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Economic Theory and the Hypothesis of Rationality

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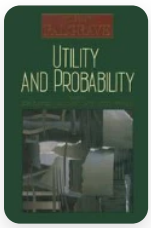

Utility and Probability

Kenneth J. Arrow

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Abstract

In this paper, I want to disentangle some of the senses in which the hypothesis of rationality is used in economic theory. In particular, I want to stress that rationality is not a property of the individual alone, although it is usually presented that way. Rather, it gathers not only its force but also its very meaning from the social context in which it is embedded. It is most plausible under very ideal conditions. When these conditions cease to hold, the rationality assumptions become strained and possibly even self-contradictory. They certainly imply an ability at information processing and calculation that is far beyond the feasible and that cannot well be justified as the result of learning and adaptation.

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