A Book Review of *Thinking Fast and Slow*

As the old saying goes, “As food nourishes the body , so books elevate the mind.” The author, Daniel Kahneman, a world- renowned psychologist and Nobel laureate in economics, clearly demonstrates the relationship between thinking and behaviors, especially in the sphere of economics. As a non-fiction book, it boasts the abundant experiment data and persuasive arguments. Nevertheless, it doesn’t involve any dullness and tediousness. Rather, the vivid examples enhance the amusement of the book.

In the fourth section of this book, for example, the author integrates his psychologic research discovery into the analysis of economic decision making, which considerably alters readers’ stereotype. The most salient instance is the revolutionary prospect theory. Rather than hurrying to the subject, the author introduces a plausible view of Bernoulli, the expected utility theory. Bernoulli maintains that people’s choices are based on psychological values of outcomes, namely their utilities instead of dollar values. Convincing as that may be, it has neglected the significance of a reference point, the status quo for gain or loss. Undeniably, the refutation of predecessor’s fallacy lays a solid foundation for the elaboration of his original idea. Readers will be impressed by the conciseness of the scenarios: simple figures and condensed description, which are conducive to quantitative analysis and thus simplifies the complexity of the issue and enables the formation of economic models. Subsequently, the author points out the core concept of prospect theory, loss aversion, deeming that losses loom larger than gains.

By posing an interesting but profound question of whether a salary raise is equivalent to an annual vacation, the author introduces the endowment effect, which is associated with the loss aversion. Nonetheless, the former one gives us an insight in to the societal significance of prospect theory, indicating that a vast majority of people are conservatives and stability of long term relationship prevails. For them, the agony of loss is several times larger than the pleasure of gains. Last but not least, the fourfold pattern is presented to summarize all the scenarios. The top right area of the matrix reveals an alarming fact that people tend to seek risk desperately under an excessively unfavorable circumstance.

The prospect theory illustrates the contrast between the econs and the humans. It inspires us to ponder over our own irrational decisions. When employing the system 2 and thinking like a ‘trader’, we are more prone to optimize the result and avoid being bewildered by illusions. By contrast with other placid pastime, this book serves a practical purpose.

The interaction between thinking and behaviors discussed in the book enlightens us a lot. In light of its numerous merits, the book is recommendable to all, especially the youth and the middle-aged.