

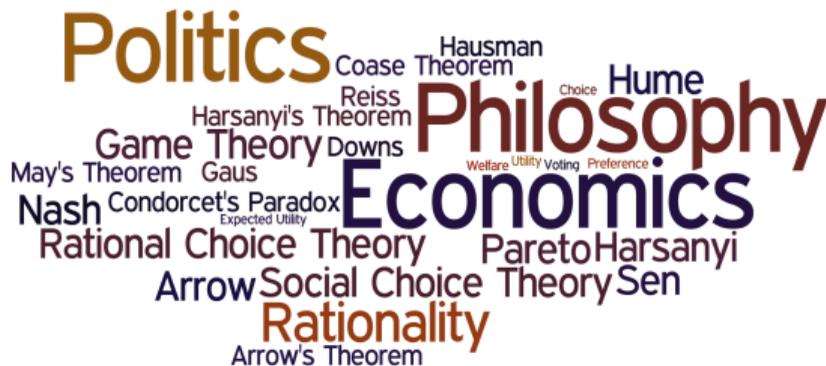
# PHIL309P

## Philosophy, Politics and Economics

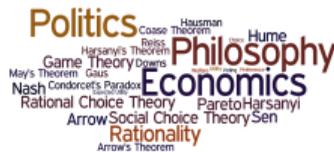
Eric Pacuit

*University of Maryland, College Park*

[pacuit.org](http://pacuit.org)



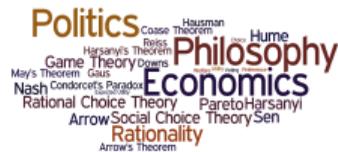
# Practicalities



- ▶ Course website  
<https://myelms.umd.edu/courses/1133211>
  - ▶ Weekly readings will be posted
  - ▶ Slides will be posted
  - ▶ Announcements (canceled classes, etc.)
  - ▶ Links to assignments (online quizzes, problem sets)
- ▶ Web: [pacuit.org](http://pacuit.org)
- ▶ Email: [epacuit@umd.edu](mailto:epacuit@umd.edu)
- ▶ Office: Skinner 1103A
- ▶ Office Hours: Wednesdays, 2.00 - 3.30 (or by appointment)

# Practicalities: Grading

1. Participation (15%): Attendance, weekly writing.



# Practicalities: Grading



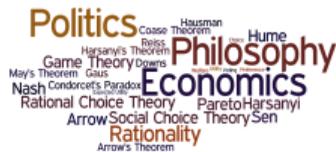
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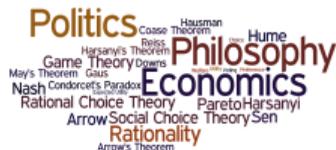
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5. Final exam (20%): The final exam will be given in-class during exam week (**May 12 - 18**).

# Practicalities: Weekly Writing



1. Each week students must submit a 1-2 paragraph commentary on the weeks readings (including questions you have about the material).
2. The write-up is due **every Wednesday by 11.59pm**, and must be submitted via the course website on ELMS.
3. Each assignment is worth 3 points: 1 point if it is submitted on time and 1 point for style (complete sentences, no typos, well-structured, etc.) and 1 point for the content (does your write-up engage with the material that we are discussing in the lectures?).

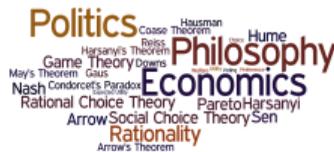
# Practicalities: First Assignment



The first write-up is due on **Friday, Jan. 29 at 11.59pm**. It should include your major, the most advanced math class that you have taken, any Economics courses you have taken, and (at least) one question you have about the first lecture or Chapter 1 from Gauss.

# Topics

1. Introduction/Rationality
2. Preference and Choice
3. Game Theory
4. Explaining Economic Phenomena
5. Social Choice Theory
6. Welfare Economics
7. Markets and Morals

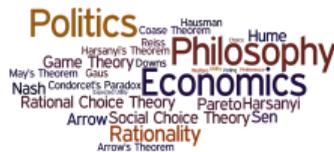


What is this course about?

