

Seminar Syllabus – Preferences and Welfare in Economics

12-14 June 2020, University of Bayreuth

Instructor: Lukas Beck

Course requirements

Student presentation during class (20%), class participation (15%), and writing an original research paper after the conclusion of the seminar (65%).

Course overview

Preferences are one of the most fundamental concepts in economics. Therefore, it is quite surprising that one finds no explicit definition of preferences in economics textbooks. The absence of such a definition is especially puzzling because different conceptions of preferences would have different implications on what kinds of explanations economics can offer, how economics relates to its neighboring disciplines (e.g., psychology and neuroscience), and to what extent it can inform welfare judgments. Because of this lacuna, philosophers of science have recently started a heated debate about preferences in economics which lies at the heart of this course. The course will be divided into two units.

The **first unit** will explore the nature of preferences in economics. While some authors hold that preferences should be understood as patterns in choice behavior, others identify them with mental states. We will investigate how these answers bear on urgent debates within the philosophy of social science. For example, if preferences are mental states, does this mean that economics needs a robust injection of psychological theory and methods?

Equipped with knowledge about the nature of preferences, we will turn to the practical issue of how preferences relate to welfare in the **second unit**. To what extent are a person's preferences a good guide to her wellbeing? How do we address the problem of adaptive preferences? When should people's testimony about preferences be taken at face value, and when should it be examined critically? Do we need to "purify" or "launder" preferences?

The course contents are partitioned as follows:

Unit 1: What preferences really are

1. *The relationship between economics and psychology*

This session constitutes a primer for our first unit. We focus on how the relationship between economics and psychology has evolved over time. Many authors (e.g., Bruni and Sugden) hold that economics abandoned its close ties to psychology due to the rise of positivism and behaviorism in the middle of the 20th century. These authors argue that this split from psychology undermines the ability of economics to justify the assumptions it imposes on preferences. Consequently, they welcome the attempts of behavioral economists to reintroduce psychological theories and methods into economics. Yet, other authors (e.g., Fumagalli) doubt the adequacy of this historical reconstruction and are skeptical about its methodological implications.

Presentation Question: Should economics be a theory of rational choice or based on psychological theory and experiments?

Readings:

- **Bruni, L., and Sugden, R. (2007).** The road not taken: how psychology was removed from economics and how it might be brought back, *The Economic Journal*, 117, pp.146-173
- **Fumagalli, R. (2016).** Economics, Psychology, and the Unity of the Decision Sciences. *Philosophy of the Social Sciences*, 46(2), 103-128.

2. *The case against revealed preference theory*

This session focuses on one of the most forceful critiques of revealed preference theory (i.e., the view that preferences in economics are just choice-behavior). The critique underlines that we also need information on an agent's beliefs in order to infer preferences from choice-behavior. Consequently, it makes no sense to identify preferences with choice-behavior. If preferences were identical with choice-behavior, information on an agent's choice alone should suffice to inform us about the agent's preferences. Given this critique, Hausman argues for mentalism (i.e., the theory that preferences in economics are mental states). In particular, he argues that preferences are *total comparative evaluative judgments*.

Presentation Question: What are total comparative evaluative judgments?

Readings:

- **Hausman, D. M. (2000).** Revealed preference, belief, and game theory. *Economics & Philosophy*, 16(1), 99-115.
- **Hausman, D. M. (2012)** Chapter 4: Preferences, Decision Theory, and Consequentialism. In *Preference, value, choice, and welfare*. Cambridge University Press, 34-48.

3. *In defense of revealed preference theory I*

This session focuses on two recent attempts to defend revealed preference theory against its critics. In particular, we will focus on a recent work by Thoma, who argues that the revealed preference theorists only need to accept a limited version of mentalism

about beliefs while maintaining that preferences should be identified with choice-behavior. In line with this, Clarke argues that we should understand preferences in economics as a purely technical term that does not come with the problematic philosophical doctrines usually associated with behaviorism (i.e., the idea that we can define intentional states like desires and beliefs purely in terms of observable behavior).

Presentation Question: Can a limited mentalism save revealed preference theory?

Readings:

- **Thoma, J. (2020).** In defence of revealed preference theory. *Economics and Philosophy*.
- **Clarke, C. (2016).** Preferences and positivist methodology in economics. *Philosophy of Science*, 83(2), 192-212.

