**CHAPTER TWO**

**Social Construction of Economic Institutions**

**Neo-classical theory of economy and their critics**

**Neoclassical economics** is a term variously used for approaches to [economics](http://en.wikipedia.org/wiki/Economics) focusing on the determination of prices, outputs, and income [distributions](http://en.wikipedia.org/wiki/Distribution_%28economics%29) in markets through [supply and demand](http://en.wikipedia.org/wiki/Supply_and_demand), often mediated through a hypothesized maximization of [utility](http://en.wikipedia.org/wiki/Utility) by income-constrained individuals and of [profits](http://en.wikipedia.org/wiki/Profit_%28economics%29) by cost-constrained firms employing available information and factors of production.

Neoclassical economics dominates microeconomics. Although neoclassical economics has gained widespread acceptance by contemporary economists, there have been many critiques of neoclassical economics, often incorporated into newer versions of neoclassical theory.

Neoclassical economics is characterized by several assumptions common to many [schools of economic thought](http://en.wikipedia.org/wiki/Schools_of_economic_thought). There is not a complete agreement on what is meant by neoclassical economics, and the result is a wide range of neoclassical approaches to various problem areas and domains—ranging from neoclassical theories of labor to neoclassical theories of demographic changes.

### Three central assumptions

As expressed by [E. Roy Weintraub](http://en.wikipedia.org/wiki/E._Roy_Weintraub), neoclassical economics rests on three assumptions, although certain branches of neoclassical theory may have different approaches:

1. People have [**rational preferences**](http://en.wikipedia.org/wiki/Rational_choice_theory) among outcomes that can be identified and associated with a value.
2. Individuals [**maximize utility**](http://en.wikipedia.org/wiki/Utility_maximization)and firms [**maximize profits**](http://en.wikipedia.org/wiki/Profit_maximization)**.**
3. People act independently on the basis of [**full and relevant information**](http://en.wikipedia.org/wiki/Perfect_information)**.**

From these three assumptions, neoclassical economists have built a structure to understand the allocation of scarce resources among alternative ends—in fact understanding such allocation is often considered the definition of economics to neoclassical theorists. Here's how [William Stanley Jevons](http://en.wikipedia.org/wiki/William_Stanley_Jevons) presented "the problem of Economics".

"Given, a certain population, with various needs and powers of production, in possession of certain lands and other sources of material: required the mode of employing their labor which will maximize the utility of their produce."

From the basic assumptions of neoclassical economics comes a wide range of theories about various areas of economic activity. For example, profit maximization lies behind the neoclassical [theory of the firm](http://en.wikipedia.org/wiki/Theory_of_the_firm), while the derivation of [demand](http://en.wikipedia.org/wiki/Demand) curves leads to an understanding of [consumer goods](http://en.wikipedia.org/wiki/Consumer_good), and the [supply](http://en.wikipedia.org/wiki/Supply_%28economics%29) curve allows an analysis of the [factors of production](http://en.wikipedia.org/wiki/Factors_of_production). Utility maximization is the source for the neoclassical theory of consumption, the derivation of demand curves for consumer goods, and the derivation of labor supply curves and [reservation demand](http://en.wikipedia.org/wiki/Reservation_price).

Market supply and demand are aggregated across firms and individuals. Their interactions determine equilibrium output and price. The market supply and demand for each factor of production is derived analogously to those for market [final output](http://bea.gov/bea/glossary/glossary.cfm?key_word=Final_use&letter=F#Final_use) to determine equilibrium income and the income distribution. Factor demand incorporates the [marginal-productivity](http://en.wikipedia.org/wiki/Production,_costs,_and_pricing) relationship of that factor in the output market.

Neoclassical economics emphasizes equilibria, where equilibria are the solutions of [agent](http://en.wikipedia.org/wiki/Agent_%28economics%29) maximization problems. Regularities in economies are explained by [methodological individualism](http://en.wikipedia.org/wiki/Methodological_individualism), the position that economic phenomena can be explained by aggregating over the behavior of agents.

