

The background features a white canvas with scattered black dots of various sizes. Large, organic, wavy shapes in teal, orange, and black are positioned around the edges, creating a modern, abstract aesthetic.

Rational choice theory

By

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WHAT IT IS?

Rational choice theory, also known as “choice theory” or “rational action theory”, is a model for understanding and often formally shaping social and economic behavior. The basic premise of rational choice theory is that aggregate social behavior results from the behavior of individual actors, each of whom is making their own individual decisions. Theory also focuses on the determinants of individual choices (methodological individualism).

How it usually works?

Rational choice theory, then, assumes that an individual has preferences among available choice alternatives that allow them to indicate which option he prefers.

These preferences are considered complete (one can always say which alternative they consider preferable or that none is preferable to the other) and transitive (if option A is preferred over option B and option B is preferred over option C, then A is preferred in relation to C).

It is assumed that the rational agent considers available information, event probabilities and potential costs and benefits in determining preferences and acts consistently in choosing the best self-determined action choice.

Where it is used?



Rationality is widely used as an assumption of the behavior of individuals in microeconomic models and analyses and appears in almost all economics literature related to human decision making. It is also used in political science, sociology, and philosophy.

A specific version of rationality, instrumental rationality, involves aiming for the best cost-benefit ratio for achieving a specific goal, without considering the virtue or dignity of the goal. Gary Becker was an early proponent of the more comprehensive application of rational actor models.

Becker received the 1992 Nobel Memorial Prize in Economic Science for his studies of discrimination, crime, and human capital.

Visually explaining




BARRIERS AND CRITICISMS OF THE RATIONALIST MODEL

- The conflictual benefits and costs, can not be measured accurately (eg: you can not buy the dignity of the individual with an increase of taxes)
- ➤ The decision makers are motivated not only by maximizing the social gain, but also by factors such as power, status, financial rewards, reelection, and so on
- ➤ Searching for perfect rational alternative is very difficult, and generally it stops when the chosen alternatives are working
- ➤ Collecting the necessary information for choosing the best alternative encounter many difficulties: the cost of information, the time required to collect the most necessary one



STRENGTHS OF THE RATIONAL DECISION-MAKING MODEL

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- ➤ The main strength of a rational decision-making model is that it provides structure and discipline to the decision-making process. It helps ensure we
 - consider the full range of factors relating to a decision, in a logical and comprehensive manner
 - ➤ Sufficient time spent generating a range of possible solutions



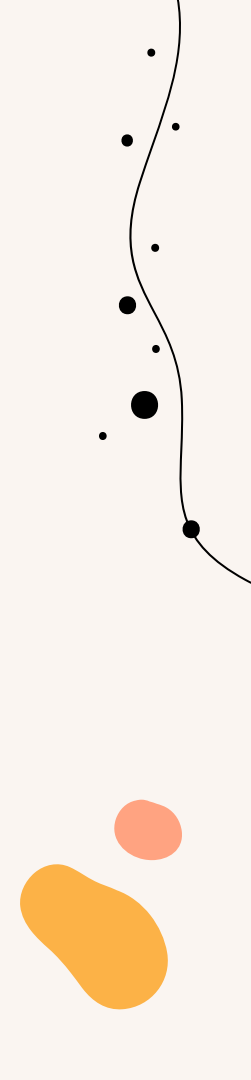
• **Book: The Power of Habit: Why We Do What We Do in Life and Business**

- Do you know why we brush our teeth every day?
- How the science can make us choose a product, make a decision, and act in other ways?
- Differences between the rational and irrational



CONCLUSIONS

Human beings by nature are rational in taking decision whether knowingly or unknowingly. We at times act irrational in taking decision under emotional influence. It is good to think twice before deciding



THANKS!



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