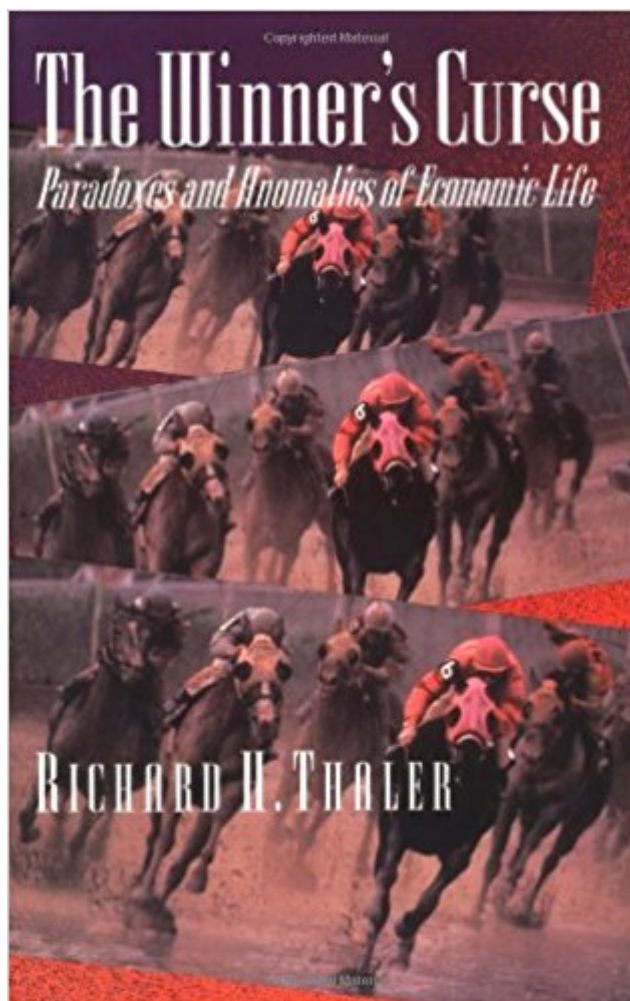


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# The Winner's Curse: Paradoxes And Anomalies Of Economic Life



## Synopsis

Richard Thaler challenges the received economic wisdom by revealing many of the paradoxes that abound even in the most painstakingly constructed transactions. He presents literate, challenging, and often funny examples of such anomalies as why the winners at auctions are often the real losers--they pay too much and suffer the "winner's curse"--why gamblers bet on long shots at the end of a losing day, why shoppers will save on one appliance only to pass up the identical savings on another, and why sports fans who wouldn't pay more than \$200 for a Super Bowl ticket wouldn't sell one they own for less than \$400. He also demonstrates that markets do not always operate with the traplike efficiency we impute to them. An ebook edition is available from The Free Press at leading on-line booksellers.

## Book Information

Paperback: 240 pages

Publisher: Princeton University Press; Reprint edition (January 10, 1994)

Language: English

ISBN-10: 0691019347

ISBN-13: 978-0691019345

Product Dimensions: 6.1 x 0.6 x 9.2 inches

Shipping Weight: 10.4 ounces (View shipping rates and policies)

Average Customer Review: 4.1 out of 5 stars 15 customer reviews

Best Sellers Rank: #164,511 in Books (See Top 100 in Books) #76 in [Books > Textbooks > Business & Finance > Economics > Economic Theory](#) #335 in [Books > Business & Money > Economics > Theory](#)

## Customer Reviews

An economic anomaly occurs when there is a difference between how standard economic theory predicts people should behave and how people actually behave. Thaler examines a number of these situations that occur in the real world and experimentally. Although everyone will recognize these situations, unfortunately much of his discussion will not be accessible to non-economists. Economists will find this an intriguing work that provides excellent reviews of some of the most recent economic research. Consequently this volume would be appropriate for libraries at universities with graduate programs in economics.-Richard C. Schiming, Mankato State Univ., Minn. Copyright 1991 Reed Business Information, Inc. --This text refers to an out of print or unavailable edition of this title.

"By unraveling a series of real-world puzzles with philosophical and practical implications, Thaler illuminates some fairly abstruse ideas in an entertaining way.... The best minds in economics today, as Thaler's provocative book suggests, are trying to supplement [insights into markets and prices] with a broader understanding of what makes people tick."--Christopher Farrell, Business Week

Richard Thaler ... stylishly recounts empirical findings that skewer hitherto sheltered economic beliefs."--Lola L. Lopes, Contemporary Psychology

This book is a little heavy on the math, which I enjoyed at times but at other times felt really lost and not too eager to go look up the referenced journal articles for the full explanation on the formulas used. The other benefit of all the math is it makes all the points that Thaler raises in this book much more scientifically based. This book isn't pseudoscience. That said, it's not like this book is a math textbook. In the style of Freakonomics, (although the Winner's Curse was written about a decade earlier) Thaler just jumps from one cool behavioral economics example to the next. The thing from this book that stuck with me the most was the chapter on positive expected value lotteries. Apparently, they pop up every so often. Unfortunately you need a billion dollar bankroll to take advantage of them, and I don't think Thaler included taxes when he was doing the expected value calculations, so they might not really exist at all.

