Bounded Rationality

Herbert Simon

There is a limit to how much information people can gather and /or process. People gather as much information as they think they need or can afford- both time and money- and then make decisions= not always "rational" in a strict economic sense.

Examples

Paying more for something because you didn't shop around.

Taking the first job offer you get

Staying at a job even though there are better jobs out there

Staying married even though you might be happier if you didn't

Doing things because " we' ve always done it this way"

Bottom line: People (and firms) are **"satisficers" not maximizers**

pretty good is good enough

people settle

firms don't maximize profits, they make enough to satisfy stakeholders