

# 1<sup>ST</sup> STOCKHOLM REGION WORKSHOP IN ECONOMICS & PHILOSOPHY

KTH 2017-03-10

<b>Foundations 1</b>	9.30	Ekenberg	The Money Triangle
	10.00	Mohlin & Ellingson	Situations, Norms, and Values
<i>Coffee</i>	10.30		
<b>Foundations 2</b>	11.00	Stefánsson	Belief revision for growing awareness
	11.30	Angner	What Preferences Really Are
<i>Lunch</i>	12.00		
<b>Normative theory</b>	13.00	Algander & Reisner	Prioritarianism and single-person cases
	13.30	Hansson	Pareto efficiency revisited
	14.00	Ingelstrom	Well Being and Context Dependence
<i>Coffee</i>	14.30		
<b>Methodology</b>	15.00	Dreber	Reproducibility in science
	15.30	Grüne-Yanoff	A Critique of Rodrik's Modelling Methodology
Final discussion	16.00		

## The Money Triangle

*Tomas Ekenberg, Uppsala*

Money is a technology designed by human beings for human beings. Consequently, money has more in common with the drill press and the written word than with the canary and the tides. In our contemporary society the implementation of this technology is all-pervasive. Money structures the presuppositions and practices of nearly all areas of human interaction, cooperative as well as competitive, domestic as well as international.

Two theories, in general considered rivals, dominate discussion about the nature of money, namely the commodity theory and the credit theory. The commodity theorists home in on the rationality and instrumental value of money as a means of exchange. The money

institution as a whole is on this picture justified by the increase in efficiency achieved through the use of a commonly accepted currency. The credit theorist, by contrast, focuses on money as a standard of delayed payment and the fact that nearly all money is backed by credit – actual debts incurred by actual people and businesses in the course of pursuing their various ends. Most economists prefer the commodity theory which makes money exogenous. Credit theories are common among heterodox economists, advocates of monetary reform, and (it has to be said) conspiracy theorists.

I will argue that none of these kinds of theory succeeds in providing an account of the phenomenon of money in its entirety, and that they each give – as theories of the nature of money – at most one third of the full story. Money is constituted by the confluence of three distinct factors, a triangular structure consisting of the relations between three parties. Each of these three relations can be analyzed separately, but in order to fully understand the phenomenon they give rise to, their interrelations must be taken into account. In modern economies, the three relations hold between a seller, a buyer-debtor, and a creditor. Money is created by the creditor through an act of maturity transformation turning a buyer's promise to pay later into liquid cash in the seller's account. While commodity theorists make the relation between buyer and seller primary, and the credit theorists do the same with the relation between debtor and creditor, none of them pay much attention to the equally important relation between creditor and seller. None of the three relations is primary since the triangle as a whole is required for money to exist. Understanding the social technology of money means understanding these three relations.

## **Reproducibility in science**

*Anna Dreber Almenberg, Handels*

There is increasing concern about reproducibility in science. Factors contributing to a lack of reproducibility include low statistical power, the testing of hypotheses with low prior probability of being true, publication bias and various degrees of researcher freedom such as p-hacking and forking. In a number of projects, we are assessing the reproducibility of published results. These are often done in large collaborations such as the Open Science Collaboration Reproducibility Project in Psychology. We also test whether prediction markets can be used to assess reproducibility. We compare prediction market forecasts to surveys of market participant's individual forecasts. The prediction market also allows us to estimate probabilities for the hypotheses to be true. We show that such probabilities can be assigned to an hypothesis for different points in the testing process: before and after the replication has been performed, and even before the original study has been performed. However, the market does not always perform better than survey measures. I will in detail discuss our recent published projects in psychology and experimental economics (Science 2015 and 2016, PNAS 2015) as well ongoing research.

