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## Exploring the Boundaries

### Abstract

Dr. Postlewaite's presentation focused on the argument that preferences over goods and services that are typically taken as given and exogenous in most economic models are social constructions that are endogenous in more primitive models. Early economists were interested in human behavior and one hundred years ago the division began among economics and sociology in terms of the questions asked and problems answered. Sociological concerns and psychological components are essential in explaining economic behavior and must be incorporated in economic models.

# Exploring the Boundaries

*By Jamie Davenport*

**A**ndrew Postlewaite '65 is a professor of economics, finance, public policy, and management at the Wharton School of Business at the University of Pennsylvania. He began his teaching career at the University of Illinois and then moved to Stanford Business School, Princeton University, and the University of California, San Diego before his current position at the University of Pennsylvania. This year, Dr. Postlewaite was the featured speaker at the annual Omicron Delta Epsilon initiation banquet.

Dr. Postlewaite's presentation focused on the argument that preferences over goods and services that are typically taken as given and exogenous in most economic models are social constructions that are endogenous in more primitive models. Early economists were interested in human behavior and one hundred years ago the division began among economics and sociology in terms of the questions asked and problems answered. Sociological concerns and psychological components are essential in explaining economic behavior and must be incorporated in economic models.

Postlewaite began by explaining the "Lancastrian" point of view in which people care about a few basic things: they want to eat and procreate, they want to be safe and secure, they want to be protected from the elements, and they want these same things for their children. From this, economists develop utility functions that convert goods to satisfaction of our basic needs. Dr. Postlewaite

emphasized that this satisfaction is not exogenous and fixed, but is instead a social construction and gave several examples to support his theory. Single men in the U.S. making greater than \$40,000 a year spend twice as much on clothing as single men with average earnings. The purpose of the bulk of clothing is not only a necessity, but also to influence others' opinions of us. Consumption is not only for basic needs, as Postlewaite said, "People don't buy Rolex watches to tell time, and there would be far less money spent on vacations if there were a law against telling people where you went when you got back home."

In addition, Dr. Postlewaite emphasized that we should never expect markets to be the sole mechanism for respect, the desire for mates, and the approbation of others in the community. The recognition of being valedictorian could be auctioned off in a market but doing so diminishes the value and prestige of such recognition.

Because our social environment plays such an instrumental role in our economic behavior, it is necessary to put these factors into the utility function. The concern of economists; however, is that if factors such as status are included in utility functions, it would be impossible to explain anything. Postlewaite believes, however, that it is possible to incorporate social arrangements into economic models without losing the discipline that standard economic modeling provides and that we must include social arrangements in order to understand economic behavior in many economic situations