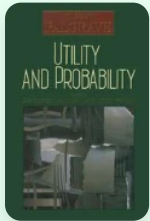


Home > [Utility and Probability](#) > Chapter

# Economic Theory and the Hypothesis of Rationality

| Chapter

| pp 25–37 | [Cite this chapter](#)



## [Utility and Probability](#)

[Kenneth J. Arrow](#)

Part of the book series: [The New Palgrave](#) ((NPA))

2064 Accesses 40 Citations

## 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.



This is a preview of subscription content, [log in via an institution](#) to check access.

Access this chapter

Log in via an institution →

Subscribe and save

- ✓ Springer+ from €37.37 /Month
- Starting from 10 chapters or articles per month
  - Access and download chapters and articles from more than 300k books and 2,500 journals
  - Cancel anytime

View plans →

Buy Now

Chapter	EUR 29.95	eBook	EUR 39.99
	Price includes VAT (Poland)		Price includes VAT (Poland)
<ul style="list-style-type: none"><li>Available as PDF</li><li>Read on any device</li><li>Instant download</li><li>Own it forever</li></ul>		<ul style="list-style-type: none"><li>Available as PDF</li><li>Read on any device</li><li>Instant download</li><li>Own it forever</li></ul>	
Buy Chapter →		Buy eBook →	

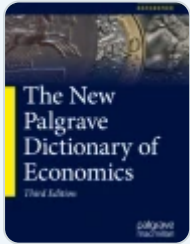
Tax calculation will be finalised at checkout

Purchases are for personal use only

## Preview

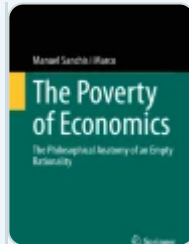
Unable to display preview. [Download preview PDF.](#)

### Similar content being viewed by others



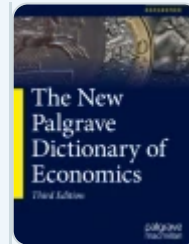
#### **Economic Theory and the Hypothesis of Rationality.**

Chapter | © 2018



#### **Rationality in Economics**

Chapter | © 2024



#### **Rationality, History of the Concept**

Chapter | © 2018

### Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Critical Thinking](#)

[Economic Psychology.](#)

[Economic Sociology.](#)

[Philosophy of Economics](#)

[Political Theory.](#)

[Social Theory.](#)

## Bibliography

Allais, M. 1979. The so-called Allais paradox and rational decisions under uncertainty. In *Expected Utility Hypothesis and the Allais Paradox*, ed. M. Allais and O. Hagen, Boston: Reidel.

[Chapter](#) [Google Scholar](#)

Arrow, K.J. 1953. Le rôle des valeurs boursières dans la répartition la meilleure

des risques. In *Econométrie*, Paris: Centre National de la Recherche Scientifique.

[Google Scholar](#)

Arrow, K.J. 1979. The property rights doctrine and demand revelation under incomplete information. In *Economics and Human Welfare*, ed. M.J. Boskin, New York: Academic Press.

[Google Scholar](#)

Aumann, R.J. 1976. Agreeing to disagree. *Annals of Statistics* 4, 1236–9.

[Article](#) [Google Scholar](#)

Cass, D. and Shell, K. 1983. Do sunspots matter? *Journal of Political Economy* 91,193–227.

[Article](#) [Google Scholar](#)

Chamberlin, E. 1950. *The Theory of Monopolistic Competition*. 6th edn, Cambridge, Mass.: Harvard University Press.

[Google Scholar](#)

Coase, R. 1960. The problem of social cost. *Journal of Law and Economics* 3, 1–44.

[Article](#) [Google Scholar](#)

Cournot, A.A. 1838. *Researches into the Mathematical Principles of the Theory of Wealth*. Translated by N.T. Bacon, New York: Macmillan, 1927.

[Google Scholar](#)

Debreu, G. 1959. *Theory of Value*. New York: Wiley.

[Google Scholar](#)

Debreu, G. 1974. Excess demand functions. *Journal of Mathematical Economics* 1, 15-23.

[Article](#) [Google Scholar](#)

Duffie, J.D. 1985. Stochastic equilibria with incomplete financial markets. Research Paper No. 811, Stanford: Stanford University, Graduate School of Business.

[Google Scholar](#)

Geanakoplos, J. and Mas-Colell, A. 1986. Real indeterminacy with financial assets. Paper No. MSRI 717-86, Berkeley: Mathematical Science Research Institute.

[Google Scholar](#)

Gossen, H.H. 1983. *The Laws of Human Relations*. Cambridge, Mass.: MIT Press.

[Google Scholar](#)

Grunberg, E. and Modigliani, F. 1954. The predictability of social events. *Journal of Political Economy* 62, 465-78.

