



# **Bruno S. Frey Recommends “Mindful Economics: The Production, Consumption, and Value of Beliefs” by Roland Bénabou and Jean Tirole**

Bruno S. Frey

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Behavioral economics has been a huge success in economics—despite its misnomer (economics has always been behavioral, so the field should aptly be called “economics and psychology” or “psychological economics”). Today, a large number of economists engage in laboratory experiments. Despite useful insights, it is often difficult to see what distinguishes them from psychology. All too often, the lab results are without further thought directly transferred to the aggregate societal level.

Bénabou and Tirole’s article in the *Journal of Economic Perspectives* not only provides a most useful survey of recent insights of psychology but also makes a successful effort to integrate them into economics. They deal with heuristics and biases inconsistent with the standard homo oeconomicus such as over-

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confidence, confirmation bias, distorted probability weighting, and other cognitive mistakes.

“Mindful Economics” is full of deep insights into “motivated beliefs and reasoning” and takes into account hundreds of recent contributions from economics and psychology, but also brain science, and political and organization theory. It stays close to empirical research and contributes economically relevant predictions. One, for instance, refers to information avoidance and asymmetric updating. The authors predict that individuals systematically fail to sufficiently update negative signals but are better capable of updating positive signals. This finding relates to the observation that a majority of people consider themselves to be above average, an effect which also applies to sophisticated persons.

The paper provides a number of other surprising observations. One is the effect of “stake-dependent beliefs” which are inconsistent with rational expectations and are the exact opposite of the much-heralded confirmation bias. The authors discuss, for instance, systematic departures from objective cognition. They may either be affective, where individuals make themselves or their future look better than they are in reality, or functional, where they help to achieve internal or external goals such as by influencing other persons. Another surprising finding is that our brains are involved in various processes of voluntary forgetting. This stands in contrast to the idea that if one wants to forget an incident, it becomes more vivid.

I welcome in particular that Bénabou and Tirole make a decisive and successful effort to look at the processes leading from individual motivated beliefs and reasoning to the consequences at the level of organizations and the economy. It could, for instance, be argued that systematic biases and mistakes are weeded out in markets characterized by perfect competition in economic or political markets. Alas, much of our world is far from being perfectly competitive, as the dominance of a few digital companies and of many authoritarian governments reveals. As a consequence, the environmental and institutional conditions strongly determine the benefits and costs arising in the aggregation process of psychological effects to aggregate outcomes. They must be taken into account in an effort to usefully introduce psychological insights to explain and shape economic affairs.

Bénabou and Tirole’s article opens up a significant new research program to be taken seriously by all those economists engaged in laboratory research—and far beyond.

## Literature

Bénabou, R., & Tirole, J. (2016). Mindful economics: The production, consumption, and value of beliefs. *Journal of Economic Perspectives*, 30(3), 141–164.