Rational Thinking and Social Factors in Economics

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## Extended Abstract

Normative economic theories have traditionally assumed rationality of decision makers to be the single systematic behavior-guiding motive. While nobody would deny the existence of such factors as, for example, moods and emotions, they were considered as essentially haphazard and too unsystematic to be included in economic models. This approach has recently been questioned by a range of studies showing that at least in certain instances, psychological factors may be not less important than pure rationality. Thus, justice and fairness-related considerations were shown to explain actual behavior beyond traditionally analyzed material rewards (Kahneman, Knetsch, & Thaler, 1986). The major contribution of these studies is in their explicit acknowledgement of interpersonal relations and other-regarding principles as prominent and systematic. My work belongs to this rapidly growing area of behavioral economics; however, in contrast to existing studies, I seek to incorporate an integral psychological account into decision making model. The widely known economic games of Prisoner's Dilemma (PD) and Ultimatum are often taken to bear on a wide range of real-life situations, so it is all the more striking that their empirical tests lead to widely reported deviations from the standard theoretical predictions. My hypothesis is that these and related games present examples of situations strongly influenced by psychological factors related to social interactions among players. For instance, help giving may be a prominent feature of certain PD situations, while Ultimatum game can be viewed as

resource sharing; both of these features are social by nature. In the empirical part of the work, I analyze actual one-shot PD decisions using data from the high-stake TV game show "The Manipulation," which serves as a natural experiment. I then perform two laboratory experiments set up in PD and Ultimatum game contexts. To analyze the complex array of social factors involved, I suggest employing an approach borrowed from the domain of motivational psychology – Attribution Theory due to Weiner (AT; 1985, 1986). The theory states that in analyzing a situation involving another person, people tend to concentrate on three causal aspects: locus, referring to whether the cause of the situation is this same person or somebody else; stability, referring to whether the cause is likely to be stable over time; and controllability, referring to whether the person can influence the situation. Different combinations along these dimensions give rise to certain emotions (for example, pity or anger), which in turn influence decision making and subsequent behavior. AT has been extensively studied and its predictions repeatedly confirmed; however, no systematical tests have been performed in strategic situations (where all participants jointly determine final outcomes), and none of the psychological studies concentrated on the question of high-stakes' impact; in those respects, my study makes a contribution to the existing AT-related literature by showing wider applicability of the theory. With respect to the economic model extension, I show that causal attribution dimensions provide systematical explanation for the observed behavior; for instance, perceived controllability of the opponent's condition is found to exert significant influence on both PD and Ultimatum game player's decisions, consistently with AT predictions. The suggested integration of psychological account into economic model is the main contribution of my work, which is proposed as a part of the emerging interdisciplinary approach enabling neighboring areas of research to gain from each others' insights.