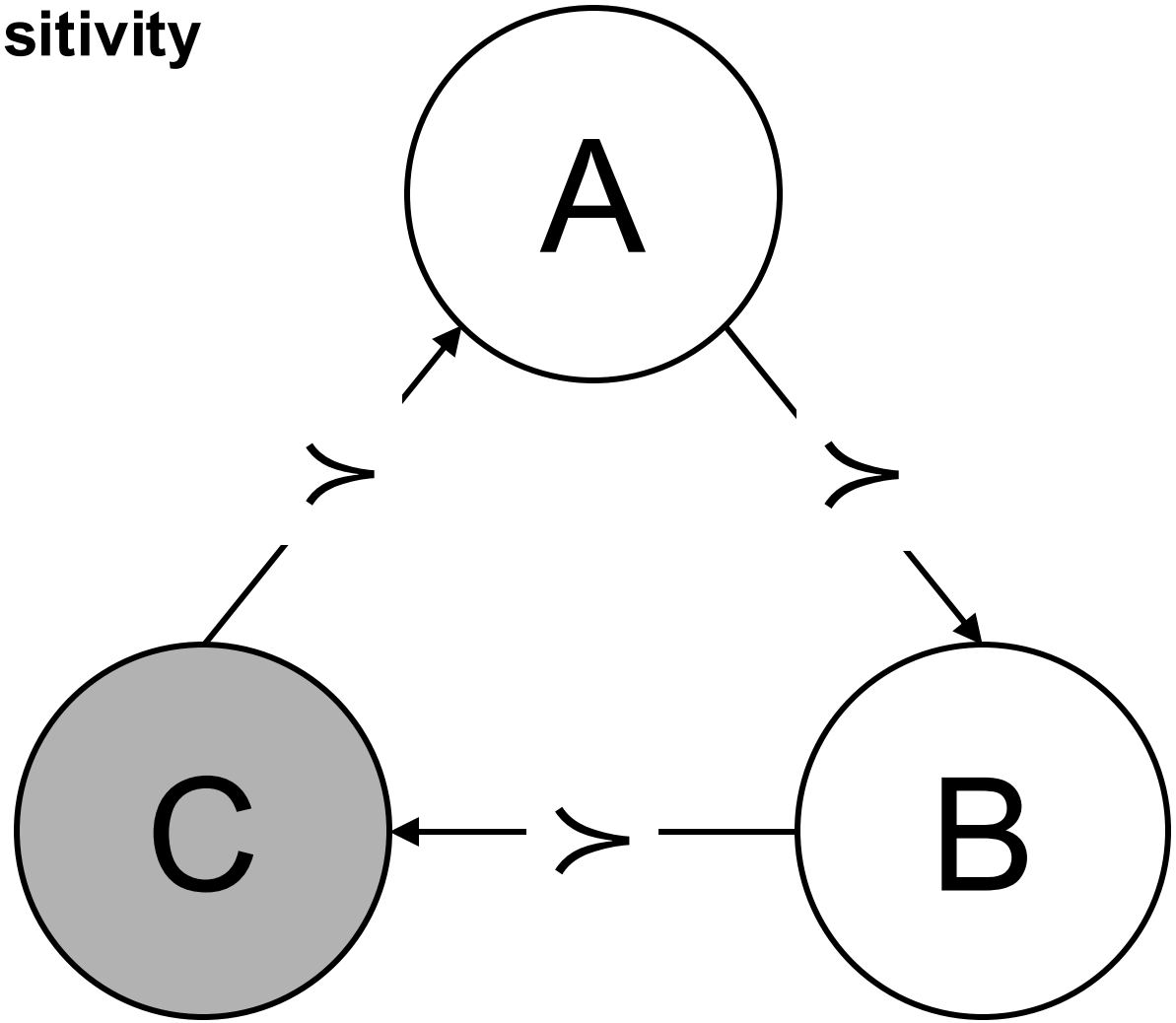
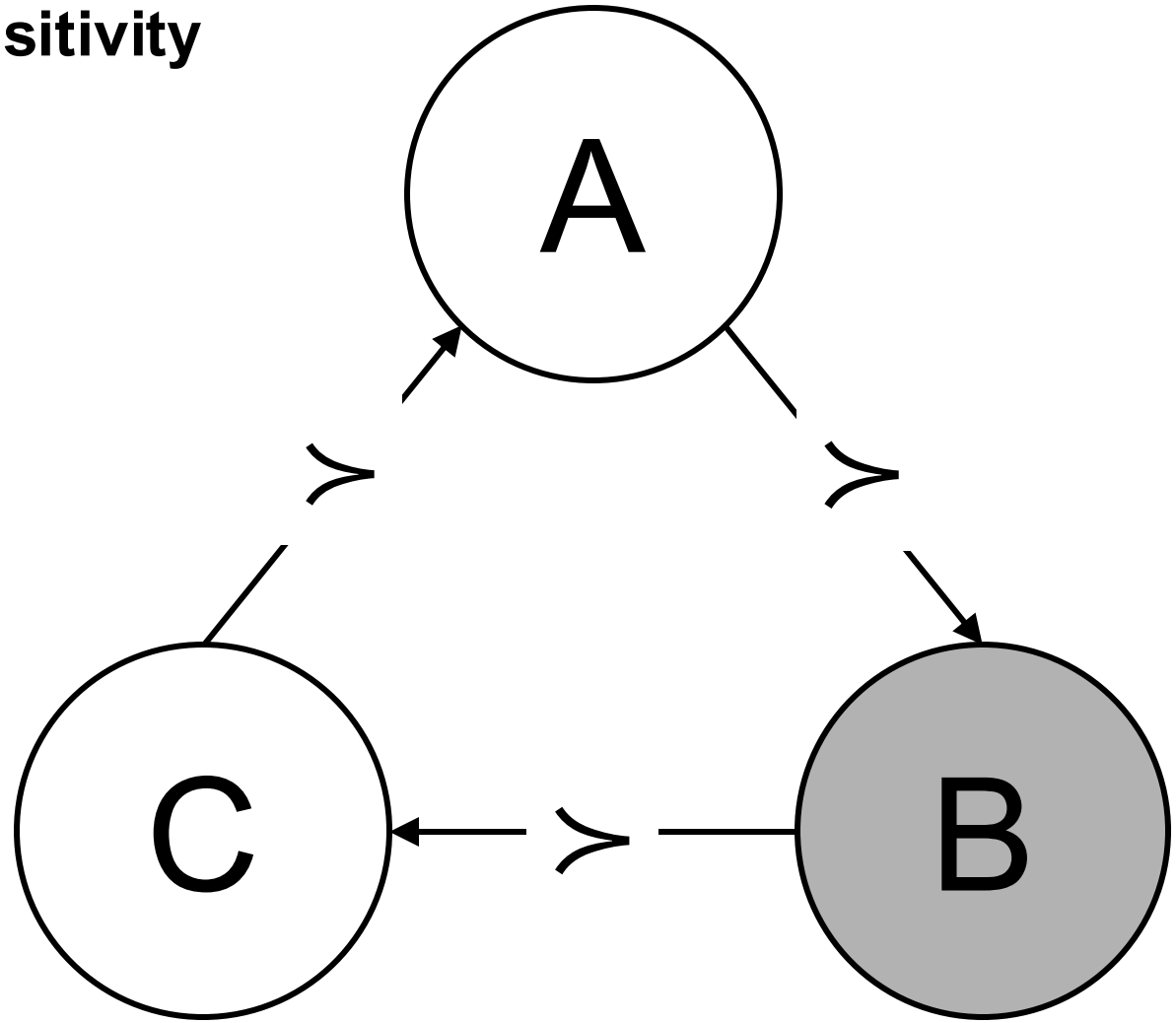
For all x, y and z, if $x \succcurlyeq y$ and $y \succcurlyeq z$, then $x \succcurlyeq z$.