It gives you a great overview of some of the strange inconsistencies in human behavior. It is more than just a finance book and has many interesting stories that you can talk about with friends later.

as an amateur economist grown increasingly dissatisfied w/ the failures of available theories, i was hopeful that this book would expound more on why markets fail. in some ways it did (in a very drab and boring language), although its coverage of financial markets (my interest) was all too brief and incomplete---the coverage of losers' outperformance of winners in equities was by far (IMHO) the best section of the book, but as good as that section was, the coverage of foreign exchange fluctuations was a failure. ---soros did a much better job of this. there is some good material in this book, and i would give it 3 stars as a result, but the writing style makes it simply too inaccessible for the average reader. better financial market focus can be found in "reminisces of a stock operator" and "alchemy of finance", which really were accidental breakthroughs in behavioral finance (particularly the former--a gem of a book).rhyno

rally enjoy Dick Thaler's books, this is excellent.

We highly recommend this classic of economic literature, one of the first (more or less) accessible presentations of the evidence against economic rationality. Economists have assumed, conventionally, that economic choice rests on a foundation of rationality. For instance, economists tend to think that people will put the same value on two mathematically identical offers. Yet laboratory experiments have proven what everyday experience suggests: people are not quite rational. Author Richard H. Thaler, a founding father of behavioral economics, presents convincing exhibits to make the case that the assumption of economic rationality is an awfully big pill to swallow. Stylistically, his book strikes a neat balance between accessibility and obscurity. A reader will need a certain amount of schooling in economics and a great deal of patience with academic prose to wade through every word of every chapter, although the payoff is substantial. However, it is possible for the impatient reader to get the gist by reading the introduction, the first page or two of each chapter and the epilogue. And even that is eminently worthwhile.

As with any model claiming predictive power, economics rests on a theory of human behavior—specifically, rational choice theory, which posits decisionmakers who are autonomous individuals who make rational choices that maximize their satisfactions. Critics of economics have long complained that rational choice is, at best, an incomplete account of human behavior. The traditional response to that criticism is that rationality is simply an abstraction developed as a useful model of predicting the behavior of large numbers of people and, as such, does not purport to describe real people embedded in a real social order. A theory is properly judged by its predictive power with respect to the phenomena it purports to explain, not by whether it is a valid description of an objective reality. Indeed, important and significant hypotheses often have assumptions that are wildly inaccurate descriptive representations of reality. Accordingly, the relevant question to ask about the assumptions of a theory is not whether they are descriptively realistic, for they never are, but whether they are sufficiently good approximations for the purpose in hand. Until quite recently, empirical research tended to confirm that the rational choice model of human behavior is a good first approximation of how large numbers of people are likely to behave in exchange transactions. Over the last 10-15 years, however, a new school of economic analysis has emerged that challenges the rational choice model precisely on its predictive power. Empirical and laboratory work by cognitive psychologists and experimental economists has identified a growing number of anomalies in which behavior appears to systematically depart from that predicted by rational choice. Some of the more

important examples of these decisionmaking biases include: \*\* Herd behavior: Why do lemmings leap off that cliff in Norway? What explains fads like Beanie Babies and Pokémon? Herd behavior occurs when a decisionmaker imitates the actions of others, while ignoring his own information and judgment with regard to the merits of the underlying decision. \*\* The status quo bias: All else being equal, decisionmakers favor maintaining the status quo rather than switching to some alternative state. The status quo bias can lead to market failure where decisionmakers' preference for the status quo perpetuates suboptimal practices. The extent to which behavioral economics calls into question more traditional modes of economic analysis remains sharply contested. At the very least, however, it seems clear that attention must be paid to the possibility that behavioral analysis sheds light on policy issues. Richard Thaler is one of the foremost behavioral economists. In this (relatively) accessible introduction to this emerging literature, he collects (and revises) a series of articles he wrote for the Journal of Economic Perspectives. As such, the book reads more like an anthology than a coherent whole. Yet, each of the chapters is highly instructive. More important for the general reader, while the selections are all highly rigorous, Thaler steers clear of the sort of recreational mathematics that plagues so much of modern economics. Of particular interest to lay readers, I suspect, will be the chapters on investing. Thaler offers a highly insightful analysis of the various anomalies in capital market behavior that appear to be inconsistent with the standard economic assumptions built into the efficient capital markets hypothesis and the capital asset pricing model. In sum, a useful introduction to the literature.

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