Ivan Moscati, University of Insubria, Department of Economics
web: https://ivanmoscati.weebly.com; email: ivan.moscati@uninsubria.it
Visiting scholar, Department of Economics, Ca' Foscari, March 15–April 15, 2025

PhD in Economics, Ca' Foscari University of Venice

Reading group on RECENT CLASSICS IN MICROECONOMIC THEORY

TOPIC AND GOALS

A classic text has famously been defined as "something that everybody cites but almost nobody has read." In this reading group, we will read and discuss four contributions to microeconomic theory that can be considered "classics" – works that have significantly influenced subsequent economic analysis – and "recent," in the sense that they were published within the last eighty years or so.

Why read classics? Classics often address key issues in a fundamental way. Therefore, studying them can help participants develop deeper insights and produce more substantial research. Furthermore, classic works frequently contain important ideas that, for various reasons, were overlooked or forgotten in later developments of the field. As such, they can serve as valuable sources of inspiration for original research.

The classic texts selected for this reading group cover key four main areas of microeconomic theory: game theory, the theory of bounded rationality, the theory of decision-making under uncertainty, and behavioral economics.

Game theory

Game theory is now a well-established part of mainstream economics, but when John von Neumann and Oskar Morgenstern launched it in *Theory of Games and Economic Behavior* (1944[1], 1947[2]), they presented it as a groundbreaking approach in contrast to the standard economic methods of the time. The first chapter of their work provides insight into how the founders of game theory conceptualized their subject:

Text 1: von Neumann, J. & Morgenstern, O. (1944/1947). *Theory of Games and Economic Behavior*, Princeton UP (excerpts).

Bounded rationality

Criticism of rational choice theory dates back to its inception in the 19th century. One important critique came from Herbert Simon, who introduced the concepts of "bounded rationality" and "heuristics" in the mid-1950s:

Text 2: Simon, H.A. (1955). A Behavioral Model of Rational Choice, *Quarterly Journal of Economics*.

Decision-making under uncertainty

Since the early 1950s, most economists accepted Expected Utility Theory (EU) as a sound model for decision-making under risk and uncertainty. However, in 1961, Daniel Ellsberg showed that individuals often violate EU when faced with what he termed "ambiguity":

Text 3: Ellsberg, D. (1961). Risk, Ambiguity, and the Savage Axioms, *Quarterly Journal of Economics*.

Behavioral economics

Initially, the critiques of standard microeconomic theory by Simon and Ellsberg had limited impact. However, with the rise of behavioral economics, these ideas were rediscovered. The seminal 1979 paper by Daniel Kahneman and Amos Tversky on Prospect Theory laid the foundation for the behavioral approach.

Text 4: Kahneman, D. & Tversky, A. (1979), Prospect Theory: An Analysis of Decision under Risk, *Econometrica*.

FORMAT

Session 1: General introduction by the organizer and assignment of texts to four groups.
Session 2: Presentations by Groups 1 and 2 of texts 1 and 2.
Session 3: Presentations by Groups 3 and 4 of texts 3 and 4.