Kirchler’s book has now appeared in its second, revised, and expanded edition. Written in a refreshing and digestible form, it draws upon both the essentials and applications of economic psychology in a competent and thorough way. The chapters covering decision making, decision anomalies, product image, psychology of money and taxation have undergone improvement and expansion. With its breadth of empirical studies and theoretical concepts from both psychology and economics, the book goes beyond most comparable textbooks and therefore offers a rich source not only for beginners, but also for advanced readers from both disciplines.

Kirchler’s book consists of two parts: Part I covers the foundations of economic psychology; part II introduces selected topics and applications. In the first part the author starts with a definition and a short historical outline of the field and contrasts the essential assumptions underlying human behaviour of psychology and economics. This contrast offers the specialist coming from only one discipline a stimulating and provocative view of how to understand and investigate human behaviour from a completely different perspective. The author continues his elaboration on the relationship between psychology and economics by a discussion of human decision making and decisions anomalies. Economists have succeeded in formulating normative decision models with only a few, systematically ordered and simple assumptions. Given a small number of assumptions, more complicated models like prospect theory have emerged which describe human decision making rather accurately. However, it becomes clear that in order to gain accuracy one has to pay the price of increased complexity in the modelling. Kirchler treats these issues sensitively and avoids falling into the trap of establishing a useless debate between economics and psychology. Further, the section gives an introduction into heuristics and biases, group decision making, decision making over time, and the role of reciprocity in the pursuit
of utility maximisation. Some topics could eventually receive more consideration: The text could profit from a more thorough treatment of specific issues like disappointment and regret theory, or some opposing views on the ongoing heuristics and biases debate.

In part II Kirchler turns to applied areas of economic psychology. Examples of the topics covered herein are: Lay people’s understanding of the economy; household decision making; production, price politics, distribution, and marketing of consumer goods; supply and demand in labour markets; and macro-economic issues. In line with the conceptual framework of the book, issues regarding work psychology and organisational behaviour are largely ignored. During most stages of this endeavour Kirchler establishes relevant links to his own research. Without losing track, most sections are written in a dialectic style, which fosters thinking and involvement. The author also presents selected research methodologies used in economic psychology like the diary approach or a labour market experiment. Such an introduction into research methodologies is highly desirable, although the selection of methodologies described may seem somewhat arbitrary. Possibly, the book could profit from a more systematic review of research methodologies, which are specific to economic psychology.

The last section of part II covers macro-economic aspects and deals for instance with the intriguing question: ‘Is it possible to buy happiness?’ In contrast to commonsense knowledge, there exist only moderate associations between indices of economic welfare and subjective well-being. Further topics include the measurement and predictive validity of the index of consumer sentiment, issues regarding the subjective value of money, inflation, saving behaviour, issues of taxation, shadow economy, and social dilemmas. A completely new topic that was not reviewed in the first edition deals with the introduction of the Euro, investigated both within and between different European countries. In short, this section gives an overview of economic psychology in its purest sense and informs the reader about the fruitful achievements so far. The chapter stands as a convincing argument to incorporate psychological variables in order to enhance economic predictions – even at a macro-economic level.

In sum, the strengths of Kirchler’s book clearly outweigh the weaknesses. It is digestible, the concepts explained are clear, the breadth of coverage and quality of reviews is impressive, new and relevant literature is included, the focus of the book is always present, connections between different concepts are drawn, and the text comes alive through numerous graphs, illustrations, and schematic outlines of theories. Congruent with the review of the first
edition in this journal, it must be said that at present the book can only be recommended for students and teachers in German speaking countries. Finally, my students liked the book – and I guess they will like the second edition even more.

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