[Article](#) [Google Scholar](#)

Hicks, H.R. 1946. *Value and Capital*. 2d edn, Oxford: Clarendon.

[Google Scholar](#)

Jevons, W.S. 1871. *The Theory of Political Economy*. 5th edn; reprinted, New York: Kelley, 1965.

[Google Scholar](#)

Knight, F. 1921. *Risk, Uncertainty, and Profit*. Boston: Houghton Mifflin.

[Google Scholar](#)

Lewis, D. 1969. *Convention*. Cambridge, Mass.: Harvard University Press.

[Google Scholar](#)

Lucas, R. and Sargent, T. 1981. *Rational Expectations and Econometric Practice*. 2 vols, Minneapolis: University of Minnesota Press.

[Google Scholar](#)

Mantel, R. 1974. On the characterization of excess demand. *Journal of Economic Theory* 6, 345-54.

[Google Scholar](#)

Marshall, A. 1920. *Principles of Economics*. 8th edn; reprinted, New York: Macmillan, 1948.

[Google Scholar](#)

Merton, R.K. 1957. The self-fulfilling prophecy. In R.K. Merton, *Social Theory and Social Structure*, revised and enlarged edn, Glencoe, Ill.: Free Press.

[Google Scholar](#)

Mill, J.S. 1848. *Principles of Political Economy*. London: Longmans, Green, 1909; New York: A.M. Kelley, 1965.

[Google Scholar](#)

Morgenstern, O. 1935. Volkommene Voraussicht und wirtschaftliches Gleichgewicht. *Zeitschrift für Nationalökonomie* 6, 337-57.

[Article](#) [Google Scholar](#)

Riley, J.G. 1979. Informational equilibrium. *Econometrica* 47, 331–60.

[Article](#) [Google Scholar](#)

Shafer, W. and Sonnenschein, H. 1982. Market demand and excess demand functions. In *Handbook of Mathematical Economics*. Vol. 2, ed. K.J. Arrow and M. Intriligator, Amsterdam: North-Holland.

[Google Scholar](#)

Simon, H. 1957. *Models of Man*. New York: Wiley.

[Google Scholar](#)

Sonnenschein, H. 1973. Do Walras's identity and continuity characterize the class of community excess demand functions? *Journal of Economic Theory* 6, 345–54.

[Article](#) [Google Scholar](#)

Spence, A.M. 1974. *Market Signaling*. Cambridge, Mass.: Harvard University Press.

[Google Scholar](#)

Stigler, G.J. 1961. The economics of information. *Journal of Political Economy* 69, 213–25.

[Article](#) [Google Scholar](#)

Todhunter, I. 1865. *A History of the Mathematical Theory of Probability from the Time of Pascal to that of Laplace*. Cambridge: Cambridge University Press, repr. New York: Chelsea, 1961.

[Book](#) [Google Scholar](#)

Walras, L. 1874. *Elements of Pure Economics*. Translated by W. Jaffé, London: Allen & Unwin, 1954; Homewood, Ill.: R.D. Irwin.

[Google Scholar](#)

Werner, J. 1985. Equilibrium in economies with incomplete financial markets. *Journal of Economic Theory* 36, 110–19.

[Article](#) [Google Scholar](#)

Working, H. 1953. Futures trading and hedging. *American Economic Review* 43, 314–43.

[Google Scholar](#)

## Editor information

---

John Eatwell Murray Milgate Peter Newman

## Copyright information

---

© 1990 Palgrave Macmillan, a division of Macmillan Publishers Limited

## About this chapter

---

### Cite this chapter

Arrow, K.J. (1990). Economic Theory and the Hypothesis of Rationality. In: Eatwell, J., Milgate, M., Newman, P. (eds) *Utility and Probability*. The New Palgrave. Palgrave Macmillan, London.

[https://doi.org/10.1007/978-1-349-20568-4\\_8](https://doi.org/10.1007/978-1-349-20568-4_8)

[.RIS↓](#) [.ENW↓](#) [.BIB↓](#)

DOI	Publisher Name	Print ISBN
<a href="https://doi.org/10.1007/978-1-349-20568-4_8">https://doi.org/10.1007/978-1-349-20568-4_8</a>	Palgrave Macmillan, London	978-0-333-49541-4

Online ISBN	eBook Packages
978-1-349-20568-4	<u>Palgrave Economics &amp; Finance Collection</u>
	<u>Economics and Finance (R0)</u>

## Keywords

[Market Power](#)[Demand Curve](#)[Rational Expectation](#)[Competitive Equilibrium](#)[Incomplete Market](#)

*These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.*

## Publish with us

[Policies and ethics](#) 

## Search

Search by keyword or author



## Navigation

Find a journal

Publish with us

