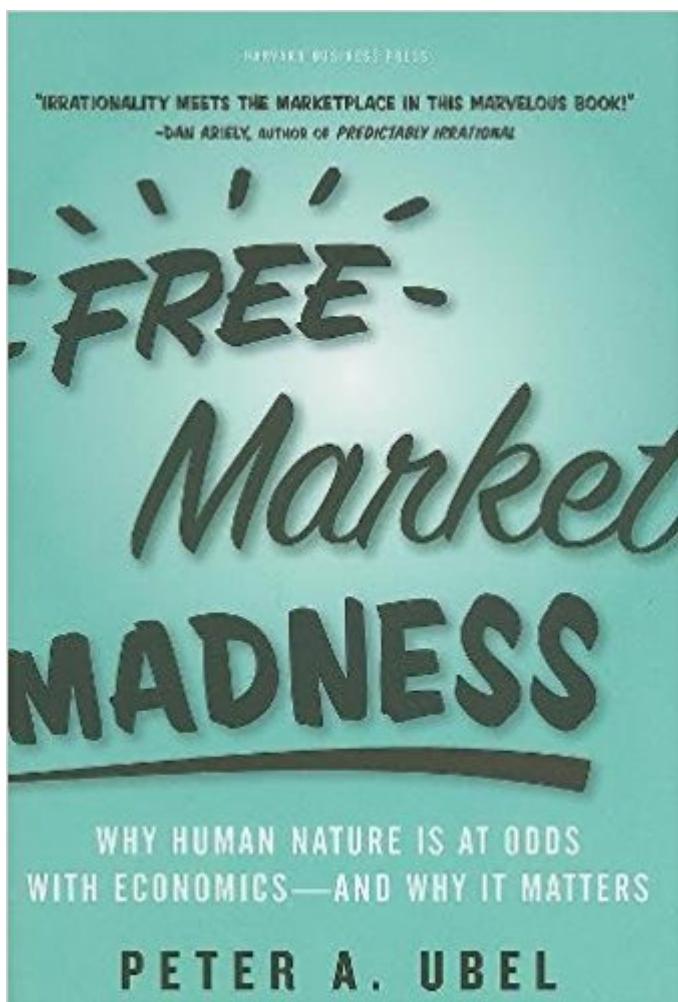


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# Free Market Madness: Why Human Nature Is At Odds With Economics--and Why It Matters



## **Synopsis**

Humans just aren't entirely rational creatures. We decide to roll over and hit the snooze button instead of going to the gym. We take out home loans we can't possibly afford. And did you know that people named Paul are more likely to move to St. Paul than other cities? All too often, our subconscious causes us to act against our own self-interest. But our free-market economy is based on the assumption that we always do act in our own self-interest. In this provocative book, physician Peter Ubel uses his understanding of psychology and behavior to show that in some cases government must regulate markets for our own health and well-being. And by understanding and controlling the factors that go into our decisions, big and small, we can all begin to stop the damage we do to our bodies, our finances, and our economy as a whole. Ubel's vivid stories bring his message home for anyone interested in improving the way our society works.

## **Book Information**

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## **Customer Reviews**

According to Ubel, physician and behavioral scientist at the University of Michigan, marketers exploit basic human irrationality to persuade people to consume dangerously unhealthy foods and spend more money than they have. Contending that capitalism inherently exploits its participants' vulnerabilities, Ubel posits that it's the government responsibility to guide people to act in their own self-interest with educational campaigns and, possibly, taxes or restrictions on advertising to children. The book explores why such measures have been criticized with a swift discussion on free-choice economics and modern-rationalist economists; equal time is devoted to the findings of scientists and psychologists that rebut such perspectives. While Ubel presents a nuanced treatment

of issues often reduced to sound bites, his arguments can be difficult to follow; further, his disdain for everything from snack food to beer, television and expensive prescription drugs might strike some readers as sanctimonious. Copyright © Reed Business Information, a division of Reed Elsevier Inc. All rights reserved.

