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# Boundedly rational or intentionally driven by moral constraints

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**Abstract**

By defining choice, we consider it as a commonly accepted way of either avoiding or reducing the uncertainty. How we perceive our actions is the result of the joint acceptance and while preferences become the results of cultural and moral constraints, we seek for rational explanatory framework for our choices. Our pursuits of welfare are therefore conditioned and bounded by external values which we accept and threat as ours. What is rational is therefore and ambiguous concept.

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## 1. Introduction

The growing number of research in the field of economics and culture gives rise to the new model of rational-man. While on the contrary to the neoclassical economics, both new institutional economics and behavioral economics create the base for better understanding of human nature and therefore aim to explain diversity of economic outcomes. Interactions between individuals are driven by scarcity of goods and beliefs on what defines their equilibrium. By recognizing the most probable and influential elements of culture, we are able to trace economic and social disparities. Therefore we understand culture as a set of common beliefs which constitute society's institutional environment (Greif 1994). In this framework any repeated transaction should already have an expected outcome. To lessen disparities in any given society, Nash equilibrium have to be repeatedly sustained.

The article proceeds as follows: the second part reviews related literature. Previous contributions on the role of

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informal determinants of economic development are determined and trends in research on culture and economics are briefly presented. The third part emphasizes the correlation between personal beliefs and income per-capita as a measure of a well-being. Part four presents the idea of moral constraints and the complex decision making process.

## 1. Theoretical and empirical contribution regarding the concept of rational man

The literature concerning the concept of rational man has its main source in the neoclassical economics. Name of the mainstream proposed by Thorstein Veblen, who is identified with the rise of institutional economics, was consciously established to describe a homogenous economic thought. This commonly accepted way of thinking restrained any incentive from a vascular research on sources of economic outcomes. However any theory concerned on profit-maximizing has to be grounded in the individual's behavior. I argue that both neoclassical economics and new institutional economics could be used in explaining how rationality or its lack influences economic development of a country.

I follow Popper (1965) who characterizes actions as a result of logic interpretation. Therefore the total utility is the sum of personal aspirations and social acceptance, where both are determined by the institutional framework. Hence the utility function is diversified among individuals and could be a subject of a change under different institutions. These institutions are widely divided into formal and informal, whereas informal are defined as "values, morals, conventions, norms, habits, traditions, codes of conduct, attitudes and beliefs" (Dobler, 2009) and formal as: "political (and judicial) rules, economic rules, and contracts" (North, 1990). In the literature concerning the institutional framework, we can find two basic research approaches. Assuming the division of institutional framework the informal constraints derive from a need to limit the uncertainty in dealing with other people. While we strive for predictable outcomes, we lower transaction costs by moral indications. By conventions and habits transmitted from parents and trough social interactions, we rely on others, believing they apply similar codes of conduct. In terms of formal institutions, we behave accordingly to constitutional rules which are enforced by the government. However "it is the habitual character of the behavior which we call an institution upon which we rely in inferring that behavior will continue, i.e., that the legal institution is permanent of relatively so" (Underhill Morre, 1923). Hence a set of legal institutions derives from the logical and rational behavior of the individual and therefore a collective. Habits, customs and common interpretation of socio-economic events shape the institutional framework.

While the idea of rational man was a result of neoclassical economic thought, the opposite concept was born in the theory of organizations (Simon, 1947). The bounded rationality implies that an individual is both goal-oriented and aware of the appearing limitations. Any decision is a result of the personalized utility function, as well as belief that information obtained is either full or sufficient to make the best choice. In the field of political science, in regards to the work of Simon, the single achievement which was partially a "satisfying" result of his research was a statement on the restraints of cognitive abilities. One cannot structure any set of behavioral responses, because of the "complexity of the environment in which it operates" (Jones, 1999). Hereby uncertainty consists of habits, routines, social expectations and codes of conduct. I assume uncertainty as result of ambiguous environment where any choice is an attempt to minimize opportunity costs. By limited cognition people strive to avoid complex situations, which demand to penetrate the problem (Lindblom, 1959). On the contrary people seek for social approval and routinized standards of behavior. Obviously this is a transmission from the organization theory, where any rules are evolutionary and structured (March & Simon, 1958). Learning is a process of adjusting into an existing structure. Educational span is therefore limited, the capability to make decisions disrupted and subjective, while rationality is the best fit to the institutional framework. I follow Jones (2001) to claim the "mismatch between our inherited cognitive architectures and the tasks we face today". Whereas neoclassical economics perceives behavior to be predicted and based on cost calculation, by taking into consideration the utility theory is still valid we assume the hypothesis the only version of explaining rationality. This ordinal utility theory is however based on the idea of maximization, which is unable to explain the process of decision making (Keita, 1992). On the other hand the concept of moral constraints known under the expected utility theory seeks to explain the outcomes by considering risk aversion, probability of occurrence and personalized utility from the same payout (Bernoulli, 1954). This theory embraces the nature of decision making process with the usage of mathematical expectations. What is apparent here is, to incorporate a model which assumes choices made under risk and therefore account for risk aversion. To define rational decision maker I lean towards the common acceptance for four axioms proposed by Neumann and Morgenstern (Bloomfield, 1976). By completeness,