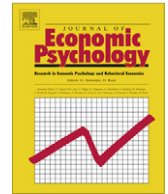


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Book Review

Economic Fables, Ariel Rubinstein. Open Book Publishers CIC Ltd. (2012). 266 pp., Paperback, ISBN: 978-1-906924-77-5; ISBN Digital: 978-1-906924-79-9

In his new book Ariel Rubinstein reflects on microeconomic topics and personal vita with “no claim to objectivity” in a “completely subjective, controversial” manner (p. 14). It is a sheer intellectual delight to read the book. Rubinstein has mastered the art of conveying even the most abstract problems in contemporary economic theory to the general public. The book is engaging to the point that I finished reading it in one sitting overnight (though, as a decision theorist, I do have a comparative advantage of being previously exposed to most of the book’s topics).

The book is extremely thought-provocative. It takes a critical look at academic economics from the vantage point of a decades-long successful academic career. In fact, had I read and understood this book in my early undergraduate years, I might have never engaged in a professional economic career at all. With a remarkable honesty, Rubinstein reveals an inconvenient truth about economic profession: economists write fairytales for adults. “In economic theory, as in Harry Potter, the Emperor’s New Clothes or the Tales of King Solomon, we amuse ourselves in imaginary worlds” (p. 16). Rubinstein immediately proceeds with an illustration of a [Hotelling \(1929\)](#) linear city model in a language that most children would find accessible if not entertaining. Yet, as amusing as they might be, economic fables do not “produce conclusions of real value” (p. 37).

The book consists of an extensive introduction and five chapters. As any microeconomic textbook, Chapter 1 deals with the primitive of choice—a rational preference relation. Rubinstein discusses different facets of rationality, both from a traditional microeconomic perspective and more subjective, personal point of view. He uses classical examples from Kahneman and Tversky such as the Asian disease problem and a lost theater ticket to highlight the problem of framing and mental accounting. He also discusses the similarity and compromise effects to illustrate context-dependent preferences.

Almost at the end of Chapter 1, Rubinstein opens a short but probably the most controversial section of the book titled “Is there any need for experiments at all?” In this section he challenges the field of experimental economics observing that “quantitative results [of experimental studies] have very limited significance in any case” (p. 84) because of non-representative subject pools whereas “the qualitative results are usually insights that common sense had already suggested prior to the experiment” (p. 85). Yet, after bashing purposeless experimental economics, Rubinstein seems to retreat a bit by acknowledging that “common sense sometimes does deceive even the most experienced of us” (p. 86). He also discusses the problem of an experimenter effect and an almost total lack of repeated verification of experimental results.

Chapter 2 is the strongest chapter in the book reflecting the unquestionable comparative advantage of the author in the field of game theory. While throughout the whole book economic topics are intermixed with autobiographical details which make the reading so much more fun to read, I especially enjoyed the story of a personal encounter with John Nash (maybe because other stories feel more distanced for a non-Israeli reader). Rubinstein discusses famous games, where the standard (Nash equilibrium) solution concept is known to be not particularly descriptive, such as the traveler’s dilemma, the ultimatum game and the prisoner’s dilemma. Game theory towards the end of Chapter 2 (like experimental economics in Chapter 1) is given a hard time: “teaching game theory is not helpful and is even harmful because it can potentially encourage selfishness and deviousness” (p. 137).

Chapter 3 is a rhetorical exercise on market economy vs. jungle economy. I must confess that this is the only chapter of the book I flipped through rather inattentively. The chapter repeats [Piccione and Rubinstein \(2007\)](#), which I already read with a delight. I was also privileged to attend Rubinstein’s presentation on the same topic. Still I could not help envying the author’s mastership in presenting complex economic notions such as the competitive equilibrium without a single Greek letter.

Chapter 4 discusses interdisciplinary research with a specific application to economics and linguistics (rules of pragmatics in situations of persuasion). Knowing next to nothing about pragmatics myself I was impressed by Rubinstein’s ability to construct a formal model (that can be analyzed by mathematical methods) on marshland such as situations of persuasion. Again and again, Rubinstein simply writes in black-and-white what I always believed in but never voiced aloud: “Research in interdisciplinary realms elicits personal exposure whose place in academic writing is doubtful” (p. 188).

Chapter 5 deals with public policy though mostly in the context of Israeli society. Rubinstein finds a brilliant analogy between economic policy and games that children choose to play: some kids might not be too happy with some game but they would engage in it anyway out of a common desire to play together. Rubinstein discusses an interesting problem of the concentration of wealth in the hands of a few: “economic models generally ignore the aspiration of individuals to gain power and control over other people” (p. 233) The concluding assessment “the economic models have not helped me formulate views on social issues” appears to be a disarmingly truthful thought.

References

- Hotelling, Harold (1929). Stability in competition. *Economic Journal*, 39(153), 41–57.
Piccione, Michele, & Rubinstein, Ariel (2007). Equilibrium in the jungle. *Economic Journal*, 117(522), 883–896.

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