Transitivity



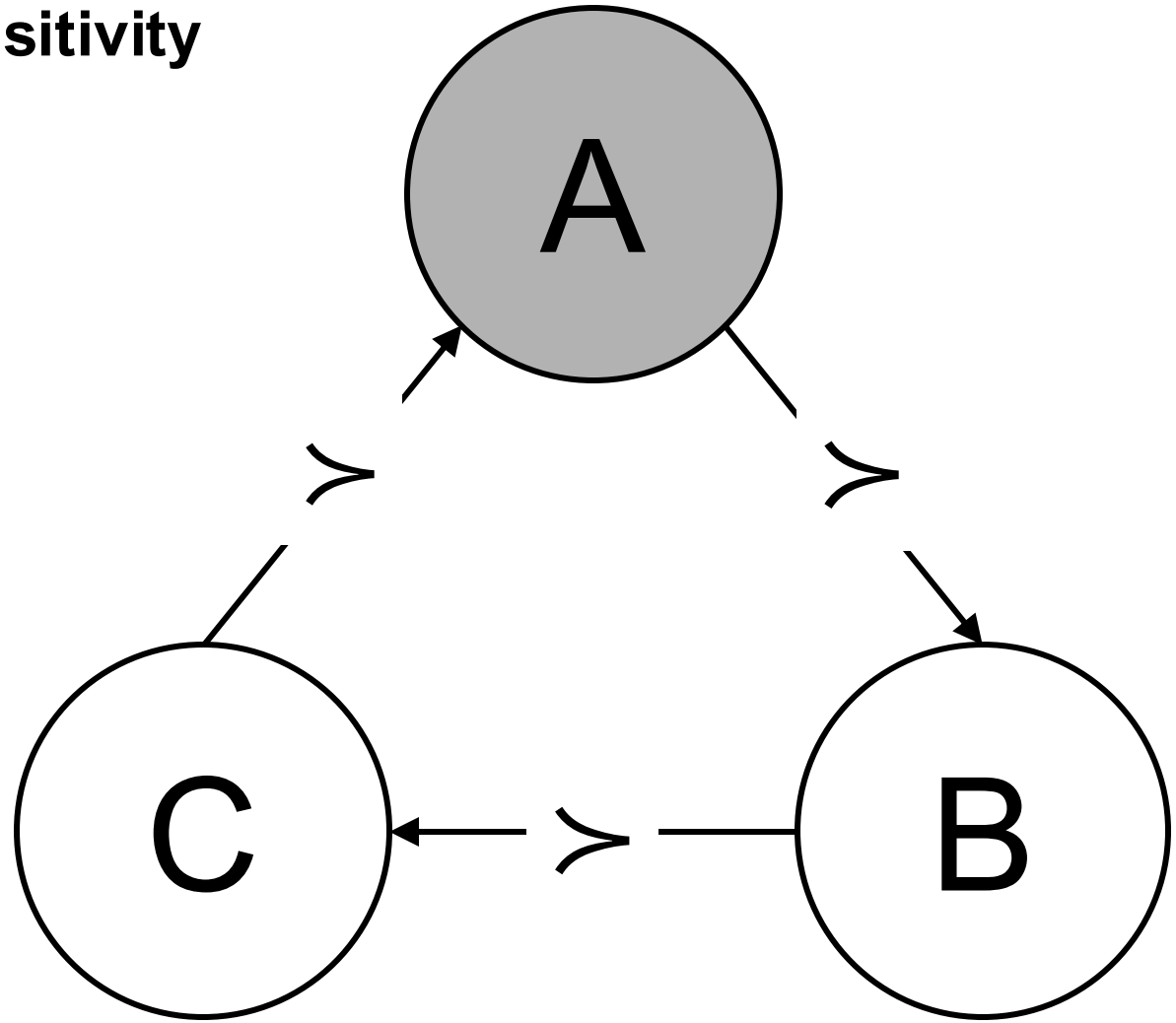
$20

Transitivity



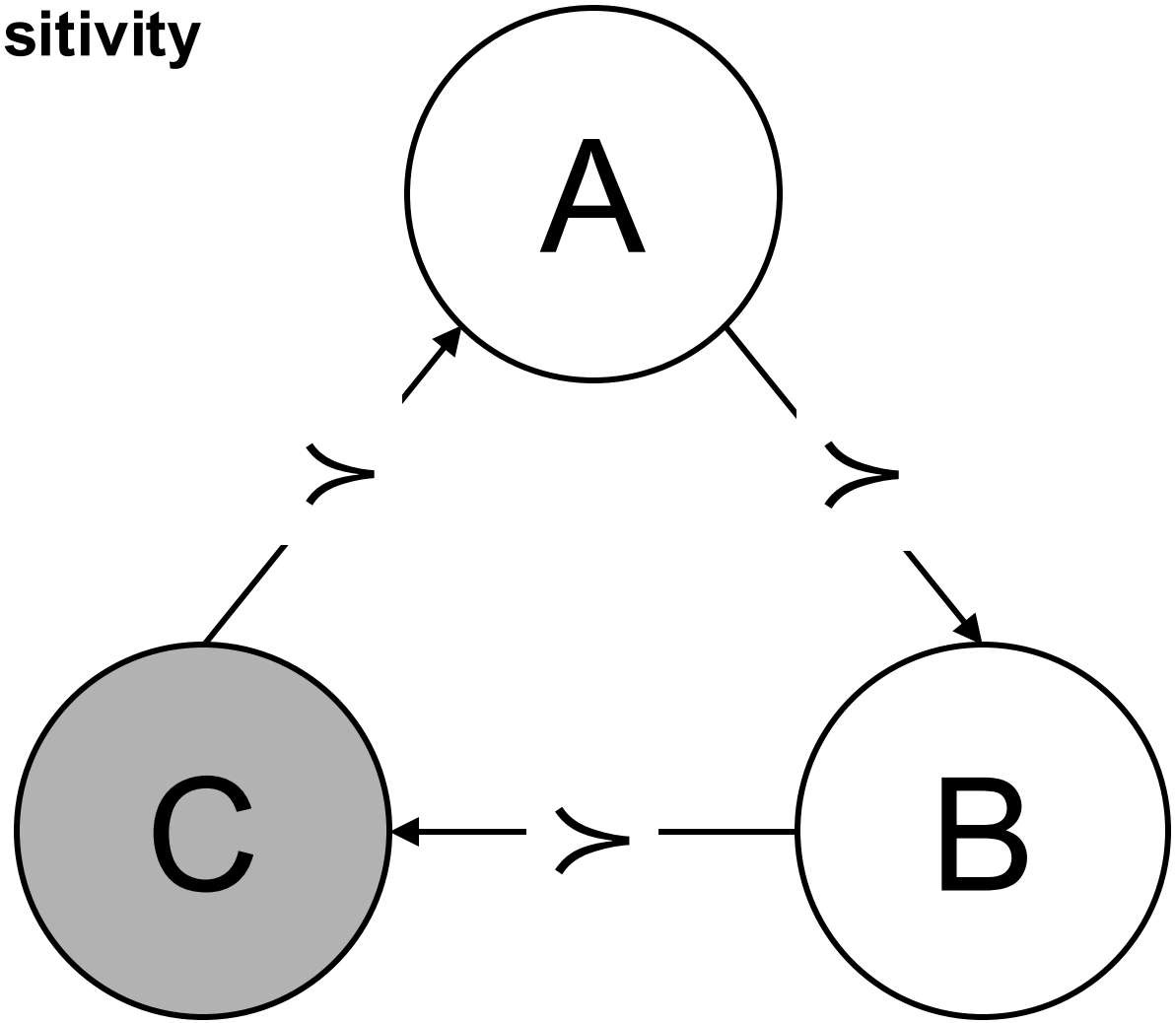
$19

Transitivity



$18

Transitivity



$17

Preference ordering

Completeness: One ordering

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Transitivity: No cycles

Independence of irrelevant alternatives

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A new option shouldn't flip how you rank two existing options.

If $x \succ y$ in choice set $S = \{x, y\}$, then:

$x \succ y$ in choice set T= $\{x, y, z\}$

Independence of irrelevant alternatives

Context independent

Simplifies economic models

Avoid manipulation