

ON THE ROLE OF AFFECT IN ECONOMICS

Frans van Winden

Abstract

A crucial challenge for Behavioral Economics is to deal with bounded rationality. Bounded rationality not only refers to the limitations and peculiarities of cognition. Our reasoning is also restricted by emotions and feelings (affect). In fact, evidence suggests a primacy of affect. And, in contrast to a widely held belief, this may be to the advantage of good decision making. In this lecture, I will discuss the role of emotions in economics and the way we can examine them (including neuropsychological methods). Thereby, I will focus on two topics of interest: social ties and the power to take. The first topic deals with the development and economic significance of affective bonds between people. The second topic concerns the ‘emotional hazard’ involved in situations (like taxation) where resources from others can be appropriated. Experimental findings are used to support the arguments. Also, some attention will be given to welfare-economic issues and the incorporation of emotions in economic models.