[**Criticisms of Neoclassical Economics**](http://en.wikipedia.org/wiki/Criticisms_of_neoclassical_economics)

Neoclassical economics is sometimes criticized for having a [normative](http://en.wikipedia.org/wiki/Normative_economics) bias. In this view, it does not focus on explaining actual economies, but instead on describing a "utopia". The assumption that individuals act rationally may be viewed as ignoring important aspects of human behavior. Many see the "[economic man](http://en.wikipedia.org/wiki/Homo_economicus)" as being quite different from real people. Many economists, even contemporaries, have criticized this model of economic man. Neoclassical economics assumes a person to be,

"A lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift about the area, but leave him intact."

Large corporations might perhaps come closer to the neoclassical ideal of profit maximization, but this is not necessarily viewed as desirable if this comes at the expense of neglect of wider social issues.

Neoclassical economics is also often seen as relying too heavily on complex mathematical models, such as those used in [general equilibrium](http://en.wikipedia.org/wiki/General_equilibrium) theory, without enough regard to whether these actually describe the real economy. Many see an attempt to model a system as complex as a modern economy by a mathematical model as unrealistic and doomed to failure. A famous answer to this criticism is [Milton Friedman](http://en.wikipedia.org/wiki/Milton_Friedman)'s claim that theories should be judged by their ability to predict events rather than by the realism of their assumptions. Mathematical models used in contemporary research in mainstream economics as having transcended neoclassical economics, while others disagree. Critics of neoclassical economics are divided into those who think that highly mathematical method is inherently wrong and those who think that mathematical method.

In general, allegedly overly unrealistic assumptions are one of the most common criticisms towards neoclassical economics. It is fair to say that many (but not all) of these criticisms can only be directed towards a subset of the neoclassical models (for example, there are many neoclassical models where unregulated markets fail to achieve Pareto-optimality and there has recently been an increased interest in modeling non-rational decision making).

**The Role of Interest in Social Analysis**

Ever since the middle Ages, one form or another of what can be called *interest analysis* has been widely used to study society in the West. The history of this type of analysis is little known;

The term “interest” was originally economic in nature (as in “rate of interest”) and can be found in such places as Roman law. During this early stage the term “interest” was restricted in meaning and held at best a peripheral place in the discourse of the time. This changed when the concept of interest started to be used in political life. During the seventeenth century interest became a fashionable concept, oscillating between a synonym for ruthless, Machiavellian behavior on the part of the rulers and simply a helpful way of analyzing people’s behavior. It was during this time that the maxim “Interest Will Not Lie” became popular. References were also made to various group interests, such as “legal interests,” “landed interests,” and “moneyed interests” (Gunn 1968).

During the seventeenth century, especially in French moral philosophy, a psychological concept of interest was developed by people like La Rochefoucauld and Pascal. Some of the complexity that these authors brought to it can be illustrated by La Rochefoucauld’s maxim “Self-interest blinds some, but enlightens others”. Several eighteenth-century philosophers, most importantly David Hume, were also fascinated by the role of interests in human affairs, as is evident from *A Treatise of Human Nature* (1739–40) as well as from *Essays* (1741). Hume broke, for example, with the idea that interests were somehow fixed, once and for all, and were the product of human nature and biology: “Though men be governed by interest, yet even interest itself, and all human affairs, are entirely governed by opinion”. On this point he differed from the French philosopher H´elvetius, who a little later stated that “as the physical world is ruled by the laws of movement, so is the moral universe ruled by laws of interest” that economists also found the concept of interest useful is clear from a number of passages in *The Wealth of Nations* (1776) by Adam Smith. The most famous of these reads as follows:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. As is well known, Smith also suggests that individual interests somehow end up furthering the general interest, as if guided by “an invisible hand.” “however so selfish man may ever be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though his drives nothing from it, except the pleasure of seeing it”.

Interest can be material as well as ideal( that is, religious, political and so on). All interests are social in the following two ways:

1. They are a part of a society into which the individual is born;
2. The individual has to take other actor into account when he/she tries to realize his/her interests.

There are several advantages to using the concept of interest in sociological analysis of the economy. For one thing, there is a chance that one would otherwise fail to understand the strength that underlies an action. What makes people go to work every day, and what drives each and every private cooperation is the first and foremost economic interest. The concept of power and power resources some of the phenomena as interest, but by no means all. Secondly, interests may help to explain why one route of action was taken, rather than another. Why some alternatives may be very attractive to the actor, due to her/his interest, others may not have interest at all. In other words interest influences the decision of the actor. Similarly, by using the idea of economic interest a dynamic is brought into the analysis, which differs from the one that is driven exclusively by social interaction. Interest can oppose each other; they can reinforce each other, and so on.

