PSYCHOLOGY & HUMAN NATURE

Misbehaving: The Making of Behavioral Economics

by Richard H. Thaler

Real people are not cold calculators. This is how one rebel proved it and changed economics forever.

BEST POINTS FROM THE BOOK

01 **Humans are not Econs: the factors economics calls irrelevant keep changing the decision.**

Thaler's early "List" grew into a research program because framing, ownership, and presentation did not merely create random mistakes; they created predictable ones.

02 **Judge outcomes as changes from a reference point, not as final totals.**

Prospect theory's core lesson is that gains and losses are felt relative to where you start, and losing about $100 hurts roughly twice as much as gaining $100 pleases.

03 **Ownership changes the price before the object changes at all.**

In the Cornell mug experiments, randomly assigned sellers demanded about twice what buyers offered and far fewer trades occurred than standard theory predicted.

04 **A bargain has a feeling of its own, separate from the value of what you bought.**

Thaler calls this transaction utility: the same beer seems worth more from a resort than from a shabby store because expectations set the reference price.

05 **Money already spent is gone; letting it command the next choice is the sunk-cost trap.**

Mental accounting makes an unused ticket or membership feel like an open loss, so people keep consuming, attending, or investing just to avoid 'wasting' it.

06 **Winning makes money feel expendable; losing makes reckless bets feel necessary.**

At Thaler's poker table, players risked winnings as 'house money,' yet when behind they chased the break-even point—two opposite responses produced by the same mental account.

07 **Fairness is an economic force, not decoration around the 'real' decision.**

People reject low Ultimatum Game offers even when rejection pays them nothing, and over 80 percent judged a post-snowstorm shovel price hike unfair.

08 **Your Planner knows the future matters; your Doer lives entirely in the next five minutes.**

Thaler and Hersh Shefrin's two-self model explains why removing the cashews, restricting access, or precommitting works better than ordering your future self to try harder.

09 **A good risk can look terrible when framed one painful trial at a time.**

Narrow framing and myopic loss aversion make people reject favorable repeated gambles; widening the frame to the whole portfolio changes the rational—and felt—answer.

10 **Inertia is not consent: people often stay with the starting option simply because it is the starting option.**

Status quo bias, reinforced by loss aversion, lets defaults quietly decide outcomes even when switching would cost almost nothing.

11 **Markets and experts do not automatically wash human bias away.**

Thaler follows overreaction in stock returns, closed-end funds trading away from asset value, the 3Com-Palm pricing puzzle, and NFL teams overpaying for early draft picks.

12 **Do not fight bias head-on when you can redesign the choice around it.**

Save More Tomorrow used inertia, loss aversion, and greater future self-control by committing workers to save more from later raises; in its first implementation, average saving rose from 3.5 percent to 13.6 percent.

THE BOOK, IN SHORT

Misbehaving is both Thaler's memoir and a chronological history of behavioral economics. As a graduate student and young professor in the 1970s, he kept a List of everyday anomalies that rational-choice models could not explain: students cared whether an exam was scored out of 100 or 137, people valued the same object differently depending on who owned it, and 'supposedly irrelevant factors' kept steering choices. His encounter with Daniel Kahneman and Amos Tversky—and with prospect theory—gave those observations a scientific engine.

The human model that emerges is built around reference points and losses. We experience changes rather than final states, feel losses more strongly than equivalent gains, and become attached to possessions almost immediately. In the famous mug experiments, ownership alone roughly doubled asking prices and suppressed trade, challenging the idea that initial allocations do

not matter. Thaler treats these not as amusing quirks but as repeatable evidence that economic theory needs Humans in place of perfectly optimizing Econs.

He then develops two of his most distinctive contributions. Mental accounting explains why money with the same purchasing power is treated differently depending on its label, source, or timing: shoppers chase transaction utility, sunk costs refuse to stay sunk, gamblers play loosely with 'house money,' and people trailing a target take extra risks to break even. His Planner-Doer model with Hersh Shefrin explains the companion problem of self-control: the farsighted Planner must arrange rules, incentives, and commitment devices for the impulsive Doer who will actually face temptation.

The book also widens economics beyond pure self-interest and individual choice. Fairness experiments show that people share, cooperate, reject insulting offers, and even pay to punish unfairness; reference prices explain why storm-driven price increases and wage cuts provoke such resistance. Thaler then follows the profession's long resistance—the Gauntlet of objections that stakes, learning, or markets would erase the effects—into behavioral finance, where prices overreact, closed-end funds diverge from asset value, 3Com's Palm stake produces a negative implied value for the parent, and sophisticated NFL decision-makers still fall for overconfidence and the winner's curse.

The ending turns evidence into design. In Save More Tomorrow, Thaler and Shlomo Benartzi make saving rise automatically with future pay increases, preserving choice while using inertia, loss aversion, and present bias for the saver instead of against them. That approach flows into Nudge, libertarian paternalism, and government behavioral-insights teams. Thaler's closing argument is practical as well as scientific: if supposedly irrelevant details inevitably shape decisions, responsible choice architects should make the healthy, wealthy, or prosocial path easier—and test whether the intervention actually works.

DO THIS WEEK

Run a seven-day Planner-versus-Doer experiment. Today, choose one recurring money decision and lock in a Save More Tomorrow rule: schedule a transfer for the day after payday and commit to raise it by one percentage point at your next pay increase. Then do a ten-minute sunk-cost sweep: cancel, pause, or stop using one thing you keep only because you already paid for it. Judge the week as a portfolio on day seven, not by one slip or one perfect day.

By Richard H. Thaler, first published 2015; he won the Nobel Prize in Economics in 2017.
Read it for the fun, story-filled birth of behavioral economics.