## **Situations, Norms, and Values**

*Tore Ellingsen, SSE & Erik Mohlin, Lund*

We develop a new game theoretic approach to internalized social norms, emphasizing the dependence of social norms on social cognition and on general social values. There are many ways to divide the complex social reality into *situations*. A situation is social if the relevant players share the same representation of it (cf. the interdependence theory in social psychology, see Thibaut & Kelley 1959 and Rusbult & Van Lange 2008). Formally, we

define a situation as a game form (Gibbard, 1973) rather than a game. Thus players' preferences over outcomes are not yet specified. The situation is social if all players consider the same game form and believe that all other players do the same. A norm is a recommended strategy profile in a social situation. We let the norm be derived from a social value function (somewhat similar to what is usually known as a social welfare function). To the extent that agents are sensitive to the demands of social norms they suffer disutility from deviations from norms, quantified with the mentioned social value function (cf. Lopez-Perez 2008). It should be noted that this is distinct from standard social preferences (e.g. Fehr & Gächter 2000) as well as preferences relating to guilt and esteem (Charness & Dufwenberg 2006, Ellingsen & Johannesson 2008). Our theory can rationalise some widely discussed evidence (Dana, et al 2007), which is largely inconsistent with all social preference models. The key is to recognize how these experiments manipulate the social situation, or allow the players to do so. When applied to the extensive form games the theory generates a way of understanding reciprocity that differs radically from previous contributions (e.g. Rabin 1993, Dufwenberg & Kirchsteiger 2004, and Cox et al 2007).

## **Belief revision for growing awareness**

*H. Orri Stefánsson, IFFS*

Bayesianism dictates precisely how we should revise our beliefs when we learn that some proposition that we had previously entertained is indeed true. But traditional Bayesianism is of little help when it comes to revising one's beliefs in response to entertaining possibilities of which one was previously unaware.

According to Reverse Bayesianism, as defended by Karni and Viero (2013, 2015) and endorsed by Bradley (ta: ch. 4), revision in response to growing awareness should not affect the likelihood ratios in one's less aware ("old") epistemic state. We argue that Reverse Bayesianism cannot be true in general, nor are the arguments offered by Karni and Viero and Bradley compelling. But we formulate and defend a restricted version of Reverse Bayesianism.

## **Prioritarianism and single-person cases**

*Per Algander & Andrew Reisner, Uppsala*

Michael Otsuka and Alex Voorhoeve have argued that Prioritarianism does not correctly explain why the worse off are to be accorded greater moral consideration than the better off. In this paper we reconsider Otsuka and Voorhoeve's argument. According to Otsuka and Voorhoeve, it is in single-person cases permissible to choose a risky alternative, rather than a safe one, if the risky alternative more expected well-being than the safe one. They note that Prioritarianism cannot account for this claim since, according to Prioritarianism, we should assign greater moral weight to benefits accrued at a lower level of well-being.

We argue that the assumption made by Otsuka and Voorhoeve is not very effective in the dialectic between prioritariness, telic egalitarianism and utilitarianism since it merely assumes what is essentially at dispute; namely how much moral weight to accord an increase in well-being. Otsuka and Voorhoeve's argument, we argue, is therefore question-begging against the prioritarian.

This is an important observation about observation in general about debates concerning Prioritarianism. Arguments about how to treat single-person cases can play an important role in adjudicating between Telic Egalitarianism and Prioritarianism, but they must be

arguments that are given independently of either theory itself, and defenders of either view cannot help themselves to assumptions about how to treat single-person cases in the context of arguing about which theory is correct.

## Pareto efficiency revisited

*Sven Ove Hansson, KTH*

Three problems for Pareto efficiency will be at focus in this presentation. First, there is a general “efficiency dilemma” for all forms of efficiency that allow for many goal dimensions, namely that an increasing number of independent goal dimensions leads to a decreasing number of inefficient states. This is particularly serious for Pareto efficiency since it is based on the idea of one goal per person, i.e. typically a very large number of goals. Secondly, standard Paretian analysis requires that each person’s good (well-being) is a function of the resources assigned to that person. In practice, a person’s good (well-being) can be assumed to depend also on the material resources of other persons. This gives rise to considerable problems for Paretian analysis. Thirdly, the notion of Pareto efficiency is suited to a single decision maker apportioning resources to individuals. Participatory decision-making, and procedural considerations in general, are absent from this approach.

