Richard Thaler of the University of Chicago wins Nobel for work in behavioral economics

Lauren Zumbach Contact Reporter

Richard Thaler, a University of Chicago professor considered a founder of the field of behavioral economics, won the Nobel Memorial Prize in economics Monday for his research using psychology and economics to understand how people make economic decisions.

Unlike historical economic theory that assumed humans were well-informed and perfectly logical when making decisions, Thaler’s work showed that not only is that not the case, but people can be irrational in systematic ways. Accounting for those patterns can help explain why people sometimes seem to act against their best interests — whether they’re making weighty financial decisions about saving for retirement, or competing on game shows like “Deal or No Deal.”

Thaler, 72, entertained the possibility “that sometimes some people actually behave as human beings,” said Madhav Rajan, dean of the University of Chicago Booth School of Business. Today, Booth has a doctoral program in behavioral science, and policymakers around the world have looked to the field to improve public policy.

Speaking to students, colleagues and the media at the university Monday after winning the $1.1 million prize, Thaler said he was “pretty sure this is the first time that the president, provost and dean had a conversation about me where the phrase ‘pain in the ass’ was not mentioned.”

He also quipped that the award “does compensate a bit for my disappointment at the Oscars.” Thaler appeared with pop star Selena Gomez in the 2015 film “The Big Short,” explaining the “hot hand fallacy,” in which a gambler expecting a hot streak to continue keeps making big bets, to help describe causes of the financial crisis.

The celebrity turn impressed Thaler’s 12- and 16-year-old granddaughters, who he said are big fans of Gomez. “I have not talked to them yet about the Nobel prize, but I’m guessing it’s not going to compare,” he said.

“I don’t think anyone has changed the field as much as he has,” said Harvard Law School Professor Cass Sunstein, one of Thaler’s longtime collaborators. Sunstein and Thaler co-wrote the best-selling book “Nudge,” which used ideas from behavioral economics to explain how governments or employers could “nudge” people towards making better decisions.

Behavioral economics “has helped us understand investor behavior, consumer behavior, employee behavior. It’s really altered how we think about the field of economics,” Sunstein said.
Thaler said his inspiration came about 40 years ago, when reading research by “friends and mentors” psychologists Daniel Kahneman and Amos Tversky.

“It answered a key question for me, which was that economists are happy to admit that many of the people they know are idiots, and they refer to them that way — spouses, students, bosses, deans — but they would stick with their models where everyone is perfect because they didn’t know what else to do,” he said.

Kahneman and Tversky found that some of the mistakes people made were predictable, Thaler said. If those errors were predictable, it suggested there were ways to make economic models better account for human behavior — and, perhaps, help people avoid those mistakes.

Both the U.K. and U.S. governments have looked to the field to try inform public policy. Sunstein, who served as the administrator of the White House Office of Information and Regulatory Affairs between 2009 and 2012, said Thaler’s work helped inform U.S. policies like automatically enrolling eligible children in school meals programs to increase participation.

In addition to influencing policy, behavioral economics also has contributed to investing strategies, including Thaler’s own.

He is a principal at Fuller & Thaler Asset Management, which uses ideas from behavioral finance, such as investors’ tendency to overreact to bad news, or underestimate the impact of good news, to invest its funds. One, the Undiscovered Managers Behavioral Value Fund, marketed by J.P. Morgan Asset Management and subadvised by Fuller & Thaler, outperformed similar funds over the past decade, according to J.P. Morgan.

In addition to “Nudge,” Thaler is the author of “Misbehaving,” a history of the field of behavioral economics, and other academic works. He served as the American Economic Association’s president in 2015, and taught at the University of Rochester and Cornell University before joining the University of Chicago faculty in 1995.

Thaler also is credited with influencing the shift to retirement plans that automatically enroll employees and give them the option to increase contributions over time, combating people’s tendency to fall short of long-term savings goals, even when they agree it’s important.

Thaler said he’s looking at ways to help people pick the cheapest employer-sponsored health care plan that meets their needs by making the information on “horrific” health care plan websites easier to understand. Deductibles, for instance, are usually listed as a full-year sum, while premiums are priced per paycheck. Those calculations sound simple but can trip people up, he said.

Thaler, the University of Chicago’s 28th recipient of the Nobel Memorial Prize in Economic Sciences and one of six laureates currently on the faculty, preempted a common question he said most laureates are too polite to explain they find “stupid” — what they’ll do with the winnings.

“Anytime I spend money on something really fun, I’m going to say that was the Nobel,” he said.