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CONTENTS

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Beyond the realism of mainstream economic theory. Phenomenology in economics[1]

Peter Galbács[2]

Abstract: In this paper some special features of phenomenology which enable them to be a possible ground for a research program in economics, complementing previous mainstream results, are reviewed. The potential fruits and their importance will also be highlighted. The direct purpose is to study what scientific problems have been hidden beyond the territory of mainstream economics and what scientific methods are available for economists to scrutinize an area mainly ignored, that is, the unquestioned aspects of our socio-economic reality. Along these lines we can get to findings that can complement the traditional research directions of mainstream economics.

Keywords: phenomenology, reality, abstraction, types, experimental economics.

JEL codes: B41, B49, C92.

Introduction

Since it took its current shape, mainstream economics has been strongly relying on mathematical methods. By establishing its own axioms and exploiting the apodicticity of mathematics, mainstream theory, organized itself in a axiomatic-deductive way, showed up as a pure science. Theorems formulized in these theories front up as the consequences of the axioms: therefore, mainstream economics should be regarded as an intended manifestation of pure logic.[3] Theories and models of mainstream economic theory have been based on the same research program (or conception, if you like) one by one. This program clearly reveals its influence ranging from the simple Marshallian cross even to, say, the highly sophisticated form of the Lucasian island models. By establishing some (usually traditional) axioms, in economic models the factors which are

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[3] Here it is strongly believed that nature in a broad sense (that is, including both our physical and social environment) cannot be inconsistent with itself, so pure logic always proves to be a useful guide in getting to in-depth understanding of reality.

assumed to exert influence on the behaviour of agents are considered, then the relationships are moulded as mathematical equations, then economists submit a system built up in this way to the apodicticity of algebraic rules in order to, in the strict sense of the word, *deduce* the equilibrium solution (i.e. the consequences of economic laws) of the system.

The concept of man standing in the background of these mainstream economic models shows a small extent of variability with the only difference in the assumed degree and character of rationality – and, which is of high importance as far as the issue at hand is considered, the number of the variables that are presumed to have influence on the *homo oeconomicus* in terms of economic behaviour and decision making. Within the realm of mainstream economics, this is a *quantitative* issue in the strictest sense of the word. According to the implicit belief of mainstream theory, increasing the number of the relevant variables, by enhancing complexity, makes models closer to reality. If *homo oeconomicus* populating the standard microeconomic textbooks is a pure ideal type being a far cry from reality [cf. Weber 1949], then, eventually, broadening the scope of regularities of behaviour treated in models may support the approach towards directly experienced reality. However, the underlying epistemological strategy is kept intact: the man of these models has been constructed through abstraction-based idealization, whose behaviour is driven by strict rules analogous to natural laws and is easily formalizable in mathematical terms. Technically speaking, this strategy is the direct extension of natural laws to cover human behaviour as well. Using these models and starting from this conception, however, we can hardly learn anything about the way how human beings conduct when economizing and optimizing in everyday situations, since the man of mainstream economics, however complex his behaviour is, should be regarded as a *machine* eventually: it remains a system of behavioural equations.

In this paper some special features of phenomenology which enable them to be a possible ground for a research program in economics, complementing previous mainstream results, are reviewed. The potential fruits and their importance will also be highlighted. This paper may seem to have reinvented the wheel, since phenomenology of economics as a scientific approach has significant predecessors [Düppe 2011; Rubin 1998]. However, these seminal works are mainly neglected in the literature, so, in this paper, further efforts are made to invite the readers to consider phenomenology as a complement to the traditional theoretical approach. The direct purpose is to study what scientific problems have been hidden beyond the *realism* of mainstream economics[4] and what scientific methods are available for economists to scrutinize an

[4] Here, *mainstream economics* is defined as the *neoclassical orthodoxy* advocated by the leading American universities and the American-dominated scientific journals, the *American neoclassical synthesis*, or the *academic main stream*, etc. To put it simply, it is the realm of *mainstream formalism*, definitely excluding institutionalism or behavioural economics and any forms

area mainly ignored, that is, the unquestioned aspects of our socio-economic reality. Along these lines we can get to findings that can complement the traditional research directions of mainstream economics.

Section 1 presents Husserlian phenomenology and phenomenological social science (mainly sociology) as an intellectual basis for possible strategies of creating scientific knowledge of socio-economic systems. Section 2 is devoted to the concept of life-world and to introducing it as a scientific problem forgotten by mainstream formalism. Finally, Section 3 deals with the problem how a phenomenological approach can support us in re-interpreting some previous theoretical results chosen from behavioural economics. Moreover, in this section some well-known simplifications of traditional mainstream economics are highlighted in order that the possible gains of a phenomenological strategy could be underlined.

1. Phenomenology as a social scientific strategy for creating knowledge

On the contrary, the interest of phenomenology and social sciences inspired by phenomenology turned to everyday life and to the conscious mind. These efforts are the intellectual consequences of the scientific standpoint of Edmund Husserl, at least in part. His reasoning was clear. The rigor of natural sciences has become a model of general cogency, and, under the burden of this example though seemingly appealing, disciplines not being interested in the things of nature also tried to meet this requirement in their approach. Everything was reckoned as a manifestation of natural laws and professionals of social sciences regarded it as their job to describe the laws that govern the phenomena under study [for further details see Galbács 2015: 24–46]. Together with physical nature, consciousness also got naturalized, since psychical processes and the events of the conscious mind were all assumed to be subjected to firm laws. Although Husserl's [1910] critique was directed against experimental psychology, the ambition of which had been to become the reforming and organizing discipline of sciences, and the direct model of which had been the exact mechanics to follow, his arguments can be applied to all kinds of social