Finally, through the concept of interest, we can establish a natural link not only to the biological side of human beings but also to their environment. Economic interests are ultimately rooted in the need s of the human organism and its dependence on the environment. Equally as important as introducing the concept of interest into economic sociology is to avoid the stance of mainstream economics via-a-vis interests, which is usually profoundly a sociological and even naturalistic in nature. Several points need to be made here. First, the notion of interest being advocated is close what Alfred Sehtutz calls “construct of the second degree,” namely an analytical concept that has been invited by the social scientists to analyze social reality. Beside the concept of interest, in other words, is analytical tool. Second, in realizing her/his interest the actor has to orient herself/his self to other actors in various ways; the social structure must consequently must always be a part of the analysis. Third, as opposed to the economists, for whom there only exist one type of interest (which, by assumption, is fully understood by maximizing economic actor).

**Social Networks**

The empirical terrain covered in the economic sociology literature ranges widely, including the following analyses of how networks influence economic activity.

1. Networks represent **informal** relationships in the workplace and labor market that shape work related outcomes. Social ties and economic exchange can be deeply interwoven, such that purposive activity becomes “entangled” with friendship, reputation, and trust.

2. Networks are **formal** exchanges, either in the form of asset pooling or resource provision, between two or more parties that entail ongoing interaction in order to derive value from the exchange. These more formal network relationships may be forged out of mutual need, but can also lead to interdependence and repeated interactions that reduce the need for formal control.

3. Networks are **a** **relational form of governance** in which authority is broadly dispersed; such arrangements are more commonly associated with settings where both markets and environments change frequently and there is a premium on adaptability.

Much of the literature has celebrated this flexibility, but it is important to recognize that this form of organizing can be found in an entrepreneurial firm, a terrorist cell, an organization with extensive use of cross-functional groups, an international company with many cross-border alliances, or an illegal drug cartel. The flexibility of networks can be tapped for good or detriment.

Studies of these diverse forms of economic activity commonly share several key assumptions.

First, the analytical focus is more on the nature of the relationships than on attributes of the actors.

Second, attention is directed to location within the larger context in which information and resources flow. Finally, there are increasing returns to “investments” in relationships and position, which can produce rapid mobilization, cumulative advantage, or “lock-in.” Our goal in this chapter is to survey the rapidly expanding empirical literature on networks and economic life, while emphasizing the conceptual and theoretical advances that this research draws on. To serve this dual aim, we begin first with a brief overview of key analytical tools used in network research.

**Economic Distribution and Exchanges**

When goods and services are given away, purchased, sold, or traded, there are potentially two components of exchange-pure economic gain and social gain. Both of these motives usually occurs at the same time in non-markets economies, the social components is often missing except when the exchange in between relatives of friends. With the strangers, the social gain is always scarified for efficiency and speed. Important exchange items in non-market economies include many more things than food and manufactured objects. The most valued gifts are likely to be courtesies, entertainment (e.g., songs, dances, and speeches), curing, military assistance, women (to be wives), and children. Men giving female relatives to potential male allies have been a powerfully bonding tool throughout most of the world.

1. **Reciprocal Exchanges**

Gift exchanges are usually reciprocal. That is to say, if you receive a gift, you are obliged to repay it with other gift. Reciprocity typically results in a continuing sequence of giving, receiving, and repaying gifts. Breaking this obligation to continue the reciprocity is commonly seen as a slight or even a rejection of other person involved in a exchange. Reciprocity is a binding mechanism in that its continuance helps to hold families and friend together. Reciprocal exchanges generally do not redistribute a society’s wealth in a way that causes some people to become richer than others. Rather, they usually result in circulation of goods and services. There is not a net economic loss for individuals because they ultimately receive gifts in return. Reciprocity requires adequacy of response but not necessarily mathematical equality. For instance, when adults give a gift that cost some amount of money to a child, they do not expect that child will reciprocate with a gift that also cost6 the amount of money. If the child reciprocate with a gift that also cost the same amount of money. If the child reciprocates with a small painting he or she made in school, it is usually considered to be a more than adequate response.