# What is this course about?

1. Philosophy of economics: Rational choice explanations
2. Formal and philosophical methods in Political Science/Political Philosophy

# (Faulty?) Assumptions

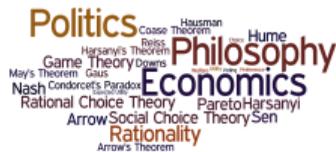


The main cause of the [2008 financial] crisis was the behavior of the banks—largely the result of misguided incentives unrestrained by good regulation. ...

There is one other set of accomplices—the economists who provide the arguments that those in the financial markets found so convenient and self-serving. The economists provided models—based on unrealistic assumptions of perfect information, perfect competition, and perfect markets—in which regulation was unnecessary.

J. Stiglitz. *The Anatomy of a Murder: Who Killed the American Economy*. Critical Review: 21(2-3), pp. 329 - 339 (2009).

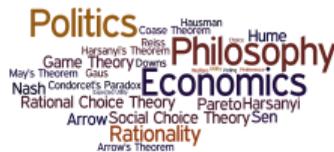
# Is vs. Ought



When we run over libraries, persuaded of these principles, what havoc must we make? If we take in our hand any volume; of divinity or school metaphysics, for instance; let us ask, *Does it contain any abstract reasoning concerning quantity or number?* No. *Does it contain any experimental reasoning concerning matter of fact and existence?* No. Commit it then to the flames: For it can contain nothing but sophistry and illusion.

David Hume. *An Enquiry of Human Understanding*. 1748.

# The Aim of Economics



The main task of the social sciences is to explain social phenomena. It is not the only task, but it is the most important one, to which others are subordinated or on which they depend. (Elster, pg. 9)

J. Elster. *Explaining Social Behavior: More Nuts and Bolts for the Social Sciences*. Cambridge University Press, 2007.

# The Aim of Economics

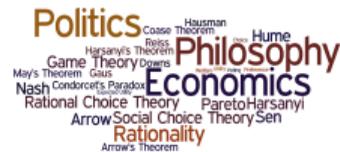


We wish to find the mathematically complete principles which define “rational behavior” for the participants in a social economy, and to derive from them the general characteristics of that behavior.

(von Neumann and Morgenstern, pg. 31)

J. von Neumann and O. Morgenstern. *Theory of Games and Economic Behavior*. Princeton University Press, 1944.

What does it mean (for an individual/group) to be *rational* (or *reasonable*) as opposed to *irrational* (or *unreasonable*)?



Two criteria for assessing “reasonableness” of a selected *option*:

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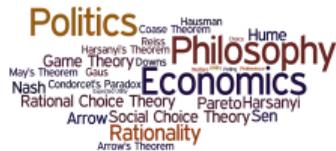
1. An option is **feasible** if it can be chosen, if it is *possible* for the decision maker.
2. The **desirability** of an option is the degree to which the decision maker *wants* it.

# Feasibility vs. Desirability



**Aesop's Fox:** One hot summer's day a Fox was strolling through the forest and spotted a bunch of grapes hanging from a high branch.

# Feasibility vs. Desirability



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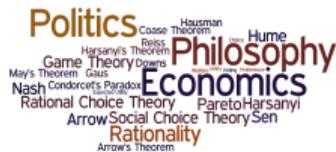
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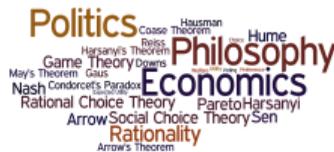
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**Groucho Marx's Club:** "I don't care to belong to a club that accepts people like me as members"

# Feasibility and Desirability



“It appears irrational to mix the two...there is a sharp distinction between desirability and feasibility. By sharp distinction we mean not only that the two can be told apart but also that they are causally independent; one does not affect the other.”

I. Gilboa. *Chapter 1 in Rational Choice*. The MIT Press, 2010.



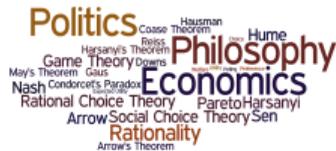
Are Walter's decisions *rational*?



Are Walter's decisions *rational*?

- ▶ What are his preferences?
- ▶ What does he believe?
- ▶ What is the *context* of the choice?

# Instrumental Rationality



“The notion of instrumental rationality is a powerful and natural one...”