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of historical approaches. For a detailed analysis, see Csaba [2009a; 2009b]. Following [Mäki 2009], here mainstream economics is regarded as a successful realist approach, i.e. a family of *surrogate systems*, that uses abstract-idealised models in order to highlight the fundamental economic laws and tendencies underlying our socio-economic environment and to convey true knowledge of reality. For further considerations, see [Hausman 1981; Mäki 2011, 2013]. So, this paper is not aimed at a reform of mainstream economics, but rather at enriching conventional mainstream economics with a phenomenological level that lies beyond the territory of neoclassical formalism. For further details on the division of labour between different scientific approaches, see [Weber 1949, 1978: 6–22].

sciences. There is a fundamental difference between *nature* as such and the *conscious mind* as objects of scientific investigation. Natural sciences have every right to regard and accept the natural-physical world as given. If social sciences interested in consciousness, however, actually want to turn to their object to scrutinize, then corporeality, i.e. regarding the psychical operation and the events of consciousness as belonging to our physical body, which otherwise is equivalent to interpreting these phenomena as events appertaining to the natural world, should be rubbed out from the set of presumptions. Physical existence, that is, not only the corporeal existence of human being as such, but that of the surrounding world as well, is interesting in so far as it appears for us in the conscious mind. However, in the case of phenomena of consciousness it is an irrelevant question whether the correlatum of such a phenomenon actually exists or it is the artefact of fantasy. So, the purpose of phenomenology and social sciences utilizing phenomenological methods has been to perform a substantial, direct and pure analysis on the conscious mind, which as an ambition was shared with psychology (and, of course, with sociology or experimental economics as well), but it the latter case it was only possible to study consciousness only in an indirect way, conducted on the basis of the responses by data suppliers or the results from observing experimentees under controlled conditions. Eventually, the conscious mind or psychological existence cannot be studied with the same direct method of observation appropriate in the case of the physical-natural world. The events of the conscious mind are not experienced as things that appear similarly to physical objects. *A psychical being appears as itself through itself*. This latter argument is straightforward in defending the separation of the natural and psychological worlds from one another – and in defending the view that psychological processes cannot be successfully scrutinized through methods and on the basis of an approach which regard natural sciences as their ideal. At this point it has to be emphasized: here and now we are *not* stating that mainstream economics was a failure in understanding the nature of the fundamental economic laws. As it will also be highlighted below, mainstream economics is built on the idea that there are laws (or at least tendency laws) operating behind the easily observable socio-economic phenomena and that these laws can be appropriately clarified in mathematical terms. As far as these purposes are concerned, mainstream economics should be regarded as a highly successful scientific enterprise. Our current reasoning is aimed at highlighting a special kind of labour division between different disciplines. Over and above mainstream economics, there are further justified and exciting theoretical approaches which can be applied to areas not covered by the traditional interest of economics. And, what is more, these different scientific efforts should not be judged by the purposes of each other. Mainstream economics should not be blamed for not studying socio-economic actuality in a way which should be assigned to a phenomenological approach – and vice versa [cf. Rodrik 2015].

It is not accidental that the phenomenological method has exerted the strongest influence on sociology amongst the social sciences or that economics has almost completely neglected to analyse the background of economic processes in the conscious mind. If we have a look at the roots and the history of phenomenological sociology, then the influence of Max Weber comes to be evident over and above the effects of German (including the Husserlian) phenomenology [Wagner 1976]. *Understanding* (i.e. grasping the complex meaning which is the explanation of the actual course of behaviour or, in other words, the subjective meaning[5] attributed by an acting individual to his behaviour) was the key concept in Weber's methodological principles [Weber 1978: 4–22]. While sociology fruitfully responded to this request, economics has believed and advocated most different methodological principles, having ignored or, if you like, abandoned the Weberian methodology with only a few and minor exceptions [for further details see Tribe 2006]. Eventually it is characteristic of the relationship between Weber and phenomenology that consummating the principle of understanding highlighted by Weber was and could be possible only on the basis of phenomenology taken as a philosophy and as a methodology [Schütz 1977]. If the purpose is to understand the behaviour of the *actual* individuals, and it has been exactly the fundamental question for phenomenological sociology, then in order to achieve this goal we have to enter and then take into consideration the sphere of the *natural attitude* mentioned by Husserl and *life-world* (its existence, its phenomena and its ability to be described or analysed), which is the empirically-sensually experiencable horizon of the natural attitude and in which subjects are acting in their natural attitude. Being in the natural attitude, the individual simply *lives in* the *world* (in everyday sense), which the various phenomena of his conscious mind are also directed at [Husserl 1983]. Eventually, life-world is the environment which is always known to be real and existing and which the man of the natural attitude lives in and which (natural) sciences applying to the validity of experience also formulates their questions about [Husserl 1973]. It was exactly the confusion and the contradiction between objective natural sciences and life-world Husserl turned his attention to. For natural sciences, life-world always bears the marks of relativity and subjectivity – for example, scrutinizing the world always takes place in front of a social background. So factual truths are reckoned to exist and to be valid only in a particular cultural or social community [cf. Husserl 1970: 138], since it is exactly the life-world against which these disciplines create their own sphere made of objective, logical-mathematical truths-in-themselves, their own *real* world (the basis of which is not something experiencable and observable, but, taken as a whole, the result of mathematical-logical deductions), but the ulti-

[5] Of course, Weber highlighted that the system of motives behind an action may not be clear even for the actor himself. In such a case, the motivational situation that can and should be scientifically studied and described will not be concretely a part of the conscious intention of the actor.