&#147;...an accessible guide&#133;combination of the theoretical and the practical, along with the author's ability to move smoothly between the two, that gives the book its charm. -  
Strategy + Business, Summer 2009 Issue

I am curious about the emerging field of behavioral economics. I have suspected that applying the behavioral sciences to economics might put "science" into the scientism that is economics. One of the many faults with traditional economics is that it is based on scientifically unproven assumptions. One of those assumptions is the "rational self interest" conceit of Adam Smith and the utilitarians. This work is devoted to that very assumption. First, I must say that Dr. Ubel is an excellent writer. His work is accessible and easy to understand. In general his method is to first posit and explain current economic "thought" as it applies to rationality and then to compare those concepts to actual human behavior. Dr. Ubel, in step by step fashion, explains why economists hold certain beliefs concerning the market and then proceeds to explain, in a respectful manner, why the market doesn't operate in the assumed fashion. The author explains why human nature is nearly always at odds with economists assumptions about human behavior. He explains the folly in continuing to follow economic methodologies and policies that we know, from the behavioral sciences, don't work.

Free Market Madness The book the "Free Market Madness" is an interesting read that highlights many of the human flaws when it comes to making rational decisions. Initially, I thought that this book would be more like George Soros' book "The crash of 2008" which highlights the systemic errors in the free markets which lead to its crash. Instead this book took a psychological perspective of how individuals can make poor or totally non-logical decisions. He provided many chapters illuminating how irrational behaviors are actually in-grained human traits, but instead of concentrating on markets, he described these examples in obesity, cigarettes, breast cancer, and others. More interestingly in the first chapters he detailed how behavioral economics came into being. In the final chapters he detailed solutions to aid free markets in dealing with irrational harmful behavior like obesity. Unfortunately, many of these solutions were not feasible, and more importantly the solutions concentrated on dealing with the individuals psychological behaviors. I did

not like that this book only took a psychological perspective when looking at the markets. It should have also looked at the larger macro economic phenomena like crashes and booms and equate this to human psychology, that would have made this book great. Soros' book attempted to explain how psychology helped or hurt the boom and bust cycle but he concentrated more on the macro economic perspective. That is my review; I would recommend this book because it is interesting. Dr. Brian Glassman Ph.D in Organizational Leadership from Purdue Specialization in Innovation Management[...].[...].

Despite the rather goofy title, this book is a great review of the history and study of behavioral economics. It's well written and allows the reader to see the advance of the field through Ubel's summary of the literature. Given our societal excesses (read - poor economic, poor health choices, etc.) the west is currently reflecting on, our ability to understand why we have a propensity to do the wrong thing is always the best first step to correcting it.

Muito esclarecedor sobre como as pessoas tomam decisões e sobre o quanto a cultura de consumo americana é influenciada pela publicidade sem restrições.

Goes into details of how free market concept's success is a disaster to health, at least in some ways.

Read this book for class. This book generated tons of great discussion and inspired some very interesting projects! Would definitely recommend.

America loves its free market heroes, as Peter Ubel admits. Just think of the West Berlin Coca-Cola manager who, on hearing that the Berlin Wall was coming down, headed off to the barrier with cases of the soft drink and offered a bottle to every East German crossing the border. Ubel doesn't doubt that that act was a triumph for free markets and for Coca-Cola - but was it logical or in the best interests of the rest of society? "Was Coca-Cola the very best thing that the (free market's) invisible hand could bring to people just escaping from decades of communism? And should we, then, celebrate the increase in tooth decay and diabetes diagnoses now spreading through Eastern Europe?" In a perfectly free market, obesity, dying of emphysema after a lifetime of smoking or failing to save a dime for retirement may be seen as completely logical choices by libertarian economists and policymakers. But sometimes the best outcomes for free markets are not

