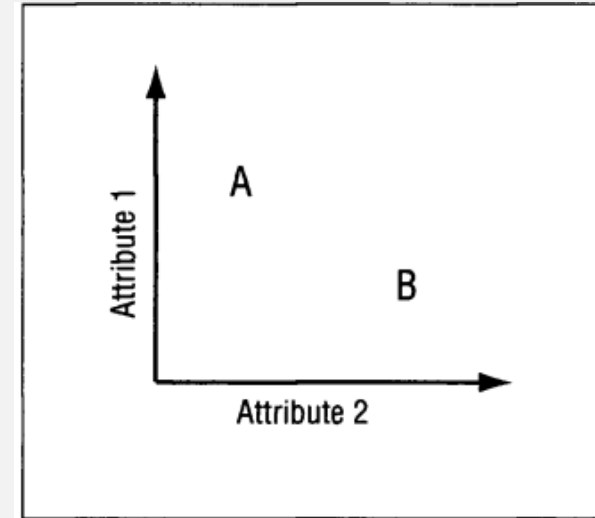


**PREDICTABLY IRRATIONAL
– DAN ARIELY**

By Héctor Orellana

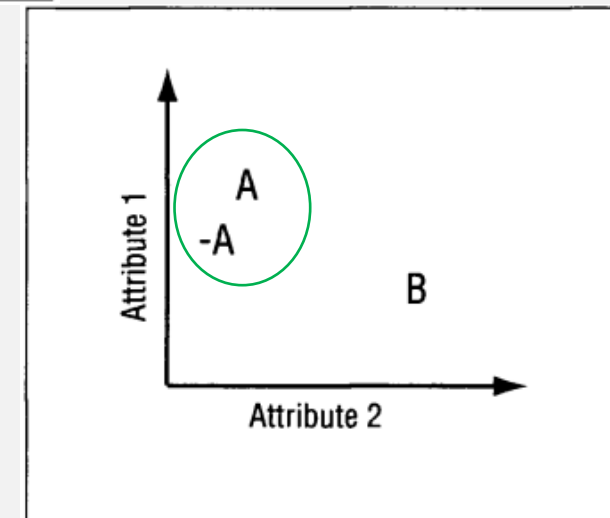
THE TRUTH ABOUT RELATIVITY

- We estimate value, comparing between things, relatively. Not in absolute terms.
- We focus on easily comparable things.
- “The more we have, the more we want”.
- We can become aware of how relativity affects decision making, and focus on the broad perspective rather than the narrow.



Hard choice :
nothing to
compare.

Relative choice :
A seems better
than B, because we
can compare it.



THE FALLACY OF SUPPLY AND DEMAND



Image taken from: <https://www.indiatimes.com/trending/environment/goose-mother-taking-care-47-goslings-516936.html>

Imprinting:

First impressions influence our decisions, we should examine our first decisions carefully

- “... our first decisions resonate over a long sequence of decisions...”
- The first price we get is used for comparison in future decisions, this is called **Anchoring**.
- Anchors can be changed with new experiences
- Supply and demand aren't independent forces, they influence each other. Free market would work if we were rational, we are not.

THE COST OF ZERO COST

- The price of zero creates irrational behavior.
- Zero cost doesn't follow the opportunity-cost rational.
- Free may drive people to make decisions that don't give them the most pleasure.
- People are afraid of loss, something free might seem as a no loss situation. However, you take the risk of having made a poor decision.

Example:



Price : € 0

Profit : € 10



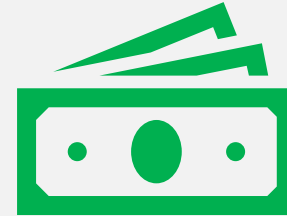
Price : € 7

Profit : € 13

Rational choice would be to go for the one with most profit, however the price of zero turns people to an irrational decision.

THE COST OF SOCIAL NORMS

- There are Market norms and Social norms. They can't both be followed at the same time.
- If the concept of money enters the picture, it shifts toward compensation based exchanges.
- Market norms tend to make behave people more “individual”.
- Often times people work harder if they work for a cause (Social norms). Gifts, to a certain extent, work well to avoid pushing situations towards Market norms.



THE INFLUENCE OF AROUSAL

- Arousal affects behavior, decisions and thoughts
- In a passionate state, we may take different approaches to situations
- We should be aware of how emotions can affect our decisions.