mate source of validating their hypotheses about the unexperiencable objectivity is still believed to be the life-world, i.e. the realm of direct experience. So, the sound foundations for the objective-logical achievements are placed on life-world itself. As a consequence, scientific knowledge, despite the fact that disciplines created an objective-scientific world different and separated from life-world, still roots in the evidence of life-world. According to Husserl, science as such is embedded in life-world, that is, life-world is the grounding soil for the world which is *real* (so, objective) in scientific terms [Husserl 1970: 121–132]. And if life-world is the horizon of the natural attitude and, at the same time, it is the grounding soil for the truths of objective sciences, then it can be scrutinized *how* the world as general validity comes into existence for us. To put it in other words, we should pry into how the meaning of the world is established in our conscious minds and how its existence gets validity [Husserl 1970: 148].

So, Husserl suggested studying *how* the world comes to have its straightforward existence for the individual, *how* the real world, the constant consciousness of the universal existence arises in us. In other words, this inquiry was aimed at the universal *how* of the pregivenness of the world. While the objective sciences, as it was mentioned above, have been rooted in the life-world, the line of inquire as suggested by Husserl was directed at the way this world is pregiven for us [Husserl 1970: 143–147]. Phenomenology in its early stage was turned to the nature of knowledge: to the way the conscious mind, in the course of knowledge, somehow *makes contact with* things as they exist in themselves, i.e. the things themselves. Things present themselves in the phenomena for the conscious mind, that is to say, things, the different kinds of objectivities are called into existence for the ego by the conscious mind on the ground of these phenomena. The transcendental character of knowledge, that is, the knowledge taken by natural sciences posits the objectivities as existing which, of course, it does not really contain, since the things the conscious mind perceives, expects to do or to be something, or remembers cannot be really found as real actualities in the acts of thought, raises the question how the conscious mind can reach beyond itself, how it can *contact with* these transcendent real objects – or, in other words, how knowledge is possible at all and how the nature of the relation between knowledge and the object can be described [Husserl 1999]. According to Husserl, when we become conscious of them, things or objects in the life-world appear for us in subjective experiences (i.e. in the phenomena). Husserl, eventually, declared one of the most important purposes of phenomenological inquiry the description of the essential forms of the variants of acts of thought (e.g. perception, memory, etc.) or the experiences of consciousness, the description of invariant forms and their particles that stand in the background of the individual acts of consciousness, and the explication of the universal structure of sense-bestowing acts – for example, what the essence of the perception of objects is [Husserl 1970: 157–158]. Along these lines, it has become dubious, for example, that even if there exists a world independent

of consciousness, which shows itself for us in the phenomena and the meaning of which is a meaning born in our consciousness, then how the conscious mind is able to make something show up as an actual thing-in-itself and not as something believed to be so – in other words, what is the structure of knowledge about objectivities and the structure of the *ontic validity* of knowledge. How is it possible that in experience, under such circumstances, a thing-in-itself actually proves to be a thing-in-itself [Husserl 1971, 1998: 12–13], how, therefore, does the connection between the immanent and its transcendental counterpart take form? On these grounds, the fundamental question for phenomenology was the way how the world constitutes itself in the conscious mind in its intentional acts. While Husserl turned his attention away from the objects of knowledge, even from their real existence, so, instead, he concentrated on the pure ego that reflects upon itself in order that the procedure and the essence of knowledge could be studied and described, phenomenological sociology focused on the acts of thoughts of the individuals who live in the life-world and form societies. So, phenomenological sociology is not interested in describing the constituting character of the pure ego, but in the way the human being as such, living in the life-world with the natural attitude, generally performs thinking. In other words, instead of the pure ego described by Husserl as a universal subjectivity and its acts related to meaning, the habit of everyday mind, which is definitely the common core of actual minds and not the core of a philosophically created pure ego present in every individual mind, has been analysed and described here. The root of the two problems (namely the problems raised by Husserl on one hand and by phenomenological sociology on the other) is the same, since the common problem has been how subjectivity brings about the world as ontic meaning [e.g. Husserl 1970: 153], so, eventually, the nature of the conscious mind can also be grabbed [Fink 1962]. By now, it should go without saying that phenomenological sociology fruitfully responded to Husserl's programme, so professionals have made considerable efforts to reveal, through a number of works inspired also by the sociology of knowledge,[6] how the individuals living and acting within the life-world as an environment and with the natural attitude give meaning to the world.

2. Life-world as a problem of social sciences

These lines of research have taken interest in the natural attitude, in which the existence of the world is undubiously given. While transcendental phenomenology, through a universal suspicion, tried to find a basis standing on which

[6] Of course, this is only one of the several interests of phenomenological sociology. One can easily inquire about the range of research by looking at the various papers published in *The Annals of Phenomenological Sociology*, for example.

it was possible to grab the essence of reason, the conscious mind and knowledge, and, by clearing out all the dubious presumptions, even a fundamentally clear conceptual apparatus was thought to be possible to be built up, the phenomenology and the phenomenological sociology of the natural attitude made considerable efforts to reveal how the life-world (as the unquestioned ground for the natural attitude) supports us, human beings, in creating and possessing knowledge. Here, we may get the answers to the questions raised by Husserl about the nature of consciousness and knowledge – of course, we have these chances at the level of the man of the natural attitude and *not* of the pure ego of the phenomenological reduction.