# Instrumental Rationality



“The notion of instrumental rationality is a powerful and natural one...Instrumental rationality is within the intersection of all theories of rationality (and perhaps nothing else is). In this sense, instrumental rationality is the default theory, the theory that all discussants of rationality can take for granted, whatever else they think.

# Instrumental Rationality

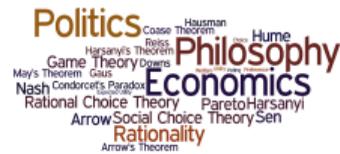


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(Nozick, pg. 133)

R. Nozick. *The Nature of Rationality*. Princeton University Press, 1993.

# Instrumental Rationality I



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**Rationality as Effectiveness:** Ann's action  $\alpha$  is instrumentally rational if, and only if, Ann's  $\alpha$ -ing is an *effective* way for Ann to achieve her goal, desire, end or taste,  $G$ .

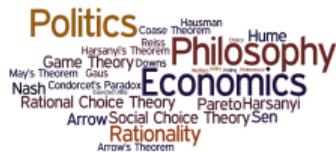
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*Too narrow:*

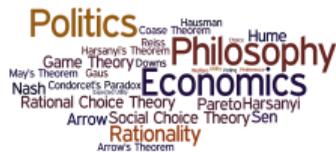
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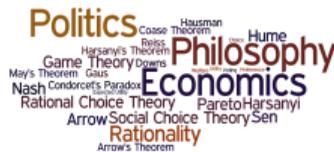


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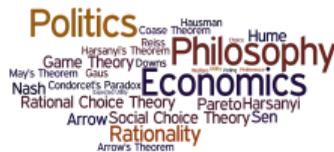


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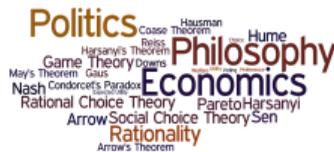


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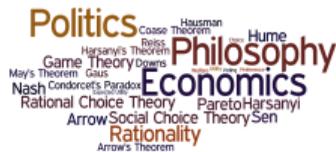
*We need to take the agent's beliefs into account*

# Instrumental Rationality II



**Subjective Rationality:** Ann's action  $\alpha$  is instrumentally rational iff when she chooses  $\alpha$ : (1) her choice was based on her beliefs ( $B$ ) and (2) if  $B$  were true beliefs, then  $\alpha$  would be an effective way to achieve her goals, desires, tastes, etc.

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Is Charles action deemed *irrational* according to the above definition?

What constraints should be placed on reasonable beliefs that underlie a rational choice?

# Instrumental Rationality III



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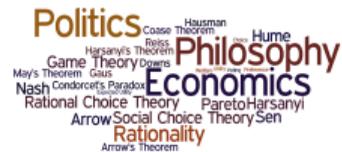
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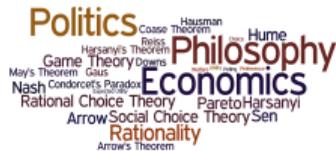


**Instrumental Rationality:** Ann's action  $\alpha$  is instrumentally rational iff Ann chooses  $\alpha$  because she soundly believes it is the **best prospect to achieve her goals, desires, tastes, etc.**

# Can goals be irrational?



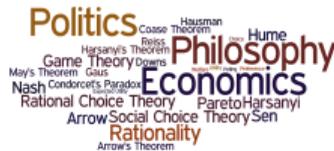
# Can goals be irrational?



Hume: Reason cannot tell us what to desire, so *no desire can ever be against reason*

*'Tis not contrary to reason to prefer the destruction of the whole world to the scratching of my finger...*

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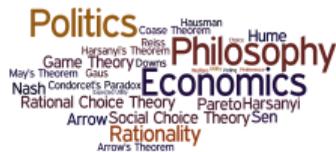
Does this mean that “anything goes”?

# Rational Preferences



- ▶ constraints on how preferences “hang together”

# Rational Preferences



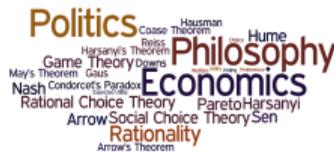
- ▶ constraints on how preferences “hang together”
  - ▶ transitivity, completeness, etc.