**Types of Reciprocity**

Reciprocal exchanges are not all alike. In 1965, Marshal Sahlins argued that there are three distinct types of reciprocity refer to transactions that occur in human societies around the world. These are generalized, balanced and negative reciprocity.

**A. Generalized Reciprocity:** Generalized reciprocity is gift giving without expectation of immediate return. Generalized reciprocity referrers to transactions that are putatively unselfish, transaction on the line of assistance given and, if possible and necessary, assistance returned. It involves indefinite or giving without expectation of return, is associated with a family. Generalized reciprocity is an informal gift giving for which no accounts are kept and no immediate or specific return expected. It involves an exchange between closely related people in which the giver expected nothing concrete in return. It is not necessarily classified as altruism, but resembles sharing by social contract.

**B. Balanced Reciprocity:** balanced reciprocity refers to direct exchange. It involves of exchanges of equal value between people, and is the return and goods received should be in equal value. Perfectly balanced reciprocity, the simultaneous exchange of the same types of goods to the same amounts, is not only conceivable, but ethnographically arrested in certain marital transactions, friendship-compacts, and peace agreements. Balanced reciprocity is more loosely applied to transactions that stimulate returns of commensurate worth and utility within a finite and narrow period. It is less ‘personal’ than generalized reciprocity, and is ‘more economic’. The pragmatic test of balanced reciprocity becomes an inability to tolerate one-way flow. In the case of balanced reciprocity, the social distance between giver and recipient increases relative to generalized reciprocity. It is direct exchanges where the two parties involved seek to arrive at a mutually acceptable price or exchange for goods or services. It involves an exchange outside the immediate family and the giver expects something in return. If there is no reciprocation, the relationship between the two parties will be strained. With balanced reciprocity there is an explicit of immediate return. Simple barter or supermarket purchases involve this understanding. If you walk out a store without paying for the goods that you have taken, very likely will be stopped by the store employees and possibly arrested because you failed to immediately reciprocate with the appropriate amount of money Christmas gifts in the western world are also usually a form of roughly balanced reciprocity. If you go to the home of relatives or close friends on Christmas and give the there is an expectation that you will receive gifts in return at the same time. If you do not receive them, you are likely to infer that your relatives or friends either made a social mistake or do not care about you. On the other hand, giving a birthday present is more like generalized reciprocity because you do not expect a gift in return when you give one. However, You may expect to get one from the recipient of your gift later in the year when your birthday comes along.

**C. Negative Reciprocity (the unsociable extreme):** Negative reciprocity is the attempt to get something for nothing indicative ethnographic terms include ‘’ haggling`` “bargaining”, “gambling”, “chicanery” “theft” and other variety of seizure. It involves economic in which people seek to gain all at the expense of others, and is associated with dealings with strangers or people outside the community it is the most impersonal sort of exchange. The participant in “barter” say for instance confronts other as opposed interests, each looking to maximize utility at the other’s expense. Negative reciprocity is an exchange between enemies or strangers in which each side tries to get better and of the bargain. It happens when one person in an exchange tries to get something for nothing of for less that it’s recognized worth. Hence it is an exchange relationship in which parties do not trust each other and are strangers. The giving must be reciprocated immediately and there is very little communication, if any, between groups. Negative reciprocity occurs when there is an attempt to get someone to exchange something he or she may not want to give up or when there is an attempt to get a more valued thing than you give in return. This may involve trickery, coercion, or hard bargaining. For instance, your neighbor may be offered a new job in a distant city starting in two days. She desperately needs to sell her car before she leaves it is nearly new and it cost her $22,000 You offer her $10,000 which she reluctantly accepts because there is no other choice. You’re taking advantage of her situation in negative reciprocity.