According to the analyses, life-world contains not only the surrounding physical objects or our social environment, but as well as the culturally determined frame of reference (pregiven knowledge) that helps us to interpret our experiences. This unquestioned basis, due to its pregivenness, supports us both in classifying the items of our new knowledge (perceptions and experiences) into the available reference schemata and in identifying the objects of perceptions conceptually. The emphasis was put on the subjective characteristics, structure and operation of experience and knowledge. Our experiences and acts of experiences are supported by the *types*: we classify new experiences into types and thus they fit into relevant reference schemas, or, if it is not possible because of a complicating contradiction, we will modify a problematic type. This knowledge is *par excellence* social knowledge [cf. Berger and Luckmann 1966], since it is not only constructed from an individual's own (previous) experiences but also from experiences that were transmitted to him from his fellow-men (say, from his parents and teachers during the socialization process). There were further remarkable results (and, as it will be mentioned below, they are crucial to economics – see the details below about the problem of looking for precedents) that described the horizon-likeness of the conscious mind working in the natural attitude (the individual's attention is primarily paid to his own environment, to his own *here-and-now*, however, this zone is surrounded by an organized horizon made from the items of his everyday life showing a downward tendency in importance) or explicated the feature that the often-repeated actions are organized into patterns which can easily be interpreted as human beings make efforts to use the scarce cognitive capacities in more efficient ways [cf. Smith 2003]. We try to handle and experience the world as simply as possible, since experiencing and interpreting the things are made manageable by the types, while acting in recurrent situations is supported by the behavioural patterns and routines. So, normally, we do not question the existence of the world around us and, moreover, we regard the knowledge that supports us in interpreting this world to be permanently useful. Thanks to the latter, the world can exist with a certain extent of stability. The man of the natural attitude accepts certain definitions, assumptions, prescriptions and types the totality of which, i.e. his everyday knowledge, makes

it possible to act in the life-world (in everyday life), following routines and to interpret this world. Acts of the individual are not isolated actions, but parts of the universe created by him together with other individuals assumed and experienced similar to him, in which universe any individual acts are committed by taking others' actions into consideration and using specific interpretative strategies.

Studying the acts of thought performed by the man of everyday knowledge and the natural attitude helps us to understand how people (even as economic actors) consider and sort out everyday problems, how they call and apply their cognitive schemes, the types, the behavioural routines and how they deal with confusing situations – if, say, a situation turns out to be unsolvable through usual routines [e.g. Garfinkel 1967], or an inconsistency of individual's stock of knowledge, that was hidden hitherto, becomes evident [Schütz and Luckmann 1973]. Although thinking is not characterized by universal rationality and our everyday knowledge is not a logically well-organized and consistent system, since they only help us to navigate in the life-world without problems, these researches, eventually, all aimed at the rational (i.e. scientific) analysis of these non-rational schemas [cf. Weber 1978: 6–7].

These highlighted and brief examples can easily clarify the fact how far this theoretical enquiry is from the way mainstream economics tries to discover the *functional* (sic!) attributes of the economic man. By regarding man as a social being and, particularly, making the process of experiencing and interpreting problematic, we can get far away from the aspect of mainstream economics that is basically mechanical and non-inquisitive about consciousness. We should not identify the existing, actual individuals with robots mimicking mathematical functions and giving well-defined answers to well-defined stimuli, if we want to *understand* and not to oversimplify or abstract what *actually* happens in the conscious mind. Stressing *this* can be the program of phenomenological economics.

3. Phenomenology in economics

Mainstream economics, by taking some elegant jumps, neglects the questions that might be the starting point for a detailed phenomenological analysis. We have just seen that, in the usual procedure, economic theorists set some crucial elements of a theory as presumptions, the formation of which, otherwise, fundamentally predestines the whole system of the theoretical consequences derived from the set of presumptions. If the problem of philosophy was raised by the messy and unclarified assumptions, methods and definitions (concepts) as it was highlighted by Husserl, and if philosophy, by laying the proper, phenomenological foundations, was believed to be able to overcome these defects

[Husserl 1971: 88] and to become a rigorous science [Husserl 1910], then even economics may benefit from applying the phenomenological method,[7] since economics also suffers from the same difficulties. Concentrating on mathematical approaches has definitely been of fundamental importance, even if not a general effort, in economics. The adequacy of axioms, particularly the problem of the adequacy of the man concept used in mainstream economics, triggered a never-ending flow of critique. Although theorists of mainstream economics, by using isolation-based concepts, have been making serious efforts to grab the fundamental economic laws, the doubt, stressing that these models, instead of the reality we directly and actually live in, formulate their theorems with regard to an abstract world about these models, is justified – even if these models (and it is true of the whole family of mainstream economics) have drawn a distinct line between economic reality and their own world created to be a pure environment far from actuality [for further considerations on this topic, see Galbács 2015]. While, paying attention to its relevant territory, mainstream economics is difficult to criticise, it also has to be kept in mind that its methodology (approach) is not the only adequate and possible option. If economic behaviour is presupposed to be fundamentally rational (and nothing else), then an economic theory built on this set of assumptions may be successful in describing what the entire system of economic actions *would* be like if it corresponded, in every detail, to the rationality established through the presumptions. Considerations on the extent to which the behaviour experienced in economic reality corresponds to this theoretically presumed degree of rationality definitely lie outside the domain of the same theory – so do the concerns about the possible descriptions of alternative economic worlds stemming from some different sets of presumptions. *So being aware of the exact purpose of a theory is extraordinarily important*. In other words, stressing that economic agents acting in everyday life bear only a slight resemblance to the

