Abstract

Several anomalies of human behavior cannot be explained by standard economic theory and therefore need to be modeled by more realistic behavioral models. Behavioral economics is usually portrayed as a recent field within the domain of economics. However, emotional and social factors already played an important role in economics back in classical and neoclassical times. The aim of this thesis is to investigate whether some of the topics of behavioral economics as we know them today already existed hundreds of years ago or whether they are actually as new as it is sometimes claimed. The results indicate that Adam Smith, Irving Fisher and John Maynard Keynes did not only discuss several topics of behavioral economics back then but also mentioned some aspects that have not yet been explored in sufficient detail.

Executive Summary

Problem Set

Behavioral economics as its own field has only existed since the end of the 20th century. However, several economists and philosophers already acknowledged the influence of psychology on economics a long time ago. This thesis investigates the roots and time evolution of behavioral aspects of economics. The aim is to find and compare behavioral insights of early authors to today's literature. The focus will be hereby set on the philosopher Adam Smith and the two macroeconomists, Irving Fisher and John Maynard Keynes. The reason for this selection of scientists is their great contribution towards economics and especially in the field of modern macroeconomics. Each of them has received profound recognition for their work and has extensively influenced the economy that we are in today.

Approach

To compare these matters, an illustration of overview of the main topics of behavioral economics will be given. In addition to this, it is shown how every behavioral topic is dealt with in standard economic theory. Further, the literature from classical and neoclassical writers is analyzed for behavioral insights. The investigation of this problem is mostly based on literary enquiry. Several books of early authors serve as a basis: The in macroeconomics familiar book, *The General Theory of Employment, Interest and Money* written by Keynes, the books *The Money Illusion* and *The Theory of Interest* of Fisher and lastly, *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations* by Smith. Papers and articles written by these three authors support the analysis.

Results

Although the past was not always supportive of the unification of psychology and economics, this thesis shows that in the writings of Smith, Fisher and Keynes, signs of topics of behavioral economics can be found. While some of the topics are only touched on or even not mentioned at all, others are captured in a fine manner. One characteristic of prospect theory – loss aversion – and one of the anomalies in human behavior that can be explained by prospect theory – overweighting low probabilities – were mentioned as early as in the second half of the 18th century. By that time, Smith also revealed that people are very im-

patient in the short run. Fisher is still regarded as the inventor of money illusion. Even back then he realized the consequences that are accompanied by that illusion. Animal spirits and heuristics were mentioned by Keynes. While the former had its origins in *The General Theory of Employment, Interest and Money*, the latter was described extensively and in various forms. The fault-finding of the life-cycle theory of saving was recognized by Fisher. Only the main feature of hyperbolic discounting was not found by any of those three.