**2. Redistributive Exchanges**

Redistribution is the mechanism whereby a politically or economically powerful individual (or group) collects goods and services form the members of society and reallocates them among the society’s members. In redistribution, products move from the local level to a hierarchical center and sent back down to the local level. Redistribution is the main form of exchange in chiefdoms and some industrial states and works with the market system an example of redistribution is the collection of taxes form citizens earmarked for designated purposes at a local level including social services, education medication and road building. According to polayni (1957) the key features of redistribution (‘’appropriation movements towards a center and out of it again’’) was its centrality of organization. He believed that centrality was natural to all human societies. Pooling is a within relation, the collection action of the group, whereas reciprocity is a between relation which involve the action and reaction of two parties. While redistribution is the compliment of social unity “centricity”, reciprocity is simple social duality and “symmetry”. Hence, pooling stipulates a social center where goods meet and flow outwards. It also stipulates a social boundary within which persons are cooperatively related. But, reciprocity stipulations only two sides, two distinct social-economic interests. It can establish solidarity relations, in so far as the material flow suggests assistance or mutual benefits. Some economic exchanges are intended to distribute a society’s wealth in a different way that exists at present. These are referred to as redistributive exchanges. They usually function economic leveling mechanisms. In the modern world Charity and progressive income tax systems are examples of redistributive exchanges. Progressive income taxes are intended to make people with greater wealth give at higher rates than those at the bottom of the economic ladder Some of the tax money is then allocated to help the poorer members of society The intended net effect is to reduce or prevent extremes of wealth and poverty when wealthier individuals in a society make charitable donations, it can have a similar effect. When the donors get in return may be a tax advantage, a relived social conscience or increased social status and recognition. Indeed, one of the main reasons that some very wealthy individuals make sure that their large charity donations are publicized is because of the public recognition that results Redistributive exchanges are not unique to certain societies.

**3. Market Exchange**

Market economy is an economic system in which the distribution of goods and services take place through the mechanism of free markets guided by free price system. In a market economy a pre-condition for exchange to take place in the first place is private property. From sociological perspective, weber explains, property can be conceptualized as a specific form of a closed social relationship. More precisely, it represents a relationship that allows the actor to exclude other actors form the opportunity to use some item or some person. This right is also alienable can be inherited property is typically legally protected, which means that if it is infringed upon, a staff will use coercion to restore it. Once private property exists exchange becomes possible. The driving force in an exchange is always that both parties will be better off by trading with each other than by not doing so. Actor A may value his/her bike at $50 and Actor B at$70; and if an exchange to take place both will be better off and social wealth will have increased by $20. For an exchange to take place it is not necessary that one party becomes better off while on one is worse off (pareto optimality). What rather needed is that both parties become better off by X, without a third party being worse off by more than X, according to the so-called kaldor-Hicks concept of efficiency. This latter concept of efficiency is often used in economics because its demands are less stringent than those of pareto optimality. The reason for referring to is here, however, is that it explains the nature those of exchange very nicely; especially what drives the two parties to engage in an exchange in the first place. Sociologists and economists have developed different approaches to markets -to the role that these play in the economic process, to what is typically regulated in a market, and so on. To economists, markets are primarily processes for price formation, in which the price helps to allocate scarce resources in an efficient manner. By tradition, economists have neglected the institutional dimension of markets, such as rules for exchange, the enforcement machinery, and so on. Sociologists on the other hand tend to emphasize the role of social relations and institutions in market. Today’s sociologists will typically analyze the networks which are created by interacting market actors. Weber noted that markets consist not of repeated acts of exchange, but also of competition among the actors for who will be the one to sell and who will be the one to buy. This idea of ‘’competition for opportunities of exchange’’ is perfectly compatible with a networks approach, as Ronald Burt has shown in his theory of structural autonomy Given the fact that economists and sociologists each hold half of the truth, so to speak, when it comes to markets, it seems natural that they should try to coordinate their efforts. Economists need to better understand the role of the social relations in the market, and sociologists need to better understand how pries are formed and what effects have on the economy. Prices drive many economic changes in capitalism, as Douglass North has made clear but they do so via social structure in which interests are embedded, and where quite a bit else is going on as well. An economic sociology of markets should also study what changes in the exchange system make the capitalist wheel spin faster as well as what slows it down and makes it grind to a halt. According to the theory of transaction costs, lower costs for market deals are a sign of a more efficient exchange mechanism. This is true indeed, and there are economic reasons for it. Lower transaction costs in this context, however are simply accomplished through in social relations and in social mechanisms-and this is where the sociologists can be of help. Take for example, the clause of bona fide or the fact that if the buyer is in good faith it does not matter if the seller dis not acquire the goods in question in a proper manner. Bona fide naturally lowers the transaction costs- but is also a fact of such social complexity that the sociologist may be better equipped than the economist analyzing it. the same is true for many other forms of economic sociology is not only interested in what makes the wheels of capitalism spin faster; there is the equally challenging question of what makes the slow down or grind to a halt. Again weber’s work can be used for illustrations. If bureaucrats in a firm gain power at the expense of the entrepreneur, for example profit-making will be slowed down since bureaucrats are by nature somewhat alien to the idea of profit-making. One reason for this, weber says, has to do with the fact that people on a fixed income often find it dishonorable to be swayed exclusively by economic considerations. But there is also the fact that if individual firms and capitalists are not stopped in their attempts to create monopolies, capitalism may wither away because there will be not competition to Keep it alive. All in all, the market is the central institution in capitalism. To this should immediately be added that this is only true on condition that most of the production passes through the market In the great majority of societies throughout history, markets have indeed played a role, but usually a marginal one. It is only since the late nineteenth century, in countries such as England and the United States, that the great bulk of production food, clothes, and so on has been produced in the form of commodities which are exchanged in the market. When most of production passes through the market, it can be added the competition for exchange that Weber speaks about as characteristics of the market will also dominate what happens in the economy outside of the market. That is instead of just bringing a few surplus items to the market, as peasant often did in the middle ages, the producers in the modern capitalist economy must start the competition and think about the market long before they enter the market. When one speaks a market economy, in other words, what he meant is an economy where the market is not only used for exchange; it also dominates production and consumption.