[7] At least in methodological terms, since the price of this relationship, for Husserl, would be the sorting of the disciplines that were independent hitherto under philosophy (meaning phenomenology for him). Of course, it also has to be highlighted that Husserl [1910] wanted to ground philosophy by starting from phenomenology characterized by the analysis of the pure ego [cf. Vajda 1969: 109–111], while here, as it will be seen, we have been specifically arguing for the necessity of the phenomenological analysis of life-world. Of course, it is another question that the analysis of the life-world that we have highlighted and suggested here is definitely not thought to be carried out by the psychological methods criticised by Husserl. Analysing the conscious mind through an introspection-based (eventually, a meditative) approach is really close to Husserl's original recommendations. It is enough to think of the way Husserl [1910] objected to the method of psychology, saying that the conscious mind could hardly be grabbed through the written or verbal messages offered by the data suppliers in some psychological experiments. If these messages were actually satisfactory, then we could say that acts of thought and the conscious mind may be reproducible even on the basis of inquisitorial reports [e.g. Le Roy Ladurie 1979].

ice-cold consistency of the *homo oeconomicus* is only an edgeless (and, actually, completely useless) critique.[8]

So, mainstream economics has disregarded the social character of economic behaviour even at the stage of describing the most fundamental economic laws. In the case of the basic models, we are bound to talk about an infinite number of economic agents yet somehow isolated from each other. These agents, per definitionem, are presupposed to be price takers, though we do not know anything about the mechanism through which the single equilibrium price gets established on a market. It is enough to refer to the contradiction that if all agents on a market are price takers, that is, they all perceive and take the market price as given, then we will have no idea about the agents who are actually responsible for tuning the price. Although one of the major achievements of neoclassical economics evolved into the mainstream theory was the introduction of the subjective as the source of value, and though there are a good many arguments that, say, analogously place the aesthetic quality of works of fine or literary arts into the receptive mind[9] (perhaps it will not be a mistake if we regard these examples as some sub-cases of the subjective valuation process; e.g. [Hauser 1982], the way how this subjective value occurs or gets established has not been revealed by these models of economics. The subjective value and the conscious mind establishing this value together with all its acts of thought are regarded as axioms or the unopened black-box of the system.

So, it is a hidden (meaning *unexamined* and *unrevealed*) mechanism – though the concept of *price taking* definitely refers to some kind of perceiving and judging methodology of man. Its operation is described (actually *ignored*) through the analysis of the interplay between the supply and demand curves, which settle the market price independently of the agents and somehow ex-

[8] The history of physics offers remarkable support for this view. Astronomical observations conducted with optical devices and planetary orbital calculations became generally accepted methods relatively early [Menzel 1975]. In the process of time, say, spectrum analysis as an astronomical method also appeared [for some results on the material composition of young galaxies see Savaglio et al. 2012] which one could not even dream of until the modern times (and the purposes of which are radically different from the goals of the methods mentioned above), but these earlier approaches (and purposes) have remained in use, still contributing to the creation of new knowledge. For example, Murray [1999] inferred the presence of a distant large undiscovered planet orbiting in the outer solar system from the observations and the orbital calculations of some long-period comets coming from the Oort-cloud. This new result seems to have refuted the earlier view according to which these comets were assumed to head for the inner solar system at random [e.g. Weissman 1996].

[9] Occasionally, these statements [e.g. Gombrich 2006] are only suggesting that judging the aesthetic value of works of art is a question of individual taste. The sociology of art [e.g. Bourdieu 1968] has been devoted to helping us to map and reveal the social determining factors behind taste (actually, the social determinants of decoding and interpreting works of art), so it can describe how the conscious mind interprets reality. One can easily recognize the close relationship between this problem and the issue of the source of economic value.

ogenously for them. Although the market demand curve is the summation of the individual curves, and though all the consumers are presupposed to take part in determining the market-clearing price, by referring to the price-taking behaviour, we must leave all active intra-agent mechanisms out of price determination. Indeed, the task of finding the equilibrium prices is given to the mystical trader supposed to be a supra-market phantom, so the whole perception problem of market agents could be consistently circumvented within the theory. Actually, within this framework, it is not necessary that market agents should perceive each other in any way or should maintain shared mechanisms – or that we should consider the *how* of acting in life-world. Of course, if the creators of the basic or fundamental economic theories were forced to be tricky in order that the ability of individuals to perceive and interpret reality could be assumed away, a *deeper* understanding of economic actions and behaviour will only be possible after having described these capabilities. Doing so, eventually, we can get to the way how economic order as a social phenomenon and social reality is maintained. The functioning of institutions such as market, assumed to be obviously plain, is grounded on unrevealed presumptions and definitely *not* on rules known and accepted consciously and clearly.

Modern theories of expectations can be regarded as further exciting examples. These theories tell nothing about those acts of the conscious mind through which an agent forms his expectations on the future dynamics of an economic variable. Perhaps, interpreting the economic man as a function is the most obvious and the less concealed in these theories. In the model of adaptive expectations, the expectations of employees, being completely homogeneous, appear as outputs of a function. Of course, we would face serious contradictions, if an attempt was made to interpret the expectations formed in this way as actual acts of conscious minds. It is enough to highlight that, in Milton Friedman's system, the disappointment of expectations (which is one of the cornerstones of his theory, since this mechanism launches the expectations-augmented Phillips-curve) occurs when employees do not perceive the actual consumer prices on which they formed their expectations and the dynamics of which has almost exclusive importance with respect to their welfare and real income [cf. Friedman 1977]. Any employee in Friedman's model is a far cry from an economic agent acting under actual conditions. It is enough to mention that new classical macroeconomics having replaced Friedmanian orthodox monetarism took this approach to extremity, since, in this case, treating expectations in an explicit way is set aside: instead, we are only asked to assume expectations to coincide with the predictions provided by the relevant macroeconomic theory or model.

