



Dear Undercover Economist: Priceless Advice on Money, Work, Sex, Kids, and Life's Other Challenges

By Tim Harford

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In Dear Undercover Economist, the first collection of his wildly popular Financial Times columns, Tim Harford offers witty, charming, and at times caustic answers to our most pressing concerns—all through the lens of economics. Does money buy happiness? Is “the one” really out there? Can cities be greener than farms? Can you really “dress for success”? When’s the best time to settle down? Harford provides brilliant, hilarious, unexpected, and wise answers to these and other questions. Arranged by topic, easy to read, and hard to put down, **Dear Undercover Economist** lends an outrageous, compassionate, and indispensable perspective on anything that may irk or ail you—a book well worth the investment.

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Editorial Review

Review

“Harford writes like a dream—and is also one of the leading economic thinkers of his generation.”—David Bodanis, author of *Electric Universe*

About the Author

Tim Harford is the author of the bestseller **The Undercover Economist** and **The Logic of Life** and a member of the editorial board of the *Financial Times*, where he also writes the “Dear Economist” column. He is a regular contributor to *Slate*, *Forbes*, and NPR’s *Marketplace*. He was the host of the BBC TV series *Trust Me, I’m an Economist* and now presents the BBC series *More or Less*. Harford has been an economist at the World Bank and an economics tutor at Oxford University. He lives in London with his wife and two daughters.

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Chapter One

Speed dating with a money-back guarantee

It is not for nothing that sex, dating, and relationships have traditionally formed the staple of the agony column. Wise words on these subjects are not easy to find. Not many people want to ask their parents for tips about losing their virginity. It is no less embarrassing to seek the opinions of colleagues as one contemplates an extramarital affair. We know that envious friends may not always give us impartial advice when we wonder whether we have, at last, found “the one.” What could be more welcome in such cases, then, than the cool counsel of economic rationality?

Economists, it is true, do not generally enjoy a reputation as lotharios—unsurprisingly, when the economist’s response to the delicate question of faking orgasms is to reach for the analytical framework of a two-player signaling game. But economists do not dismiss love. On the contrary, we are unorthodox experts in the romantic arts. Economists understand decision-making in the face of uncertainty. We understand the dangerous blandishments of cheap talk and the value of binding commitments.

Above all, economists understand the concept of non-zero-sum games, interactions in which both sides can expect to benefit from the bargain. When it comes to love, you could even say that we economists are optimists.

September 6, 2003

Dear Economist,

My boyfriend and I have been seeing each other for a while, and last month he moved in with me. It seems sensible for us to put his apartment on the market, but he’s suggesting that we wait awhile in case things don’t work out. What would you advise?

—V.H., via email

Dear V.H.,

Modern living has made it so much more difficult to judge where you stand.

Mothers used to teach their daughters not to believe suitors' promises that they would still love them in the morning. Then, commitment was made in the form of a marriage proposal. But when courts in the U.S. stopped allowing women to sue for breach of promise, it became traditional to back up those promises with diamonds, a girl's best friend.

Times have moved on, and it is much more difficult for both men and women to gauge their partners' seriousness. But if you apply a spot of screening theory to your domestic situation, you will discover exactly where you are. (Screening, the theory of which won enfant terrible Joe Stiglitz a share of the Nobel Prize in 2001, is the art of finding out hidden information by forcing people to act rather than simply murmur sweet nothings.)

If your boyfriend is enjoying the perks of living with you but lacks real commitment to your relationship, then he enjoys a high option value from owning an apartment to which he can return. This is true even if he loves you but doubts the constancy of that love.

If, on the other hand, he is convinced that you will grow old together, the option value of a spare bachelor pad is minimal. The only reason for him to hold on to the apartment is that he thinks it's a good financial investment. Pundits can argue about the merits of this, but clearly the potential rewards are trivial compared with the loss of his soul mate.

To screen for your boyfriend's type, you must demand that he sell his apartment at once—claim that the Financial Times has been predicting a fall in prices, if you wish.

The art of successful screening is to impose a demand that one type of person is unwilling to meet. You don't want to

be sharing a house with that type of person, so put your foot down.

Yours credibly,

The Undercover Economist

February 14, 2004

Dear Economist,

I have a Valentine's Day problem.

I will be taking my sweetheart out for a romantic dinner, and I know how it will conclude: Juliet will refuse dessert, I'll order a chocolate cake, and she will proceed to eat most of it. I find it an infuriating habit. Can you offer me any advice?