## Well-Being and Context-Dependence

*Mats Ingelström, Stockholm*

If ‘well-being’ denotes different things depending on the context in which it is measured, it is not clear to what extent insights from one field of empirical study carries over to other fields, nor how measures of well-being in different fields can be combined and compared. Anna Alexandrova has lately argued that the very notion of well-being, as it is being used across sciences, policy and personal deliberation, depends on the context in which well-being ascriptions are being made. She claims that when scientists and others ascribe well-being, both the standard/threshold and the constituents of this ascription depends on the context.

I construct and critically discuss a detailed argument (1–6 below) for context-dependence of well-being. The argument can be spelled out in two versions: one concerns whether ascriptions of well-being are correct, the other whether they are justified. The argument is, for a person  $p$ , in a context  $C$ :

- (1) A correct (justified) ascription of  $p$ ’s well-being may vary with  $C$ .
- (2)  $C$  can vary without there being any change in the facts about  $p$ .
- (3) For identical facts about  $p$ : A correct (justified) ascriptions of  $p$ ’s well-being may vary with  $C$ .
- (4) The only facts constituting a correct (justified) ascription of  $p$ ’s well-being are facts about  $p$ .
- (5) If the facts constituting a correct (justified) ascription of  $p$ ’s well-being are identical in two contexts, then the correct (justified) ascription of  $p$ ’s wellbeing is the same in these contexts.

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- (6) For identical facts about  $p$ : Which facts are constitutently relevant for a correct (justified) ascriptions of  $p$ ’s well-being may vary with  $C$ .

I discuss this argument and I argue that in its correctness-version, the argument is unsound, and in its justified-version it does not have the implication that well-being is context-dependent.

## A Critique of Rodrik's Modelling Methodology

*Till Grüne-Yanoff, KTH and Caterina Marchionni, Helsinki*

A number of economists have recently addressed the methodological question how unrealistic economic models can justify explanations and policy decisions (Sugden 2000, Gilboa et al. 2014, Rodrik 2015). Their core idea is a form of *model pluralism*, in which multiple models of the same target T are acceptable, as long as one model T is more useful for one purpose, and another model of T more useful for another purpose. Consequently, confronting a model with empirical evidence no longer serves confirmation or falsification of this model in any universal sense, but rather helps *selecting* a model for a specific target for a particular purpose. First, the set of *candidate models* collects plausible models for target T and purpose P. Second, the *critical assumptions* of the candidate model are distinguished from the uncritical ones through derivation robustness analysis. Third, the extent to which critical assumptions approximate reality is assessed through four *verification strategies*. Together, these steps supposedly ensure that in an ever-increasing “library” of economic models, economists are nevertheless able to select the most suitable model for a given target and purpose.

Our first critique identifies a number of gaps in Rodrik's model selection procedure, which need to be filled in order to give a complete account how selection proceeds. These include a lacking criterion for plausible model candidates, an ambiguity in the notion of critical assumption, and incomplete specifications of the verification strategies. We thus conclude, that Rodrik's account, as it stands, is incomplete.

Our second critique shows that there are plausible conditions under which the selection process does not allow to “discriminate ... between models a that are helpful and models that aren't” (Rodrik 2015, 72-73). Lack of restrictions on plausible model candidates, combined with a scarcity of robustness results will yield very large numbers of models with many critical assumptions. In such cases, empirical evidence for any of the verification strategies will likely not be large enough to whittle down such multiplicity to a cognitively manageable number. Under such conditions, Rodrik's selection procedure will stall through the oversupply of models and their empirical underdetermination.

### REFERENCES

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- Rodrik, D. (2015) *Economics Rules. Why Economics Works, When it Fails, and How to Tell the Difference*. Oxford University Press.
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