Outside the realm of mainstream economics, of course, there are references to the fact that forming expectations is a social process, in which the agents' cognitive acts and their perception also play a role. Certain phenomena of actual markets proved to be difficult or even impossible to understand along the

lines of formal rationality, so these phenomena, e.g. market bubbles, point to the fact that some kinds of specifically psychological-mental factors are also in the game. Although in the laboratory analyses of the emergence of stock market bubbles the main question was about the crashes occurring after strong (and, actually, groundless) bulges, the results can directly be applied to the forming of expectations, since, naturally, it is the set of expectations on future price dynamics that hides in the background of the intention to buy or sell. It is an often observed fact that in the course of trading under laboratory conditions the current price of a paper having a well-defined intrinsic value may rise to the sky (in other words, the bubble occurs – in spite of the fact that, under some alternative settings, the actual intrinsic value was clearly known to the players) shortly after the start of the trading, then, getting close to the end of the game, the price dramatically falls to the ground, getting back to the intrinsic value constantly converging to zero. A different line of experiments was aimed at defining the conditions under which such bubbles may decrease in strength or disappear once and for all [for further details, see Caginalp, Porter, and Smith 2001]. Under certain settings the dividend payments determining the intrinsic value were changed, and it was only a probability distribution which was announced to the players [Smith, Suchanek, and Williams 1988], while sometimes fix amounts were paid down. However, bubbles happened to disappear only when the players *as a group* were allowed to take part in further games, that is to say, they could utilize the knowledge they gained about the rules and the processes previously in the same group again. It is not too difficult to explain. As the players had all the relevant information about the paper, the only factor of uncertainty was foreseeing or predicting the playmates' behaviour [Porter and Smith 2003] that they tried to discover on the basis of the changes in prices. Such a detail of performance to learn was, for example, whether a player expected the price to keep rising or to turn back to the intrinsic value [cf. e.g. Caginalp, Porter, and Smith 2000]. Although individuals may possess a shared information set, it does not necessarily lead to common knowledge, since the agents may remain uncertain about the way the further actors will utilize this set of information [Smith 1994]. So, market agents make up a community and in the course of trading they mutually observe and interpret each other's behaviour. On this showing, the forming of expectations is actually a social action [cf. Weber 1978: 22], since the behaviour of an agent is adjusted to the (current and expected) behaviour of the others. In the course of the repeated experiments, when a set of players became a group or even a community, the players were able, with increasing certainty, to infer the intentions of the playmates from price dynamics [Caginalp, McCabe, and Porter 2003], that is to say, a shared information set is not enough to have common knowledge. It requires shared experience, gathered by people as a group.

However, we have to keep in mind that these results can only refer to certain social actions and to the cognitive acts of agents at best, but, in Weber's term,

we will not get any closer to the *understanding* of such facts. They can only be revealed through consistent phenomenological analyses. Such an analysis, of course, can be aimed at a mere description of the behavioural patterns observed under actual market conditions, but the real problem is to discover the events of the agents' conscious minds. Since we are talking about *par excellence* social actions, which definitely involve *conscious* behaviour on the part of the group members (or, if we are ready to generalize our results, the members *of the society* [cf. Weber 1978: 4–5]), perceiving, observing and interpreting the actions of our fellow-men is naturally the part of the big picture. Should we offer a superficial description about the economic behaviour of groups of people (meaning, for example, the description of some relevant gestures), the result will be a kind of economic social psychology. Of course, it can still remain phenomenologically inspired, if these actions are not to be observed in a laboratory but under actual-natural conditions. In the latter case, our purpose is to enter into the actions taking place in the unfeigned and natural spontaneity of everyday life and, by using them as building blocks, to set up the theory of collective actions in front of the background of the self-evidence of the natural attitude. Of course, this approach is fraught with difficulties and traps, since the researcher may let the opportunity of understanding the actions slip from his fingers. If we start from the *superficial* description of actions, we can hardly go beyond this level (such an achievement would require a great extent of methodological consciousness), and, in such a case, a simple record of courses of actions will be the deepest layer of our analysis [cf. Hernádi 1972]. Understanding as such, revealing the acts of the conscious minds of the agents, discovering the subjective events taking place there, or even explaining the effects of institutions on behaviour are all out of the question.

So, this superficial description does not regard the perspective of agents as a starting point, it is rather a narrative offered by an omniscient external observer, who, at the same time, completely disregards some details. In this case, however, the cognitive actions lying in the background of interactions remain completely hidden. Although one can suspect that there are rules and cognitive schemas useful in interpreting the situations and in finding the appropriate behaviour as reactions, they are all far beyond the limits of the observer's interest [László 1981]. Of course, such a superficial (i.e. social psychological) description of market behaviour undeniably has scientific merits, however, due to its chosen perspective, it is still (or would be) a far cry from grabbing the essential and underlying cognitive actions which ultimately direct the behaviour of market agents.

