

Rational Expectations and Social Exchange Theories

wayne.smith@csun.edu

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Course: *MGT 360*

Title: *Management and Organizational Behavior* (3 units)

“There is nothing so practical as a good theory.”

---Kurt Lewin (1890-1947)

Purpose

The purpose of this document is to help clarify the distinctions between two theories important in the life of a manager. Often, management in general, and successful management interventions specifically, lie at the *intersection* of two or more academic theories and/or two more professional practices. In particular, the proper application of organizational behavior concepts require a deep understanding of multiple (occasionally, competing) theories.

Comparing and Contrasting the two Theories

As used here, rational expectations theory is equivalent to rational choice theory. All categorizations below are general in nature. Reference to other source materials is beneficial.

Concept	“Rational Expectations” Theory	“Social Exchange” Theory
Academic Discipline	Economics (e.g., required for Bus. Majors)	Psychology (e.g., elective for GE)
Medium of Consideration	Tangible (e.g., money or units)	Intangible (e.g., tacit expectation)
Method of Evaluation	Quantitative benefit-cost analysis (e.g., measured in numbers)	Qualitative benefit-cost analysis (e.g., measured in words)
Study Approach	Analytic (e.g., deductive reasoning)	Synthetic (e.g., integration of conceptual ideas)
Target of Understanding	Prediction (e.g., “What will a similar future event look like?”)	Explanation (e.g., “What are the factors involved?”)
Assessment of Stability	Equilibrium (e.g., the market indicates that this is efficient)	Equitable (e.g., an organization or the society indicates that this is desirable)
Relationship Granularity	Relatively small (e.g., “I bought my car from the least expensive provider”)	Relatively large (e.g., “I use the same laundry detergent as my mom uses”)
Relationship Duration	Relatively short (e.g., “I switch between FM stations quite often)	Relatively long (e.g., “I have been in the construction business for past 30 years”)
Relationship Reciprocity	None, or almost none (e.g., a supermarket purchase)	Some (e.g., request an organizational favor)