



ECONOMIC BRIEF NO. 29

# The Theory of Rational Ignorance

This series of economic briefs explores fundamental concepts in economics and community and economic development.

*The acquisition of information is always a costly undertaking. Therefore, it is possible that it may cost more to acquire certain information than the benefits such information will confer. When the cost of acquiring information is greater than the benefits to be derived from the information, it is rational to be ignorant. Thus, the economic theory of rational ignorance.*

*First, consider an extreme ex-*

*surgeon's, the time spent acquiring information could have been spent doing something else. It really does not matter whether it is time spent earning money or time spent with the family or in pursuit of a hobby. There is an opportunity cost in terms of other things that must be forgone to acquire information. Unless one has reason to believe that the benefits of acquiring certain information will*

*part of the population.*

*Rational ignorance also explains why we put more time into comparative shopping for big ticket items like cars and home appliances than for fruits and vegetables. Volume buyers who stand to save large amounts by acquiring information on relative prices and quality, however, are better able to afford investing the time required to acquire such information. That is one of the reasons for economies of scale in mass purchasing and helps explain why large volume merchandisers like Wal-Mart are able to underprice small mom and pop retail outlets.*

*The biggest problem with the rational ignorance theory is that we do not always know how much a piece of information will be worth until we have acquired it. We have to make judgments based on the expected costs and benefits of acquiring information, and those expectations are based on experiences that sometimes lead us astray. So even though we may be perfectly rational in our decisions about acquiring information, we can still make what, in retrospect, we will judge to have been bad decisions. Even economists concede that being rational will not necessarily prevent one from making a fool of oneself.*

*be greater than the costs of acquiring it, it is rational to remain ignorant.*

*The theory of rational ignorance explains a lot of what otherwise might appear to be baffling human be-*

*havior. Voters may not invest the time needed to become informed about political issues and candidates if they have reason to think that any action they might take would have little or no effect on political outcomes. The busier the voter, the more rational it is to remain politically ignorant. Retirees, however, who may have time on their hands, will often find the costs of acquiring political information relatively low which helps explain why the elderly are the most politically active*

*ample. Suppose an expert heart surgeon because of her great expertise and skill is in such demand that one hour of her time is worth \$500. Clearly it would make little sense for the surgeon to spend an hour sorting through newspaper grocery ads to perhaps save \$10 on her grocery bill. For such a surgeon, it is rational to be ignorant about comparative grocery prices.*

*Even for the great majority of people whose time may be worth considerably less than the heart*

**When the cost of acquiring information is greater than the benefits to be derived from the information, it is rational to be ignorant.**

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