4. *The case for mentalism about preferences*

This session focuses on a positive argument for mentalism that tries to apply some general lessons for philosophy of science to economics. Dietrich and List argue that our best theory of mental states (functionalism) and ontological naturalism (i.e., the idea that our beliefs about what entities exist should be fixed by our best scientific theories) imply that economists should be committed to preferences as mental states. They argue that this entails that we cannot restrict the content of our theories of choice to choice-data alone. Consequently, the revealed preference theorist has to admit that also evidence about people's minds is relevant for economics.

Presentation Question: Does a theory of choice need to be a theory about mental states?

Readings:

- **Dietrich, F., & List, C. (2016).** Mentalism versus behaviourism in economics: a philosophy-of-science perspective. *Economics & Philosophy*, 32(2), 249-281.

5. *In defense of revealed preference theory II*

In this session, we will look at another argument against revealed preference theory. It holds that being identical with choice-behavior would prevent preferences from figuring into causal explanations of choice-behavior because an event cannot cause itself. Yet, economists often refer to preferences when offering causal explanations of choice-behavior. Hence, preference in economics cannot be identical with choice-behavior. Vredenburg objects that this argument presupposes a causal account of explanation. She argues that even if preferences were identical with choice-behavior, they could still be used in so-called unificationist explanations. The basic idea of unificationist explanations is to provide a unified account of a wide range of different phenomena. Yet, this does not require us to state the causes of the phenomena.

Presentation Question: Can economics be content with providing unificationist explanations?

Readings:

- **Vredenburg, K. (2020).** A unificationist defence of revealed preferences. *Economics & Philosophy*, 36(1), 149-169.

6. *A third way? The dispositional conception of preferences*

In this session, we will evaluate a recent proposal by Guala, who argues that preferences in economics are neither mental states nor choice-behavior. Guala is convinced by the many arguments against revealed preference theory. Yet, he also thinks that preferences in economics cannot be mental because economists frequently build models of entities we usually do not ascribe mental states to (e.g., firms and states). Therefore, he tries to combine the best of behaviorism and mentalism without their costs. According to Guala, preferences are belief-dependent dispositions with multiply realizable causal bases.

Presentation Question: Is the dispositional conception of preferences “the best of both worlds?”

Readings:

- **Guala, F. (2019).** Preferences: neither behavioural nor mental. *Economics & Philosophy*, 35(3), 383-401.

7. *No conception needed?*

In this session, we will look at a recent argument by Angner, who holds that economics does not need an explicit definition of preferences. His idea is that economists can do their job without philosophers telling them what preferences really are. According to Angner, instead of using explicit definitions of preferences, economists rely on implicitly known correspondence rules to determine when and how they can apply their models. Hence, instead of arguing about the correct definitions of preferences in economics, philosophers should rather study the contextual features that allow economists to (successfully) apply their models.

Presentation Question: Is the debate about preferences in the philosophy of economics misguided?

Readings:

- **Angner, E. (2018).** What preferences really are. *Philosophy of Science*, 85(4), 660-681.

Unit 2: Preferences and Welfare

8. *Wellbeing, measurement, and philosophical theory*

This session constitutes a primer for our second unit. We will look at what philosophers have said about the role of wellbeing theories like hedonism, preference-satisfaction theories, or objective-list theories when it comes to assessing how we should measure welfare. Alexandrova argues that these general theories of wellbeing are too far removed from the goals of empirical researchers to properly inform them. Therefore, we need wellbeing theories that are tailored towards the particular contexts of empirical research. In contrast to this, van der Deijl argues that there is agreement on

some essential principles among the general theories of wellbeing and that these principles can already help us to inform empirical research.

Presentation Question: What is the proper role of philosophical theories in the science of wellbeing?

Readings:

- **Alexandrova, A. (2012).** Wellbeing as an object of science. *Philosophy of Science*, 79(5), 678-689.
- **van der Deijl, W. (2017).** Are measures of wellbeing philosophically adequate?. *Philosophy of the Social Sciences*, 47(3), 209-234.

9. *Preference, evidence, and welfare*

This session focuses on the relationship between preference-satisfaction and welfare. Preference-satisfaction theories of welfare usually assume that preference-satisfaction constitutes welfare. In contrast to this, Hausman and McPherson argue that there is merely an evidential relationship between preference-satisfaction and welfare. In particular, they argue that in circumstances in which people are self-interested and reasonably good deliberators, their preferences will be reliable indicators of what is good for them. Hersch doubts that this evidential link is strong enough to justify the use of preferences in welfare policy.

Presentation Question: Can preferences provide us with good evidence for welfare policy?