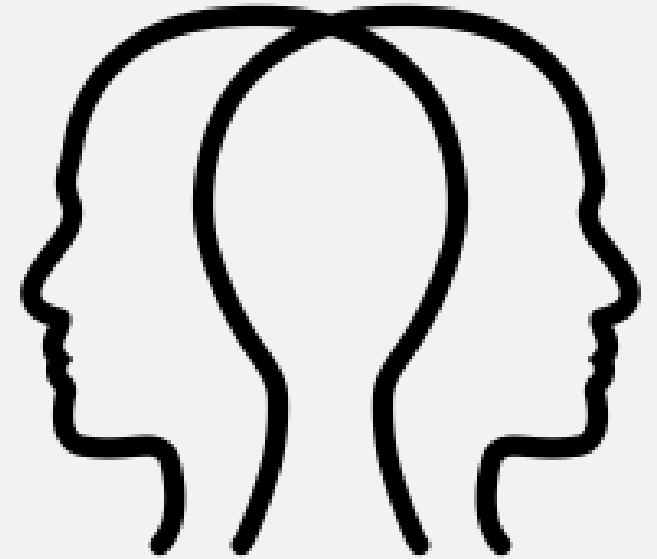


Image from: <https://thenounproject.com/term/split-personality/>

THE PROBLEM OF PROCRASTINATION AND SELF CONTROL

- Freedom leads people to not do things from which they can benefit.
- Instant rewards > long term benefits
- Being aware of the lack of self control can help look for tools to overcome procrastination or similar behaviors
- We often need someone or something to tell us to do something

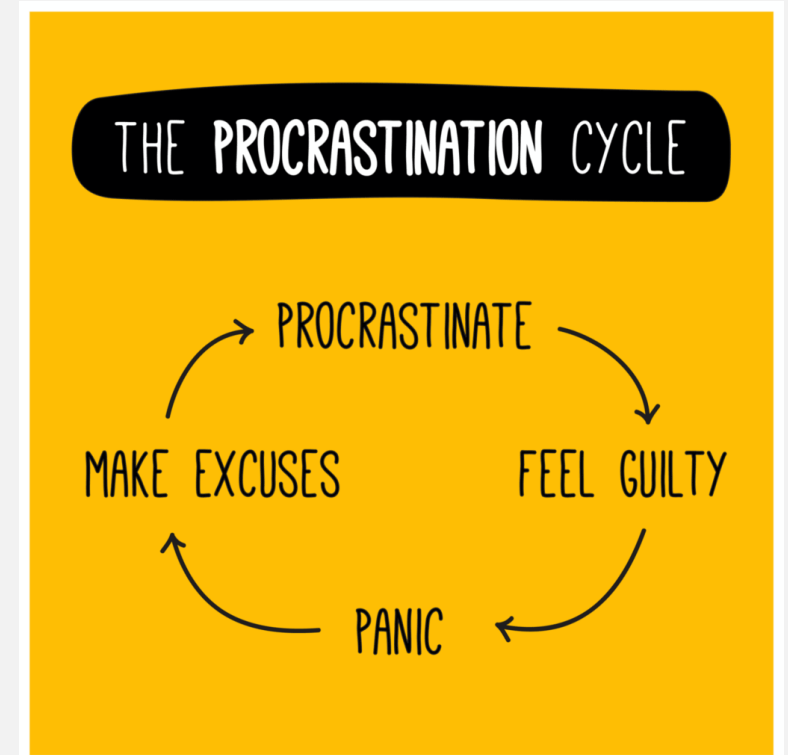


Image from : <https://thecreativelife.net/stop-procrastinating/>

THE HIGH PRICE OF OWNERSHIP



Image from: <https://www.motorbiscuit.com/rusty-monday-rustober-classic-mustangs-too-far-gone-to-save/>



Image from: https://en.wikipedia.org/wiki/Ford_Mustang

- Once we own something, we value it more. (Generally)
- We focus on what we may lose, rather on what we may gain
- We tend to think that the other party sees the transaction from our point of view
- The more work we put into something, the more ownership we feel

KEEPING DOORS OPEN

Image from: <https://www.pinterest.fr/pin/442478732137622781/>



- People want to keep their options available, in fear of loss
- Having options, many times results in failure to commit to one
- Taking too long to decide makes some options disappear
- Indecision ends in loss (be it monetary or not), we ought to close “doors”

THE EFFECT OF EXPECTATIONS



- People end up agreeing or disagreeing with something, not because of experience, but because information beforehand made them expect a specific outcome.
- Decisions can be biased by presentation, appearances or previously given information
- Perceptions are affected by association and stereotypes
- We should accept that we are all biased