**The social embeddedness of economic actions**

Polany’s most famous work is “the great transformation”.in the opposition to the idea of economists that claims market arise natural-they are created by state. In the nineteenth century revolutionary attempt was made in England to introduce market- centered type of society. But the attempt leads to catastrophe. Later, countermeasures were set to rectify (“the double movement”). But the measures were not successful. These measures, however, only further unbalanced society: and developments such as fascism in the twentieth century. The most famous concept associated with Polany’s work is “embeddedness”.according to him, economic action becomes destructive when they are “diembededd” or not governed by social non-economic authorities. The real problem with capitalism is that instead of society deciding about the economy, it is the economy that decides about society: “instead of economic system being embedded in social relationships, these relationships were now embedded in the economic system”. Degree of embeddedness can restrain and enable production, distribution, exchange and consumption.

1. **Cognitive embeddedness**: is how the way we think influences economic action.
2. **Cultural embeddeness**: focuses on categories, assumptions, and rituals from our social life shape our decision and actions. Economists tends to think that the rest of the world thinks as they do and the only hard economic rationality is important but culture is a powerful force in economic behavior and organization.
3. **Institutional embeddedness**: economies are not immediate exchange between buyers and seller but they are also rules that structure exchange of goods and services, working conditions and employment and the like.
4. **Political embeddedness**: economies are not immune to politics.
5. **Structural embeddedness**: provide resource (money, property, allies).

Another set of conceptual tools for economic sociology is Polany’s “forms of integration”. His general argument is that rational self-interest is too unstable to constitute the foundation for society. There are three forms of integration, or ways to stabilize the economy and provide it with unity. These are

1. Reciprocity, which takes place within symmetrical groups, such as families, kinship groups, and neighborhoods.
2. Redistributions, in which goods and services are allocated from a center in the community, such as the state ; and
3. Exchange, in which goods and services are distributed via price-making markets.

**The influence of culture and values**

A few economic sociologists have approached the study of economy from a different perspective and emphasize the way that culture and values influence economic phenomena. The most prominent contributors to this type of economic sociology are; Paul DiMaggio (1994) and Vivana Zelizer (1979, 1985, 1994); theoretical statements and empirical studies of a historical and qualitative character . Zelizer (1998) has sharply critiqued what she sees as an attempt in much of current economic sociology to eliminate values and to reduce everything to networks. Economic sociology, she argues, needs to introduce culture and values into analysis, while simultaneously paying attention to the social structure. Zelizer has also produced three empirical studies in which she attempts to show the impact of culture and values on economic phenomena. In the first of these, Zelizer (1985) looks at the same development of the life insurance in the U.S, showing how difficult it was to get people to accept that an individual’s life can be evaluated in purely monetary terms. In her second study, she looks at the same development but, so to speak, in revers- namely, how something that had an economic value at one time in history can turn into something that has a scared value at another. In the 19th c, as she shows, children were often seen as having an economic value, while today they have an exclusively emotional value. In her latest study, Zelizer (1994) looks at money, arguing that people usually distinguish between different types of money. Money is not some kind of homogeneous, a social medium, as economic claim, but is social to its very core. When money is given away as a gift, an effort is usually made to disguise its nature as money.