# Rational Preferences



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  - ▶ “a person shows herself to lack “rational integration” if she has some desire for  $x$ , yet also desires not to desire  $x$ ” (Nozick, pg. 139 - 151)

# Rational Preferences



- ▶ constraints on how preferences “hang together”
  - ▶ transitivity, completeness, etc.
  - ▶ “a person shows herself to lack “rational integration” if she has some desire for  $x$ , yet also desires not to desire  $x$ ” (Nozick, pg. 139 - 151)
- ▶ the ultimate goal is *happiness*, other desires are the manifestation of the pursuit of happiness or pleasure.

“...it follows that those who aim at goals that do not serve their own happiness are *ipso facto* irrational.” (Gauss, pg. 14)

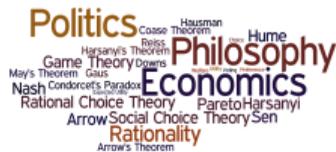
# Procedural Requirements



**Autonomous Formation Test:** only desires that were formed free of undue pressure or force, free of manipulation by others, or were formed under conditions of adequate formation are rational desires.

**Critical Reflection Test:** only desires that *could* survive a process of critical reflections are truly rational.

# Reasons for preference



Can you simply prefer  $x$  to  $y$  for no reason at all?

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3. the person has some reason to prefer preferring  $x$  to  $y$  to not doing that.

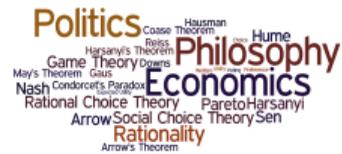
At present, we have no adequate theory of the substantive rationality of goals and desires, to put to rest Humes statement, "It is not contrary to reason to prefer the destruction of the whole world to the scratching of my finger."

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I want to take a few tentative steps toward a theory of the substantive rationality of desires and goals. Let me emphasize that my purpose is not to endorse the *particular* conditions I shall put forward or to defend their particular details. Rather, I hope to show what promising room there is for conditions of the sort that I discuss, and what directions there are for moving beyond Hume. (Nozick, pg. 139-140)

R. Nozick. "*Rational Preferences*". in *The Nature of Rationality*, pgs. 139 - 151.

# Rational Preferences/Goals

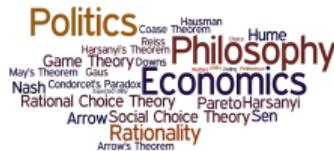


# Rational Preferences/Goals



A person does not have desires that she knows are impossible to fulfill.

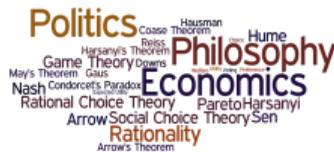
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# Rational Preferences/Goals

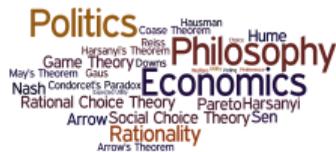


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A person will not have a goal for which she knows that there is no feasible route, however long, for her current situation to the achievement of that goal.

Some goals are *stable*

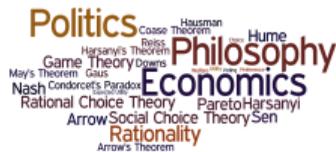
# *Homo Economicus*



Can we characterize *Homo Economicus* simply in terms of instrumental rationality?

Eg., Ann is eating ice cream.

# *Homo Economicus*



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Eg., Ann is eating ice cream.

*Consumption Rationality*: Ann's action  $\alpha$  is “consumptively rational” only if it is an instance of the  $\alpha$ -type — a general desire, value, or end of hers.

# *Homo Economicus*



Can we characterize *Homo Economicus* simply in terms of instrumental rationality?

Eg., Ann is eating ice cream.

*Consumption Rationality*: Ann's action  $\alpha$  is “consumptively rational” only if it is an instance of the  $\alpha$ -type — a general desire, value, or end of hers.

*Economic Rationality*: Ann's action  $\alpha$  is economically rational only if it is (a) instrumentally rational or (b) consumptively rational.

Next week:

- ▶ Quiz 1 (on relations) will be made available
- ▶ Reading: Gaus Chapter 1 (Additional reading: Hausmann Chapter 1, Gilboa Chapter 1)
- ▶ Reading for next week: Gaus Chapter 2, my notes on preference, choice and utility.