Seminar 3: Decision Making Under Certainty

In this seminar, I will begin by providing an overview of the theory of rational choice under certainty ("under certainty" means when the outcome of a decision is known). This theory is the cornerstone of nearly all of modern economics. It consists of a set of four axioms—basic propositions that are regarded as being established, but cannot be proven—in addition to four other main assumptions, often known as principles. Having introduced this standard model, our speakers will report a small selection of the phenomena—viz. sunk costs, loss aversion and the endowment effect, anchoring and adjustment—that behavioural economists argue pose a challenge to the descriptive adequacy of the theory of rational choice under certainty.

Speaker 1: Sunk costs

Arkes, H. R., & Blumer, C. (1985). The psychology of sunk cost. *Organizational Behaviour and Human Decision Processes, 35(1),* 124-40.

Straw, B. M., & Ross, J. (1989). Understanding behaviour in escalation situations. *Science, 246(4927),* 216-20.

Speaker 2: Loss aversion and the endowment effect

Kahneman, D., Knetsch, J. L., & Thaler, R. H. (1990). Experimental tests of the endowment effect and the coarse theorem. *The Journal of Political Economy, 98(6),* 1325-1348.

Kahneman, D., Knetsch, J. L., & Thaler, R. H. (1991). The endowment effect, loss aversion, and status quo bias. *The Journal of Economic Perspectives, 5(1),* 193-206.

Speaker 3: Anchoring and adjustment

Ariely, D., Lowenstein, G., & Pralec, D. (2003). Coherent arbitrariness: Stable demand curves without stable preferences. *The Quarterly Journal of Economics, 118(1),* 73-105.

Tversky, A., & Kahneman, D. (1974). Judgement under uncertainty: Heuristics and biases. *Science, 185(4157),* 1124-31.