Readings:

- **Hausman, D. M., & McPherson, M. S. (2009).** Preference satisfaction and welfare economics. *Economics & Philosophy*, 25(1), 1-25.
- **Hersch, G. (2015).** Can an evidential account justify relying on preferences for wellbeing policy?. *Journal of Economic Methodology*, 22(3), 280-291.

10. *Preferences in normative decision theory*

In this session, we will investigate whether we need different interpretations of preferences for different purposes. While Hausman holds that his interpretation of preferences as total comparative evaluative judgments is the correct interpretation across the board, Thoma argues that we should not understand preferences as judgments when it comes to normative decision theory. Instead, she argues that normative decision theory requires us to understand preferences as a relation that tracks all-things-considered subjective desirability (i.e., they track what is desirable for an agent in the light of her relevant attitudes).

Presentation Question: Do we need different interpretations of preferences for positive and normative economics?

Readings:

- **Thoma, J. (2019).** Judgementalism about normative decision theory. *Synthese*, 1-21.

11. *Preferences and evidence-based policy: Boosts vs. Nudges*

In this session, we will look at the role of preferences in evidence-based policy. In particular, we will look at different ways of influencing agents through behavioral policies. Hausman and Welsh distinguish between those behavioral policies that work through rational persuasion, which respects people's autonomy, and other forms of influencing people's choices that do not respect autonomy. In a similar vein, Grüne-Yanoff distinguishes between boosts and nudges. Nudges try to affect behavior by making use of evidence for stable relations between contextual features and behavioral outcomes. On the other hand, Boosts try to affect behavior by teaching people new tools for decision-making. Grüne-Yanoff argues that using nudges instead of boosts is harder to justify from a normative standpoint.

Presentation Question: Should a welfarist favor boosts over nudges?

Readings:

- **Grüne-Yanoff, T. (2018).** Boosts vs. nudges from a welfarist perspective. *Revue d'économie politique*, 128(2), 209-224.
- **Hausman, D. M., and Welch, B. (2010).** Debate: To nudge or not to nudge. *Journal of Political Philosophy*, 18(1), 123-136.

12. *Adaptive preferences and welfare*

In this session, we will focus on the question of what adaptive preferences are and how they relate to welfare. It is a considerable problem for preference-satisfaction views of welfare that marginalized individuals seem to prefer mistreatment and their own oppression. Many scholars (e.g., Nussbaum) have therefore proposed to ignore such preferences as problematic adaptive preference. Yet, this raises the worry that we only further marginalize already marginalized individuals by ignoring their preferences. Therefore, we need a clear account of how we should identify adaptive preferences. Bergon proposes that we should identify adaptive preferences not as irrational preferences but as preferences that fail to track our distributive entitlements.

Presentation Question: How should we identify adaptive preferences?

Readings:

- **Begon, J. (2015).** What are adaptive preferences? Exclusion and disability in the capability approach. *Journal of Applied Philosophy*, 32(3), 241-257.
- **Nussbaum, M. C. (2001).** Symposium on Amartya Sen's philosophy: 5 Adaptive preferences and women's options. *Economics & Philosophy*, 17(1), 67-88.

13. *Purified preferences and welfare*

In this session, we will focus on the idea of preference purification. Proponents of the idea that we should use preferences to guide our judgments about welfare have usually assumed that preferences are rational, stable over time, and do not depend on irrelevant changes in context. Yet, over the last couple of decades, behavioral economics has put a lot of pressure on the idea that people's preferences satisfy these properties.

Nevertheless, many behavioral economists continue to rely on preference satisfaction as a welfare criterion. In order to do so, they opt for what is called preference purification. The basic idea behind preference purification is that, instead of the actual preferences of the agent, we should use an alternative set of preferences that satisfies all of the relevant properties. This alternative set of preferences is understood as a corrected or purified version of the actual set of preferences. It is then assumed that we are licensed to use the purified set of preferences as the basis for our welfare judgments. Against this background, Infante, Lecouteux, and Sugden argue that preference purification lacks plausible psychological foundations. Hausman tries to defend preference purification against this charge.

Presentation Question: Does preference purification presuppose the existence of an inner rational agent?

Readings:

- **Infante, G., Lecouteux, G., & Sugden, R. (2016).** Preference purification and the inner rational agent: a critique of the conventional wisdom of behavioural welfare economics. *Journal of Economic Methodology*, 23(1), 1-25.
- **Hausman, D. M. (2016).** On the econ within. *Journal of Economic Methodology*, 23(1), 26-32.