the best outcomes for the people within those markets - and then what do we do? The factors that lead to such illogically logical (or logically illogical?) decisions are the focus of Peter Ubel's accessible, lively and very important discussion of the emerging field of behavioral economics. While there are numerous other books out there on the topic, this serves as a much-needed primer for readers who aren't ever going to read the scholarly works on the subject and who prefer a solid introduction to the topic itself before delving into policy issues that flow from it. The 'what to do' element is the weakest portion of the book, but the rest is a fascinating introduction to the nature of the conundrums that policymakers face. Ubel identifies and describes, with an eye for what will make the concepts most comprehensible, many of the paradoxes with which behavioral economics concerns itself. Why do people continue to overeat and overspend? These are some of the most vital economic and social questions we face. When investors succumb to greed instead of making a rational decision, they lose money. (Just think back to the heady days of the dot.com stocks, or, more recently, to the irrational decisions made by home-buyers when it came to figuring out how much home they could afford or what kind of mortgage was the right one to select.) We postpone saving and accelerate consumption, sending our personal debt levels soaring. We don't exercise enough; we smoke and drink too much. And we eat too much - leading to epidemic levels of obesity. We are stubborn, we react based on emotions rather than reason and we really hate being told what to do, by our parents or anyone else in authority. All of which has ramifications not just for each of us individually, but for our society. Ubel doesn't address the financial markets often in his discussions, but the publication of this book is very timely from that perspective. Why do investors picking a mutual fund always select the one with the strongest recent track record, despite all the research that has shown that no fund manager can continue to outperform for very long and the warnings all the mutual funds are required to display on their prospectuses that past performance is no guarantee of future results? Certainly, no one can doubt that a free market was thriving during the subprime mortgage boom - why, then, were home buyers purchasing more house than they could afford and then financing those purchases (sometimes unnecessarily) with risky mortgage structures? Ubel's perspective on behavioral economics is different from that of others who have written about it; he has to deal, day by day, with the fallout of many of the poor choices made by his own patients. No one sets out to become obese or addicted to tobacco or alcohol. Yet one of Ubel's alcoholic patients, he recounts, was so desperate for a "fix" that he drank the contents of three of the hospital's dispensers of hand-sanitizer and collapsed: an utterly irrational act. He shows how our innumeracy hinders our ability to correctly understand risk (most of us worry more when told we have a 130 in 1,000 chance of death than 13 in 100 - even though the risk is numerically identical).

And when we do make rational decisions, these can lead to what most of us would admit are irrational and unintended outcomes. For instance, a family living near the poverty line and struggling to pay for groceries would actually fare better if they bought cookies instead of carrots with their scarce dollars; the former contain more calories per scarce dollar. Ubel even offers examples of supposedly rational individuals, from eBay auction participants to economists, behaving irrationally. Unlike the handful of other accessible tomes revolving around decision-making and behavioral finance, Ubel is diagnostic rather than prescriptive. Were it not for the existence of books like *Nudge: Improving Decisions About Health, Wealth, and Happiness*, that would be a bigger weakness than it is. (The reality? That is primarily a policy book -- and a brilliant one -- while this is more general in nature. Works by Daniel Kahneman, some of which I have read, would logically replace Ubel's work for the specialist reader familiar with economics and scholarly writing, but they will be harder sledding for all but the most committed general reader.) Still given the relative newness of much of this material to the same general reader, I would recommend Ubel's work as a lively and knowledgeable general introduction to the many conundrums posed by unbridled free markets, as written by a passionate non-economist. Anyone interested in understanding the policy implications more deeply can then move on to *Nudge*. I shared this book with two highly economics-resistant friends over the holidays and their comments ("oh, NOW I get what you're talking about....") earned it its four-star rating. I'm willing to bet that it will be hard for anyone who reads this book to not stop and think about its arguments whenever they next confront the temptation posed by a Krispy Kreme donut. Recommended primarily for those new to the subject, or who aren't ready to tackle the nitty-gritty of the policy implications.

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