Yours sincerely,

—Romeo, Verona, Italy

Dear Romeo,

It is safe to say that you will never persuade Juliet to order her own dessert, and ordering two for yourself as a joke is likely to be lost on her. You must take the quantity of cake as fixed and your problem as simply one of division.

This problem is not insoluble if basic utility theory is inventively deployed. Normally, utility theory allows us to choose between spending income on different goods. Your problem is how to choose between two goods: cake for you and cake for Juliet (which will also make you happy, since you love her). Your calculations are complicated by the fact that while Juliet enjoys eating cake, she also enjoys watching you eat cake. Each of you would, given the choice, only eat part of the cake and donate the other part to your lover. But how much to donate?

Fortunately, the economist Ted Bergstrom tackled the necessary equations fifteen years ago. All you need to do is work out how strong your love is for Juliet, compared with your love for cake—and perform the same calculation for her. Substituting the result into Bergstrom's equations gives you the answer. If you both tend to prefer cake, you will have to split the difference and each concede some cake to the other. If you care little for cake but love to watch each other enjoying it, you will try to foist the cake on each other.

True selflessness comes when both agree, without haggling, what the ideal division of cake should be. Then, love is in the air.

Yours altruistically,

The Undercover Economist

May 8, 2004

Dear Economist,

I am seventy-four, vigorous, wealthy, and boringly married. My girlfriend of eight years, who is thirty-seven, has found a man of her own age of moderate means. She has assets of £300,000 and a salary of about £50,000. I had intended to give her £250,000 and would still do so if she continued a discreet relationship with me. What do you think?

—Mr. Smith

Dear Mr. Smith,

Your plan must overcome two obstacles. First, Milton Friedman's "permanent income hypothesis" invites us to consider any temporary windfall in terms of the income it could generate in perpetuity. Your payment of £250,000, while substantial, would generate a permanent income of roughly £5,000 at prevailing real interest rates. This is only a modest sum compared with your girlfriend's salary, although perhaps less modest if she proposes starting a family and living off the income of her new beau for several years. In other words, your offer is serious money to her only if she plans to make a serious commitment to her other relationship—an unfortunate combination for you.

There is a second concern—you cannot write an enforceable contract setting out what you expect for your considerable outlay. It is true that many romantic and sexual relationships have a financial component. However, not many succeed on the terms you propose. They either proceed to implicit long-term contracts, or else are carried out as, ahem, spot market transactions.

You may find it distasteful to pay your girlfriend by the hour or day. Even if you do not, she will. You are likely to have more success sticking to the formula that has stood you in good stead for eight years: keep hold of your money but turn on the charm.

Yours discreetly,

The Undercover Economist

July 17, 2004

Dear Economist,

I've kissed a few boys in my time, and I plan to kiss a few more. Eventually, however, I'd like to settle down and have children. How long should I leave it?

Yours sincerely,

Caroline Breyer, Manchester, UK

Dear Miss Breyer,

Your candid query requires a nontrivial application of optimal experimentation theory. Start with a simpler variant: when visiting a regular restaurant haunt, at what point should you stop trying new dishes and simply order your favorite every time?

The answer depends on how much you like your favorite dish, your taste for variety, and how many times you plan to return. If you plan to return often, it's worth encountering many disappointments on your quest to find a dish that surpasses your previous favorite. If the restaurant is soon to close down, it's better to stick to your preferred dish for the few visits you have left.

A similar calculation applies to your question, which is complicated by the fact that you do not know with certainty either your rate of accrual of men nor the date at which you can no longer have children. But assume that you are able to "sample" one man every two months, and decide that, whatever happens, you will settle down by thirty-five. At the age of eighteen, you have 102 men to look forward to and should only settle down if you happen upon one in the top 1 percent.

If the years roll by without the appearance of Brad Pitt, you lower your critical threshold. You'll be encouraged to know that you can keep experimenting throughout your twenties without greatly lowering your standards. Even at thirty, a top 3 percent man will do. But do not wait forever. You may have to settle for an economist.

Yours experimentally,

The Undercover Economist

July 31, 2004

Dear Economist,

I love my partner, but he does not always satisfy me in bed. Sometimes I fake my orgasms—is this wrong?

—Ms. C.H., Nottinghamshire, UK

Dear Ms. C.H.,

Economics doctoral student Hugo Mialon argues that you need to analyze this as a two-player signaling game—a mathematical description of truth and lies. You have two choices—fake, or be honest about the earth's failure to move. (Mialon comments helpfully: "Faking is the strategy of a devoted girlfriend or courtesan, depending on whether the intent is to spare feelings or gain favors.") When you appear to be enjoying yourself, your partner also has two c...

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