**Market uncertainty, the social characteristics of economic exchange, and organizational responses**

Organization scholars have long been interested in organizational responses to the uncertainty surrounding transactions. Organizations respond to uncertainty by removing transactions from the market and placing them in a more hierarchical context-the transaction cost framework. However, dependence theorists assert that organizations manage transactions-related uncertainty by transforming exchange relations into power relations and thus implicitly removing them from the “pure” market context. The increasing complexity and uncertainty brought about by the historical expansion of markets catalyzed by the replacement of the market’s “invisible hand” with the “visible hand” of managerial hierarchy. In order to avoid the problems posed by market uncertainty and forestall market failure, organizations adopt a more social orientation, taking the social structural position of potential exchange partners. . There are two manifestation s of this relationship between uncertainty and exclusivity. First, the greater the uncertainty, he more likely it is that organizations will engage in exchange relations with those with whom they have transacted in the second, the greater the uncertainty, the more likely it is that the organizations will enter into exchange relations with other organizations of familiar status .The relationship between uncertainty and exclusivity has important implications for at least two market outcomes. First, it has implication for market concentration. The more those high-status actors restrict their exchanges to others of high status, the wider are niches that are available to the low-status actors. Second, this analysis affords insight into a market outcome that economic approaches to the market rarely consider; who exchanges with whom. Rather than abstracting from or taking exchange pairs as a given, it is important to see the actual pattern of exchanges as a central market out come to be explained.

**Extrinsic and intrinsic motivation in Economic exchange**

The purpose of this section is to specify the relative significance of extrinsic or utilitarian and intrinsic or non-utilitarian motivation in economic exchange. Particular attention is paid to the silence of egoism and altruism in economic exchange. A key thesis is that exchange transactions are permeated not only by egoistic and other utilitarian elements but also by altruistic and related considerations Hence, the relationship between egoism and altruism in economic exchange is far more complex than rational choice {utilitarian} conceptions suspect .A major problem in this regard is that both orthodox economics and the current rational choice model view the individual as a “ruthlessly selfish monad”, at best as some kind of “Robinson Crusoe contracting with Friday”. Reportedly, neither egoistic nor altruistic considerations are exclusive in exchange but intermingled in a various proportions, with many actors moving back and forth between altruism generosity and selfishness.

In general, actors in economic exchange, as well as in other social relations are guided both by extrinsic incentives and intrinsic motivation. The first is exemplified in utility /profit seeking by following the law of supply and demand and other economic laws, and the second, in altruism. Warm glow, the sense of duty and the like. For instance, civic minded individuals do not only furthers their own goals, but are prepared to bear some cost for the benefit of the larger group. To the extent that intrinsic motivation express non-economic consideration, especially internalized values and rules, norms and economic incentives interact in exchange as well as in other social action, including household behavior. Hence, the importance of altruism often is greater than assumed by narrow rational choice theories based on egoism .For such theories, any behavior not guided by self –interest is irrational and thus paradoxical , anomalous , or pathological. However, the widespread incidence of such paradoxes, anomalies, or pathologies of dis-interested behavior in economic exchange and non-economic field , including politics ,makes such behavior far from having paradoxical or exceptional in empirical terms.

Overall, various motivation of giving, such as commitment , sympathy ,prestige, pride, conformism and moral values of reciprocity ,tend to be intertwined .For example ,prestige consideration in charity often are important in cases when donors behave driven by the desire to demonstrate their economic (and other)worth, thus signaling wealth by donation . Similar patterns often have been observed in volunteer work and informal helping. However , when this is the case ,such donors reportedly can obtain social prestige from making donations “only if other view one’s action as worthy [for] if the narrow private benefits of gift giving are too obvious and large ,gift givers will not praised for their self-sacrifice”. In addition, reciprocal values such as altruism and fairness are widely observed motives for donations within empirical as well as laboratory settings, are voluntary contribution within conformism as a key social influence.