Bourdieu [1968] gives a marvellous example for cognitive schemas in operation. Here, Bourdieu, talking about interpreting works of art, details a classifying scheme which bears a direct resemblance to the types mentioned above [Schütz and Luckmann 1973]. Perceiving things, our experiences are identified and interpreted on the basis of a set of pregiven knowledge (which is,

moreover, thought to be pregiven by us) available as a reference schemata. A special form of knowledge appertains to the special attitude of living spontaneously and directly in the life-world, i.e. to the natural attitude, and this is *natural knowledge*. This natural knowledge itself is a part of the evidence system that is not questioned by the individual (that is to say, it also shares the unquestioned and pregiven nature of the life-world). This natural knowledge gives the basis for our everyday praxis, in other words, individuals turn to this knowledge in order to sort out everyday problems and to act in everyday situations. The basis for operating this set of knowledge is the *precedent* and *practice*: precedents show what elements of the knowledge are (and will be) needed in solving similar problems later,[10] while practice enables us to treat already known situations through routines. Such routines, to be specific, steel us with the feeling of safety and give us the possibility of quick and smart actions. So, the mobilization of this set of knowledge takes place on the basis of the types. Each *single item* connects with a *permanent totality*: this latter is the *type*, and a concrete single item naturally shares the features of the type. The dog that we can see here and now is the sub-case of the type of dogs, so the comprehensive features of its type are all characteristic of it: it has four legs and it barks. Of course, the limits of our knowledge of dogs are open to question: are we able to name the bulldog or the basset as species, or do we only perceive that these dogs do not bear any resemblance to each other apart from being canine. In Bourdieu's theory the same thing holds true of interpreting works of art: when having a look at a painting, we may be able to find out the age of its birth, but, in case we have deeper knowledge of arts, we may probably be capable of reasoning out the painter on the basis of the details we see in the painting, or even precisely dating the work to one of the artist's creative periods. The set of types, by the way, also offers the basic material for the level of *presumptions* working as axiomatic premises, which is probably the most latent layer of our knowledge. The types themselves already contain the presumptions, and, eventually, the unquestioned way of interpreting and understanding the life-world comes to our hand pregiven and ready to use. We have presumptions about almost everything: the fact and the way how time passes (dawn is followed by morning, today is followed by tomorrow) can be understood on the basis of presumptions the same way as social relationships. I fill my connection to the greengrocer on the corner, which I define as a relationship between a seller and a buyer (and which, consequently, is a concrete manifestation and a sub-case of the type of the relationship between sellers

[10] In this context, the word 'problem' has a highly general meaning. For example, in everyday life finding the appropriate form of behaviour or course of actions in a given situation occurs as a problem. It is exactly the well-known character (if it is really well-known) of such a search of the most appropriate actions that makes this process routinish. So, a *problem* does not necessarily involve something *problematic*.

and buyers), with content and expectations on the basis of presumptions appertaining to this definition.

So, the same cognitive scheme of the types is also applied to everyday interpersonal relations, where, in all the ordinary situations, we always expect definite behavioural (or, broadly speaking: *functional*) patterns of our fellow-men classified into certain types. Of course, these expectations of ours obviously determine our own behaviour as well – or, at least, constrain the set of elements of behaviour available in certain situations. And it is exactly this scheme, the set of types that also plays a role in the Weberian understanding of actions, since instead of the unravelling of all the details of the subjective meaning behind the actions taken by our fellow-men (which may be neither possible nor necessary), it is enough to boil down a perceived action to the driving forces, to the situations, to the purposes and instruments that appertain to the type I identify in the background of a given act [Hernádi 1980: 43]. Postulating the existence of our fellow-men or presuming them to have conscious minds similar to ours also work as presumptions in everyday thinking. Moreover, we expect them to perform cognitive actions (or, to put it simple: *to think*) within a system of types similar to ours – and it holds true not only of the structure of the set of types but also of their content. We take it for granted that the girl next door also possesses the cognitive type of the dogs, one of the elements of which is that dogs tend to bark. Personal types connect different competences to different functions. The type of a postman does not enable us to expect high-level trading experience, while, for example, we are justified to presume a bank-clerk to be good at mathematics.[11] Moreover, presuming our fellow-men to use similar types makes it possible to change or relocate the perspective of looking at the life-world: I think that other people judge a particular action of mine similarly to the way I would judge a similar action of others [Hernádi 1978a]. Actually, it is far bigger a problem than it first seems to be: it is about the problem of interpreting behaviour shown during an interaction. I may not actually and certainly know the driving forces behind an action of one of my fellow-men – on the basis of observing his behaviour, the only thing I know is that if *I* took the same action as *him*, what motivation or background consideration (thought to be identified) my own action *would* signify. At the same time, I am also aware of the fact that if I actually took this action, my fellow-men would probably suspect the same purpose behind my acts as I am suspecting now behind their actions being either actually observed or only hypothetically dreamed.

[11] Of course, not only personal types involve sets of competences like this. To the type of dogs (i.e. dogs in general), I am ready to affix their ability to fetch the ball as a characteristic feature. This ability is also a competence.

Conclusions: phenomenology as a complementing and supporting method for creating scientific knowledge

