

Objectives: (1) To have a working knowledge of rational choice theory, (2) to understand how prospect theory differs, and (3) to consider the practical implications of each theory for IR.

1 Key ideas

Question: What does it mean to be “rational”?

Answer: There are several notions of rationality, some more restrictive than others. On the less restrictive end is *instrumental rationality*: utility-maximizing choices under situational constraints. More restrictive is *substantive rationality*, which emphasizes ends over means. For rational choice theory in IR, to be substantively rational generally means that your choices conform to the dictates of self-regarding materialism. The most restrictive type of rationality is *procedural rationality*, which requires actors to not only act rationally but also think rationally. To be rational you not only need to make the optimal choice given your beliefs but you also have to make sure your beliefs are well-supported given the evidence and that the evidence comes from an optimal information gathering process.

Question: What are OEP’s main assumptions, and how does that connect to substantive rationality?

Answer: The foundational assumption of OEP is that an actor’s interests have material sources. Specifically, your interests depend on your position in the global economy. A corollary is that individuals share identical interests with their economic groups (e.g., laborers vs. capitalists). OEP adopts substantive rationality because of its assumptions around where utility comes from (material sources).

Question: What are Fearon’s three rationalist explanations for war?

Answer:

1. *Private information*: states have incentives to misrepresent private information about resolve, which can lead opponents to make demands outside of the bargaining range.
2. *Commitment problems*: states can’t credibly commit to not taking advantage of a future power shift.
3. *Indivisible issues*: states cannot bargain because there is no acceptable division of the pie.

Question: How is prospect theory different from expected utility theory (EUT)?

Answer: EUT predicts actors will make choices by weighing the utility of outcomes by their probabilities. EUT assumes that actors are risk-averse when it comes to money (i.e., they face diminishing marginal utility/a concave utility function). But often, actors are not risk-averse when facing risky choices (e.g., gambling). Prospect theory helps explain this puzzle: (a) actors aren’t worried about their net utility but are instead preoccupied with gains and losses relative to a reference point, (b) actors are risk-averse in the domain of gains but risk-acceptant in the domain of losses, and (c) actors overweight small probabilities.

Question: What are the two phases of the prospect theory choice process?

Answer:

1. *Editing*: coding the reference point, framing the outcomes as gains/losses, and simplifying probabilities.
2. *Evaluation*: deciding among edited prospects, opting for the option with the highest value (per the S-shaped value function and distorted probability weighting function).

Question: What do endowment effects and loss aversion imply about deterrence and compellence?

Answer: Loss aversion is the notion whereby “losses loom larger than gains,” and the endowment effect is the phenomenon whereby we assign higher values to things we already possess. Together, these biases make compellence a more difficult task than deterrence. This is because compellence requires making an adversary give something up, whereas deterrence only requires maintaining a status quo.

2 A territorial crisis

Scenario

Country A and Country B have a historical dispute over their shared border. Despite a heavy military presence on either side of the border, there has been no active fighting for several decades. But recently a new leader—a former top-of-the-class Ec concentrator—has come to power in Country B. This leader has been escalating revisionist rhetoric: it is time to reclaim “our” territory back from Country A. Country A is deeply alarmed but takes comfort in a favorable balance of power.

Round 1: A simple bargain

Country A is actively worried about war and think it’s time to come to the bargaining table. Country A wants to make an offer to Country B. What kind of an offer do you recommend? Select an option then roll the die for your outcome.

- *None*: Time to call Country B’s bluff. If you roll 1, 2, 3, or 4, bargaining failed—Country B invades.
- *Low*: There is a way to sue for peace, but you are not sacrificing much, especially since you have bargaining power... If you roll an odd number, Country B rejected your offer and invades.
- *Medium*: There is a way to sue for peace, but you are offering a bit more than the low-ball offer. If you roll a 1, Country B will reject your offer, otherwise you reach a negotiated settlement.

Round 2: Bargaining aftermath

Time to reckon with your prior choices for Country A:

- In the event war erupted, roll the die; if you land on a 1, 2, 3, or 4, you return to the status quo. Otherwise you lost territory.
- In the event you reached a negotiated settlement and the offer was low, congratulations. Now, ponder on commitment problems. If you roll a 1, Country B worries about the deal furthering the imbalance of power and invades while the gap isn’t too large.
- In the event you reached a negotiated settlement and the offer was medium, your work is not done yet. You must now sell the deal to your domestic audience lest you get voted out of office. Choose the framing for your slogan:
 - *A vast territory secured*: roll even for public support.
 - *A price to pay for peace and security*: roll 2 or 4 for public support.
 - *We gained more than Country B!*: roll even for public support.

Reflection

- What was your outcome, and how did you get there?
- Based off the context clues, what did you infer about leader B’s epistemic motivation and social value orientation (SVO)? How would alternative dispositional traits of leader B impact the game?
- What explains the war that potentially arises from this set up?
- Why does the framing of the settlement matter? Which proposal was a loss frame and which was a gain frame?
- How would you make this scenario more realistic, or what would you change if you were the designer?