**Richard Thaler Wins the Nobel in Economics for Killing Homo Economicus**

Thaler’s work shows that assuming human beings are *predictably* irrational is the most rational approach to studying their behavior.

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Richard Thaler, one of the fathers of behavioral economics and a professor at the Booth School of Business at the University of Chicago, has won the 2017 Nobel Memorial Prize in Economic Science.

Renowned for his use of data to observe and predict[how people behave in the real world](https://twitter.com/NateSilver538/status/917374149953245186), Thaler’s career has been a lifelong war on Homo economicus, that mythical species of purely rational hominids who dwell exclusively in the models of classical economic theory. In studies that borrowed from psychology, sociology, and plain-old curiosity, Thaler demonstrated that mankind was afflicted by emotion and irrationality, which influences their decision making on everything from retirement savings, to health-care policy, to professional sports.

But Thaler didn’t contend that humans were randomly irrational. More importantly, he observed that people are *predictably* irrational (to borrow a term from the economist[Dan Ariely](https://www.amazon.com/Predictably-Irrational-Revised-Expanded-Decisions/dp/0061353248)). Some of Thaler’s most interesting work studied the predictably irrational effects of ownership, confidence, and a sense of fairness.

* *Ownership*: According to classic economic theory, a product’s value shouldn’t depend on ownership. In one of his most famous experiments (which he conducted with the Nobel-winning psychologist Daniel Kahneman), Thaler gave mugs to half the students in a classroom and asked the students to assign a value to the mugs. Students who already had a mug considered it twice as valuable those who did not. People place a higher value on what they already own—a so-called “endowment effect.”
* *Confidence*: More information should lead to better decision-making—in theory. But in [a study of the NFL draft](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwjVzpOF8OPWAhXJQyYKHTNPAaYQFggoMAA&url=https%3A%2F%2Fwww.theatlantic.com%2Fmagazine%2Farchive%2F2014%2F04%2Fhoop-dreams%2F358627%2F&usg=AOvVaw2KcNz_Lk8tUtuQZYZJWR07), Thaler found that professional teams place too much value on early picks, in large part because smart scouts delude themselves into thinking that they can forecast the next superstar. “The more information teams acquire about players, the more overconfident they will feel about their ability to make fine distinctions,” Thaler wrote. This suggests that a downside of “Moneyball” strategies and advanced analytics is that it makes sports teams overconfident about their forecasting abilities.
* *Fairness*: Thaler’s research has shown that people have[firm standards of fairness](https://www.researchgate.net/publication/4900848_Fairness_As_a_Constraint_on_Profit_Seeking_Entitlements_In_The_Market). Since most consumers don’t know what goods are actually worth, they determine value based on what seems fair. Perhaps $5 for an umbrella is fair—but what if the price was raised from $1 during a downpour? That familiar feeling that one is being gouged might discourage sales in ways that have nothing to do with the utility of the umbrella. In recessions, employers tend to fire workers rather than cut their wages, perhaps out of a sense that workers will consider pay cuts to be unfair.

If irrational human behavior can be predicted, then it can be incited, or nudged. Thaler coined the term “nudging” to describe cheap and easy interventions that change people's decision-making. The term can apply to both weighty and trivial causes, from encouraging savings by auto-enrolling employees in retirement plans to putting a housefly sticker in a men's urinal to["improve aim.”](https://en.wikipedia.org/wiki/Nudge_theory#cite_note-5)

Like any academic concept that breaks into the mainstream, nudging has its doubters. Libertarians say nudges can be tricky and[infantalizing](http://www.slate.com/articles/health_and_science/new_scientist/2013/07/nudge_critiques_is_nudging_behavior_unethical_infantilizing_coercive_or.html). Liberals have claimed they sometimes sacrifice effectiveness for cleverness. (For example, if a government wants to increase saving, it might be more efficient to force savings through a program like Social Security than to rely on companies to nudge their employees toward 401(k) plans.) To his credit, Thaler has[acknowledged](https://www.nytimes.com/2015/11/01/upshot/the-power-of-nudges-for-good-and-bad.html?smid=tw-upshotnyt&smtyp=cur) that nudging is a weapon that can used both for good and bad.

In 2013, Robert Shiller [won](https://www.theatlantic.com/business/archive/2013/10/this-years-nobel-prize-in-economics-was-a-big-fat-critique-of-financial-media/280548/) the Nobel in Economics for his work showing that markets are not rational and that their short-term gyrations are often driven by "animal spirits" that are more emotional than logical. Thaler did more than perhaps any other economists to devise a vocabulary for these animal spirits. While he is famous for exploding the myth of rational decision-making, the irony is that insisting that human beings are not rational is by far the more rational approach to studying their behavior.

When *The New York Times* asked how he would spend the prize money, Thaler[said](https://www.nytimes.com/2017/10/09/business/nobel-economics-richard-thaler.html?smid=tw-share): “This is quite a funny question. I will try to spend it as irrationally as possible.”