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Book review

Advances in Behavioral Economics by Camerer, Colin F., Loewenstein, George, & Rabin, Matthew, Princeton University Press, Princeton, 2004, pp. xxvi + 740, pbk, $35.00, ISBN 0-691-11682-2

Debbi Fields tried to pitch her idea for what were to become *Mrs. Fields Cookies*, and was told that "market research reports say America likes crispy cookies, not the soft and chewy cookies like you make". So it was with behavioral economics. The popularity of behavioral economics, and its acceptance in mainstream research, is clear. This book provides a wonderful introduction to the field, through the lens of virtually all of the major publications in recent years. Complementing the earlier classics published in Kahneman and Tversky (2000), this volume provides extraordinary value.

After a witty appetizer by Camerer and Lowenstein, the meat of the book covers basic topics, then applications, and finally offers some speculative new foundations for dessert. In each area there is at least one paper that is "essential reading", and reprinted from a major journal. The other papers maintain that quality, which is rare in collections of this kind. A particularly attractive feature of the collection is that long survey articles are reproduced in their entirety, making this a perfect reference text. Just as we used to be able to get copies of Marxist literature heavily subsidized by "someone", the page-to-price ratio for the paperback edition makes this book an essential purchase by all economists interested in behavioral matters. Even Mere Theorists should be interested, since there are some important conceptual matters in chapters by Starmer, Crawford, Camerer, and Gilboa and Schmeidler.

Having said all of that, I disagree with virtually every major argument presented here. Not that I know the argument to be wrong, but just that the conclusions do not follow so obviously as they are claimed. Maybe that is just because the tone in the trenches is often too facile, in the sense that it is too quick to dismiss alternative explanations and declare victory for the insurgents. And perhaps that is just behaviorists' reciprocating what they perceive to have been the entrenched views of mainstream economists, but I believe it is no more than a hangover from an intense and successful period of intellectual marketing. My concern is that many newcomers to the field seem to read these papers uncritically, and very little serious debate surfaces to mitigate these claims. Smith (1991) and Gigerenzer (1996) still provide timely and scholarly critiques of many of the claims of behavioral economists.

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There are striking exceptions to this facile tone. Starmer's review of the evolution of developments in alternatives to expected utility theory is a delight. Unimpressed by the last word on the subject, he reminds us that many of the cognitive insights of the original prospect theory papers have been lost in later developments. There is an important and general lesson in his masterly survey. Before one gets carried away with fancy functional forms for probability weighting or stochastic error stories, go back and read Edwards or Luce on the psychometric origins of the ideas. Before one gets carried away with irrelevant calibration theorems, go back and read Markowitz and Samuelson on asset integration issues. Before one gets carried away with dynamic inconsistency, go back and read Machina or McClennan on non-separable utility specifications and realize that the alleged inconsistencies are an artefact of taking a special case too seriously as a straw man. Before one gets slap-happy with labels such as altruism and fairness and reciprocity, or starts seeing them in every fresh brain scan from the new phrenology, go back and read how carefully Siegel and later Roth and Malouf defined terms in the earliest bargaining experiments. Before one believes that everyone in cognitive psychology thinks that heuristics always generate irrational choices, go back and read the work of Gigerenzer and colleagues.

Other exceptions include Crawford and Camerer's short reviews of alternative behavioral approaches to strategic games. Every major alternative is given an airing, and a wide array of strategic contexts are covered, so there is no presumption that we have to come up with a "magic bullet" explanation that will explain every scrap of data. Similarly, the overview of their "case-based decision theory" by Gilboa and Schmeidler deserves careful scrutiny for anyone interested in thinking rigorously about how task representation can determine behavior.

But every paper has something interesting to say and, if the reader is willing to read critically, every paper has something important to say. This volume reminds us that behavioral economics is actually better than it is represented by those that have marketed it, providing one maintains a critical stance. Enjoy thinking about prospect theory in the field with Camerer, but ask for the field experiments to be complemented by lab experiments with the controls that leap to mind and that are typically absent in the wild (Harrison & List, 2004; List, 2004). Appreciate the detailed exposition of time preference issues by Frederick et al., but don't ignore the importance of some basic controls such as a front end delay (Coller & Williams, 1999; Harrison, Lau, & Williams, 2002). Delight in the extended anecdotal study of New York City cab drivers by Camerer et al., but keep a running tab of controls that are skipped over, and then bookend that list by comparing Farber (2005).

Some of the papers, however, should be read with great caution. They have spawned large sub-literatures that often use words that have a colloquial understanding that is very different than their formal meaning. Such semantic ambiguity can quickly lead to terminological thickets, which require extreme care in untangling. Examples include the work on inequity aversion by Fehr and Schmidt, on reciprocity by Fehr and Gächter, on fairness in psychological games by Rabin, and on myopic loss aversion by Benartzi and Thaler. Know this work, and read the original papers here, but enter at your own risk and don't believe everything you read!

Asimov once said that the ‘‘most exciting phrase to hear in science, the one that heralds new discoveries, is not ‘Eureka!’, but ‘That’s funny. . .’’’ Behavioral economics has been exciting, and the lasting contribution will be the way in which it forces mainstream economists to take their theories, data-generation processes and statistical inferences seriously. This collection wonderfully represents the field.

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