THE POWER OF PRICE

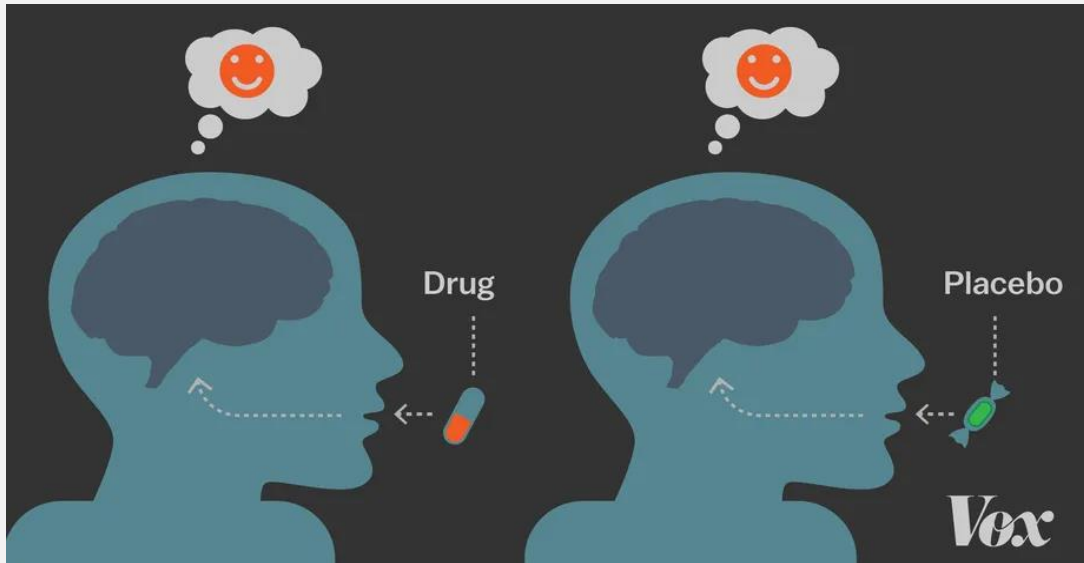


Image from: <https://www.vox.com/science-and-health/2017/7/7/15792188/placebo-effect-explained>

- Confidence in something predisposes us to a positive outcome
- The price of things affects our expectations
- The Placebo effect is real and really strong
- Price isn't proportional to quality in many of the times

THE CONTEXT OF OUR CHARACTER

I

- “The problem is that our internal honesty monitor is active only when we contemplate big transgressions... For the little transgressions, ... we don't even consider how these actions would reflect on our honesty ...”
- Reminders of morality can prevent dishonesty
- Most people do dishonest acts when allowed, but not to the extent they could

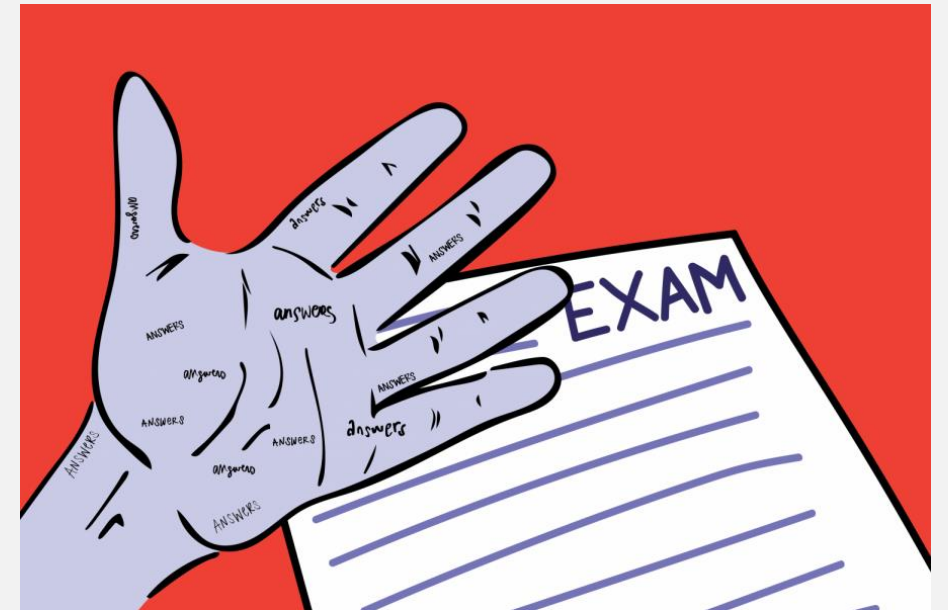


Image from :<https://mndaily.com/266294/news/increase-in-reported-scholastic-dishonesty-prompts-concern-among-umn-faculty-admin/>

THE CONTEXT OF OUR CHARACTER

II

- “... Dealing with cash makes us more honest”
- Its easier to stray into dishonesty when dealing with non-monetary objects rather than money itself, our minds justify it
- Most people do dishonest acts when allowed, but not to the extent they could
- Conscience is more clearer when assessing money itself, we are not as good at assessing goods

Please
take one



BEER AND FREE LUNCHES

- Some may sacrifice personal gain for reputational gain
- We are less rational with our decisions than economic theories suggest
- The irrationality of our decisions is somewhat predictable
- We ignore the fact that our behaviors are influenced by contextual forces and not only by rationale, this differences Standard economics from Behavioral Economics



Image from: <https://www.thoughtco.com/rational-rationale-and-rationalize-1689601>