The types used in thinking perform well in everyday situations, but it lets us down under, say, the laboratory conditions of trading games. In everyday life, I am continuously able to define my current situation: I know well that I am at a post office now, then I am going to have lunch with a friend of mine somewhere in the high street. These situational definitions govern my actions, since in situations defined as one thing or another I must (or should) behave in known ways. Moreover, such definitions endow me with expectations on the behaviour of the interacting people. If I know and properly define a situation, I will also know how to behave – and if I know the types which my interacting partners should be assigned to (because I succeeded in classifying them), I will be considerably aware of their behaviour, their features, and what sort of competences and capabilities to expect of them. Types, presumptions, situational definitions: combined into a sophisticated complexity, all of them govern our everyday lives. However, anonymity in the experimental situations mentioned above is so high and the environment is so messy and unknown to us that we are almost unable to classify our fellow-players into one type or another that would really support our cognitive efforts. My life-world gets constrained, my usual cognitive schemes, at least temporarily, do not work, so I am forced to rely on my *here-and-now* experiences by which I am making efforts to launch my reference schemata blocked by the artificial environment and anonymity.[12] Events, personal and interpersonal actions experienced in my surrounding environment are all the manifestations of my fellow-men's cognitive life, so I try to interpret and use them the way they are. As in my everyday life, in a laboratory situation I also witness how my partners are building up their behaviour. A flow of expectations is continuously typical of me, according to which certain individuals in certain situations are predicted to act in certain ways, which are directly deduced from their types – the types that contain them one by one. However, these expectations are uncertain in this case. How can an individual start his reference schemata under the laboratory conditions mentioned above? What substituting systems are available? It is exactly the answer to these questions that would be the result of a phenomenological analysis of the situation. It is almost certain that a phenomenological analysis would reveal the reason why and the way how in replayed experiments the bubbles start to disappear

[12] Here, we can refer to those experiments in ethnomethodology which were aimed at the problem of making the unconsciously known presumptions explicit on one hand, and (which is more important in our current context) analysing the actions people take upon confusion in order to put the routinish cognitive system back on track [Garfinkel 1967]. Some researches were directed to discovering the behavioural automatisms lying in the background of market mechanisms [cf. Hernádi 1978b].

or the price tends to converge towards the intrinsic value. In other words, how and why do the players get to that level of knowledge which is postulated by the theory of rational expectations? For now, we have to be satisfied with the hypothesis that in the experiments highlighted above it was the finding of the adequate situational definition, the launch of the reference schemata, the possibility of applying the set of presumptions again that made the simulated bubbles fade away. In certain situations (identifying the actual situation is ensured by the adequacy of my situational definition) I expect other people to take certain actions. Who are these "other" people? I can answer this question on the basis of the types. If, however, these types (strategies) are not available at the moment (or can be applied rather uncertainly), then our behaviour, in the lack of a well-functioning program, will be accidental, since we are in a state of some overlapping and crossing cognitive actions. We are looking for precedents, we are forming precedents and, at the same time, we are doing our best to define the situation. Momentarily we are not certain about whether the actually experienced situation can be boiled down to a known rule of behaviour, or we have to distil only a useful rule of thumb in the given situation on a trial-and-error basis. The individual features of life and the socialisation process determine our direction to follow. By the end of the repeated experiments, however, we are mostly familiar with the situation. We will have a proper situational definition as well as useful knowledge of our playmates' driving forces and their types or even of the rules themselves, gained on the basis of the experienced actions.

It is not too difficult to think over what the benefits of a phenomenological analysis may be for economics. Here, without drawing up a detailed menu, I would like to mention the approach according to which there is rather a *complementing* than a *substituting* relationship between certain scientific methods and strategies. That is to say, despite the difficulties that can be solved by a phenomenological approach, it is still *not* true that mainstream economics having shown up as a pure theory has lost its relevance as to economic reality. Phenomenological economics will never be able to offer recommendations about a proper monetary policy on its own. Mainstream economics has at least significantly broadened the set of aspects and considerations about this problem. Pure theory establishes the ideal-types of pure instrumentally rational economic actions, while experimental economics, by decomposing economic actions into elementary particles, is able to highlight *how* the behaviour of a typical individual *in a given environment* is different from the predictions of the pure theory. Although it is true that in mainstream economics all macroeconomic consequences are traced back to the well-defined *functional* (sic!) characteristics of the (representative) individuals, these characteristics are only indirectly connected, through strong and (over)simplifying abstractions, to the behavioural patterns of actual economic agents. As we have just seen, experimental economics is not the science of life-world either. A phenomenological analysis would help us to register the behaviour of economic agents working in

the life-world (in this case, it would serve as a simple description), and, what is more, to identify and list the *actual* differences and similarities (which are not revealed by experimental economics, due to its preferred environment) between the actions of pure theoretical actors and actual economic agents. Discovering the acts of the conscious minds of economic agents is a separate and independent purpose and maybe the most important one.

If we set offering a deep analysis of economic life-world as our purpose (or, in other words, a deep analysis of the spheres of the life-world relevant in terms of economics), which inherently involves the revealing and understanding of the acts of the agents' conscious minds, these spontaneous acts should always be exposed to scientific inquiry in their own unquestioned reality. In the background of the phenomena of everyday life there is always a set of ordinary knowledge, about which, economics has not been inquisitive so far.[13] It is exactly the revealing of these systems of knowledge that stands in the centre of the scientific interests in this case [cf. Hernádi 1977]. So, whether an expectation formed by an economic actor is rational or not is not the question: the mainstream economic theory formulated some explicit criteria on the basis of which it can easily be judged, by applying formal econometric tests. However, in a phenomenological inquiry, we do not question the acts of the conscious mind (in this example, the rationality of expectations on a variable), but try to reveal the way it formed. We do not have to prove or refute the actuality of everyday life and the way this actuality is built up – rather, we should learn and describe it. We should scrutinize *how* everyday life appears for those living in that. The actions of the conscious minds through which everyday reality is maintained are not subordinate compared to the focus of our currently popular methods.

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[13] In the case of behavioural economics, for instance, we can see some positive efforts which point exactly to these directions. Describing some simplifying mechanisms of everyday thinking [e.g. Tversky and Kahneman 1974] is an outstanding example. However, we have to be aware of the fact that, even in this case, the functioning of the mechanism, the way the agents operate it, the cognitive actions of the agents all remain hidden, so it is not more than summing up some experimental results.

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