Freakonomics Summary

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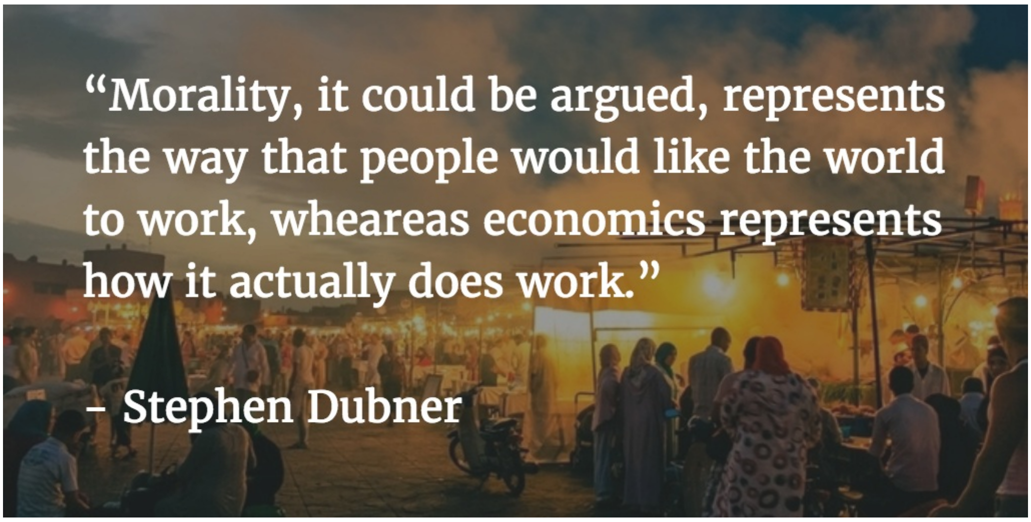
1-Sentence-Summary: *Freakonomics helps you make better decisions by showing you how your life is dominated by incentives, how to close information asymmetries between you and the experts that exploit you and how to really tell the difference between causation and correlation.*

Read in: 4 minutes

Favorite quote from the author:



It never fails to baffle me how cheap learning has become. Get this: For $3.99 you could watch a 90-minute movie that details some of the best economic research of the 21st century with great animations, scenes and explanations. Ridiculous!

There are three main themes in *Freakonomics*. One is incentives, the issue of how we react to rewards and punishments. Another is information asymmetry, and which consequences arise from various gaps of knowledge and how we try to compensate for those. The last big theme is causation vs. correlation and how we often try to explain things the wrong way.

I decided to pick one lesson from each sector, so you'll get a good idea of what the book's overall message is. Here are 3 lessons to help you make better decisions:

1. Three kinds of incentives dominate your life.
2. Experts are often incentivized to exploit the fact that they know more than you.
3. Just because two things happen simultaneously doesn't mean that one causes the other.

Ready to adjust your choice barometer? Time for some freakonomics!

Lesson 1: There are three kinds of incentives that dominate your life's choices.

Incentives have been dangled in front of your nose all of your life. From “if you finish your plate you’ll get some pudding” as a child to “if you sell 100 cars this quarter you’ll get a 25% bonus” all the way to “if you don’t stop harassing the cleaning lady, we’ll put you in a home, grandpa!”

An incentive is meant to get you to do more of a good thing or less of a bad thing, and is used by anyone who tries to influence your behavior.

Stephen Dubner and Steven Levitt say there are three kinds of incentives:

1. *Economic* – usually involving gain or loss of time and/or money.
2. *Social* – when chances are you’ll look good in front of your peers or be isolated from them.
3. *Moral* – appealing to your conscience and inner drive to do the right thing.

The more types of incentives are combined, the more powerful the incentive gets.

For example, the disincentive (a negative incentive, the stick from the stick and carrot approach) to commit a crime is pretty strong. You could lose your job, house and personal freedom (economic), it is one of the most morally reprehensible things you can do (moral) and of course, you’d lose your friends and your reputation would go down the drain (social).

Lesson 2: Experts are often incentivized to abuse that they know more than you do.

In any transaction between humans, incentives are the driving force at play. So the moment you figure out what makes the person across the table act the way they do (and know the same for yourself), you can make better decisions.

Sadly, lots of systems incentivize us to cheat. Information asymmetry is one of these. We all need the help of an expert sometimes. When your knee hurts, you go to a specialist doctor, your hair is cut by a professional, and when you want to sell your house, you call a real estate agent.

For that last example, the system in place is a strong economic incentive – the agent gets a commission of the final sale price and should therefore try to maximize the selling price just as much as you, right?

Well, some simple math reveals that **it’s often better for the agent to abuse that she knows more than you, and get you to sell quickly**. If your agent can get you an offer for $100,000 within two weeks, and she gets a 10% commission, then that’s $10,000 in two weeks. Knowing it takes her another two weeks to get an offer for $120,000 results in just $2,000 more for her, or a 20% increase in income, at a 100% increase in time spent, bringing her total down to just $6,000 for two weeks.

Using the information she has that you don’t, she can get you to sell quicker and cheaper, so she can make more money. Studies have shown that when agents sell their *own* houses, they usually leave them up for sale a lot longer and also get higher prices.

Lesson 3: Just because two things happen simultaneously doesn't mean that one causes the other.

When something like the above example happens, we usually think we're smart and can put two and two together quickly. But more often than not, two and two ends up making five, because **we've confused causation with correlation**.

For example, if on the 31st of the Month a car dealer offers you a great deal on a car, you'd probably suspect that he only does so, so he can sell one more car, meet his quota and get a fat bonus, no matter how crappy the car is, right?

But you can't possibly know what causes him to offer you that deal, just because the deal correlates with the last day of the month.

Maybe he's made a commitment to himself to improve his selling skills and double his sales that month, and this is the last car he needs. Maybe he's made a promise to his wife to sell enough cars to be able to afford day care for his newborn son. Or maybe he's just happy that his boss gave him some wiggle room with prices, because they want to increase customer satisfaction and loyalty.

A very popular example of this is money's influence on election outcomes. We all think whoever spends the most, gets the most votes. But actually, successful candidates could cut their budget in half and lose only 1% of voters (and vice versa losing candidates could double their budget and only get 1% more votes). In reality, voters simply want to influence a close match or back a clear favorite. Even though money is correlated with election outcomes, it's not the cause of it.

Freakonomics Review

Freakonomics is one of the best books on human psychology I've ever read. I also watched the movie and read its summary on Blinkist. So much to learn about making good decisions in here. This book has the same life-changing capability *The Paradox Of Choice* does.

Read full summary on Blinkist

Get the book on Amazon

Learn more about the author

What else can you learn from the blinks?

- When and how incentives backfire, like in Israelian day care centers
- Why people donate more money to the bagel man when it's sunny
- What you should do when your car dealer says it's "now or never"
- How to reduce information asymmetries
- What happens when people don't upload a picture on dating sites
- Why you worry a lot more about dying in a plane crash than a car accident
- How our brain wants to jump to immediate conclusions

Who would I recommend the Freakonomics summary to?

The 26 year old graduate, who's about to take the highest paying job, the 52 year old family father, who can't decide whether and how much to sell his house for and anyone who finds themselves jumping to wrong conclusions more often than they'd like to.