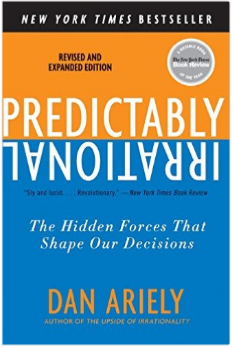
Predictably Irrational – The Hidden Forces That Shape Our Decisions

By Dan Ariely

“If I were to distill one main lesson from the research described in this book, it is that we are pawns in a game whose forces we largely fail to comprehend. We usually think of ourselves as sitting in the driver’s seat, with ultimate control over the decisions we make and the direction our life takes; but alas, this perception has more to do with our desires – with how we want to view ourselves – than with reality.

“A second main lesson lesson is that althrough irrationality is commonplace, it does not necessarily mean that we are helpless. Once we understand when and where we may make erroneous decisions, we can try to be more vigilant, force ourselves to think differently about these decisions, or use technology to overcome our inherent shortcomings.”

# The Truth about Relativity – Why Everything Is Relative – Even When It Shouldn’t Be

* **Examples**: House Shopping, Vacations, A realtor shows a client three houses. All three cost about the same. One is a contemporary, two are colonials. One of the colonials needs a new roof and the owner knocked a few thousand off the price. Which one does the client go for? The travel agent shows you a Rome package and Paris package both with airfare, hotel, tours, and a free breakfast each morning. Hard to choose. Suppose you were shown a third option, Rome without the free breakfast, or the decoy.
* **Observations**:
  + “humans rarely choose things in absolute terms. We don’t have an internal value meter that tells us how much things are worth. Rather, we focus on the relative advantage of one thing over another, and estimate value accordingly”
  + “we not only tend to compare things with one another but also tend to focus on comparing things that are easily comparable – and avoid comparing things that cannot be compared easily”
* **Experiment**: Economist Subscription, Errands for Pen and Suit
* **Agile tie-in**: Size and cost estimation – does anyone really know in absolute terms how many SLOC it will take a build a product or capability, or is it more in keeping with our nature to size something relatively to something else

# The Cost of Social Norms – Why We Are Happy to Do Things, but Not When We Are Paid to Do Them

* **Example**: AARP, Employer/Employee Relationships, Open Source Software the AARP asked some lawyers if they would offer less expensive services to needy retirees, at something like $30 an hour. The lawyers said no. Then the program manager had a brilliant idea; he asked the lawyers if they would offer free services to needy retirees. Overwhelmingly, the lawyers said yes. Companies are moving away from cash incentives in favor of flexible work schedules. In the case of Linux, you can post a problem about a bug on one of the bulletin boards and see how fast someone, or often many people, will react to your request and fix the software – using their own leisure time. Could you pay for this level of service? Most likely. But if you had to hire people of the same caliber that would cost you an arm and a leg. Rather people in these communities are happy to give their time to society at large.
* **Observations**:
  + “we live simultaneously in two different worlds – one where social norms prevail, and the other where market norms make the rules.”
  + “How could zero dollars be more attractive than $30? When money was mentioned, the lawyers used market norms and found the offer lacking, relative to their market salary. When no money was mentioned they used social norms and were willing to volunteer their time. Why didn’t they just accept the $30, thinking of themselves as volunteers who received $30? Because once market norms enter our considerations, the social norms depart”
  + “when a social norm collides with a market norm, the social norm goes away for a long time. In other words, social relationships are not easy to reestablish”
* **Experiment**: Daycare Late Pickup Policy
* **Agile tie-in**: Customer collaboration over contract negotiation, monetary bonuses vs. recognition and appreciation

# The Problem of Procrastination and Self-Control – Why We Can’t Make Ourselves Do What We Want to Do

* **Example**: Vehicle Maintenance, E-mail Several years ago, Ford Motor Company struggled to find the best ways to get car owners back into the dealerships for routine automobile maintenance. The problem was the standard Ford automobile had something like 18,000 parts that might need servicing and unfortunately they didn’t all need servicing at the same time. All that consumers could do was page through volumes of thick manuals in order to determine what services were needed. Honda, though its vehicles had a similar number of parts with similar maintenance schedules, had lumped them all into three “engineering intervals” (every 5000, 10,000, and 25,000 miles). All the hundreds of service activities were boiled down to simple, mileage-based service events. It was a true procrastination buster. Customers were no longer confused. They no longer procrastinated. On e-mail, a recent Australian report found that workers spent an average of 14.5 hours a week checking, reading, arranging, deleting, and responding to emails. For the author his day goes like this: I start working on something and get deeply into it. Eventually I get stuck on some difficult point and decide to take a quick break – obviously to check email. Twenty minutes later I get back to the task, with little recollection of where I was and what I was thinking. By the time I’m back on track, I’ve lost both time and focus.
* **Experiment**: Class paper deadlines In this experiment, the author, who was a college professor at the time, had three classes. In one class, he allowed the students to set their own deadlines for three papers. In the second class, he told the students they only to submit all three by the end, and one has rigidly dictated deadlines
* **Observations**:
  + “We found that the students in the class with the three firm deadlines got the best grade; the class in which I set no deadlines at all (except for the final deadline) had the worst grades; and the class allowed to choose their own three deadlines (but with penalties for failing to meet them) finished in the middle.”
  + “What’s a good compromise? It seems that the best course might be to give people an opportunity to commit up front to their preferred path of action. This approach might not be as effective as the dictatorial treatment, but it can help push us in the right direction.”
* **Agile tie-in**: Scrum and the use of time boxes

# The High Price of Ownership – Why We Overvalue What We Have

* **Example**: Duke basketball tickets – students must camp out in tents outside the stadium, air horn sounds at random times and someone from each tent must check in, else your tent moves to the back of the line, 48 hours before game time, when air horn sounds every study must check in
* **Experiment**: What would the students who have a ticket sell it for? What would a student without a ticket pay for it?
  + Students who won tickets would not sell for less than $2400, students who did not win would not buy for more than $170
  + Rationally, both sellers and buyers should value the game equally
* **Observations**:
  + “The first quirk, as we saw in the case of the basketball tickets, is that we fall in love with what we already have.”
  + “The second quirk is that we focus on what we may lose, rather than what we may gain.”
  + “The third quirk is that we assume other people will see the transaction from the same perspective as we do.”
  + “Ownership is not limited to material things. It can also apply to points of view. Once we take ownership of an idea-whether its about politics or sports-what do we do? We love it perhaps more than we should. And most frequently, we have trouble letting go of it because we can’t stand the idea of its loss. What are we left with then? An ideology-rigid and unyielding”
* **Agile tie-in**: Are we as agile as we say we are? After we have invested so much of our time into implementing a given feature, if our customer tells us they don’t value the feature, can we really let it go?

Now that we know about some of our predictably irrational behaviors, is there anything we can do about it? Yes there is, each chapter offers its own advice about dealing with the irrationalities discussed in the chapter. So what are the solutions? I suggest you read the book and find out for yourself ☺

