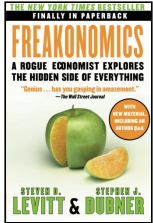




Section Navigation



Freakonomics

by Steven D. Levitt

Freakonomics Summary

Author Steven Levitt begins *Freakonomics* by brushing over some of the stories, questions, and ideas he will cover in the rest of the book, such as the 1990s crime drop, information asymmetry, real estate agents, correlation vs. causation, and, most importantly, incentives. From then on, each chapter centers on an unusual question.

The first chapter's main message is about incentives. Incentives are the basic building blocks of economics: according to economists, nearly every decision can be explained through incentives. Because of incentives, people are sometimes driven to cheat. Because of high-stakes testing, schoolteachers in Chicago public schools were incentivized to change their students' answers on test answer sheets so that they (i.e. the teachers) would not be fired or penalized for the poor test scores. Similarly, sumo wrestlers in Japan are incentivized through bribes and social incentives to cheat and throw certain important matches (i.e. to allow other wrestlers to win) so other wrestlers do not drop in the rankings.

Chapter 2 asks how the Ku Klux Klan is similar to real estate agents. It tells the story of Stetson Kennedy, a man who infiltrated the 1940s KKK and published much of their secret information, thereby erasing the informational advantage they had that made people fear them. Real estate agents also have an informational advantage over their clients, and they often use this to their advantage, selling houses for less than they are worth so that they can close a deal quickly because they have less to gain from a higher sale than the sellers do. Experts often abuse information asymmetry between themselves and consumers, but things like the internet are working to erase this information imbalance by providing more information to everyday people.

Chapter 3 debunks the myth that drug dealers are all rich by telling the story of a man who studied the organization of the Black Disciples crack gang in Chicago. In reality, crack gangs are very similar in structure to any business in corporate America, with a small number of people on the top making big money and hundreds of people on the bottom barely scraping by at all. These people stay in the business because of the prospect of potentially moving up and making it big one day, which is the mentality that drives people like athletes and entertainers trying to move up as well.

Chapter 4 asks, "where have all the criminals gone?" It first tells the story of Romania, a country that experienced a huge rise in crime after its dictator banned abortion. The chapter then turns to the United States in the mid-1990s: while crime had been rapidly rising in the year prior, the trend suddenly reversed, leaving

many experts puzzled and attempting to explain it. None of the explanations they proposed were correct—instead, according to Levitt, the crime drop was heavily linked to the Roe vs. Wade Supreme Court decision nearly twenty years before. When abortion was legalized, many low-income, low-education, teenage mothers were able to take advantage of it. This meant that many babies who would have grown up unwanted and impoverished—and, by this trend, more likely to become criminals as they neared adulthood—were not being born. Nearly two decades later, this generation of potential criminals would have been teenagers; however, they had never been born, and so there was a sudden drop in crime.

Chapter 5 talks about parenting, and the obsession that many parents have over making sure they do exactly the right thing so their children will turn out successful. Levitt points out that many parents are misguided, and the things they *do* matter much less than the things they *are*. Parents who are highly educated with a high income are most likely to have successful children; these factors are determined before the child is even born. This same truth applies to naming children, as discussed in Chapter 6. The name given to a child does not cause their success or failure; rather, it is a reflection of the status and circumstances of the parents. Names also move down through society: high-income parents begin to use a name, and then, over time, it trickles down to low-income parents until it becomes less popular.

The epilogue tells readers that, while there is no single unifying theme to this book, the main takeaway is a new way of thinking, looking at, and interpreting the world according to the tools of economics discussed in the book's chapters.

How To Cite <http://www.gradesaver.com/freakonomics/study-guide/summary> in MLA Format

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