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The book reconstructs some selected threads in the history of economics, from the classical theory of value elaborated by Smith and Ricardo in the late eighteenth and early nineteenth centuries to the behavioral theory of choice put forward by Kahneman and Tversky in the late twentieth century.

Part One illustrates the passage from the classical to the marginal theory of value, which latter emerged in the 1870s. Part Two charts the consolidation of marginalism and developments in utility and demand analysis between the 1870s and 1940. Part Three outlines the history of macroeconomics from the monetary and business cycle theories of the early twentieth century to Lucas's new classical macroeconomics of the 1970s.

Part Four is devoted to the post-1940 history of microeconomics, and examines the emergence of game theory, the axiomatization of utility analysis, the history of expected utility theory, and the challenge of behavioral economics to mainstream economics.

The book is addressed to students of economics who acknowledge the wisdom of Keynes's claim that «a study of the history of opinion is a necessary preliminary to the emancipation of the mind».

From classical political economy to behavioral economics

Ivan Moscatti

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Preface

This book originates from my lecture notes for the course in the History of Economic Thought that I have been teaching at Bocconi University since 2007, first in Italian and later in English. The book reconstructs some selected threads in the history of economics, from the classical theory of value elaborated by Adam Smith and David Ricardo in the late eighteenth and early nineteenth centuries to the behavioral theory of choice put forward by Daniel Kahneman and Amos Tversky in the late twentieth century.

Part One illustrates the passage from the classical to the marginal theory of value, which latter emerged in the 1870s. Part Two charts the consolidation of marginalism and developments in utility and demand analysis between the 1870s and 1940. Part Three outlines the history of macroeconomics from the monetary and business cycle theories of the early twentieth century to Robert Lucas's new classical macroeconomics of the 1970s. Part Four is devoted to the post-1940 history of microeconomics, and examines the emergence of game theory, the axiomatization of utility analysis, the history of expected utility theory, and the challenge of behavioral economics to mainstream economics.

It may be useful to highlight here some distinctive features of the present work.

First, I tell a history of economic ideas. Accordingly, I focus on the content of economic theories, while the political, sociological, and cultural contexts in which these theories have been elaborated play only a minor role in the narrative. Biographies of the key economists who developed the ideas in question are outlined in synthetic boxes situated at the beginning of the sections in which their theories are discussed.

Second, I tell the history of the *development* of economic ideas. After presenting the content of an economic theory, I typically point out its possible conceptual problems or empirical limitations, and discuss how these problems and limitations motivated the elaboration of new economic theories. But the

new theories display new conceptual problems and new empirical limitations, so mine is not a happy-ending tale.

Third, I make a very extensive use of original texts and stuff the book with quotations. This approach in part derives from the didactic origin of the work, as a number of classes of my course in the history of economic thought consist in discussing original texts. More fundamentally, I think that the goals and content of any particular economic theory are generally better expressed by its author. In addition, I think that certain passages from, for example, Smith, Keynes, Friedman or Ellsberg are just spectacular, and I want to share them with the reader.

Fourth, much of the book is about the history of the economic thought of the twentieth century, to which are devoted eight of the eleven chapters of the work. This approach contrasts with that still adopted by the majority of existing histories of economic thought which typically end their narrative in the 1930s.

Finally, the reader should take into account that this is a selective history of economic thought, very much driven by my research interests in the history and methodology of microeconomics. Thus, the reader will find much history of utility theory, decision theory and demand analysis, and, relatively, less history of macroeconomics.

Over the years, a number of colleagues have commented on the lecture notes this book originates from, and have helped me to improve them in many different ways: Massimo Amato, Pierpaolo Battigalli, Simon Cook, Marco Dardi, Tiziana Foresti, Antonio Gay, Nicola Giocoli, Giorgio Lunghini, and Aldo Montesano. To all of them, I offer my sincere thanks.

I am also very grateful to the students of the course who, with their questions, forced me to make the history told here more systematic and clear. There are too many to name them all, but as their representative I would like to thank Luca Rossini, who proudly called himself «the Ricardian student», and helped me, with his penetrating questions, to understand better Ricardo's thought.

I dedicate this book to Mila, Elia and Anitina.