

Predictably Irrational Summary

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1-Sentence-Summary: *Predictably Irrational* explains the hidden forces that really drive how we make decisions, which are far less rational than we think, but can help us stay on top of our finances, interact better with others and live happier lives, once we know about them.

Read in: 4 minutes

Favorite quote from the author:



Back in March I wrote a summary of Dan's book *The Honest Truth About Dishonesty*, which is the third of his four books. *Predictably Irrational* is his first, and it debuted as a New York Times bestseller.

Since Dan's a professor of psychology and behavioral economics, how we make choices, especially about money, is his forte and prior area of interest.

How we decide what things are worth to us, what influences the way we experience the world and how we tackle long-term goals are all shockingly irrational, and this book sheds some light on just how incoherent we are, so you can be more reasonable in the future.

Here are 3 lessons from the book:

1. We compare whatever we can, so give others easy comparisons to pick you.
2. Free is really just another price, but a powerful one.
3. You overvalue what you own.

Let's rationalize the way we think, shall we? Here we go!

Lesson 1: Give others easy comparisons, so they'll value you more highly.

Imagine you're trying to buy a new lawnmower, one of those fancy ones you can sit on and drive around. The local brick and mortar store around the corner has some, but just one model, and it's priced at \$3,000. Is that good or bad?

It's really tough to say, isn't it, without having something to compare it against to?

Let's say you walk down the street and find another store, which has two different models, the first one you saw at the first store, and another one, which has slightly better functionality and looks better, but costs more than double, \$7,000! This makes it a lot easier to pick the first one, doesn't it?

We're wired to compare things, and our brains do so in the easiest way possible.

We compare what's right in front of us, not necessarily what we should think about or look at that might not be around at the time.

So if you give people options to compare yourself or your products to, which are slightly worse, they'll pick you more often.

For example, if you're single, and you show up at the club with a friend, who looks similar, but slightly less attractive than you, people will always compare the two of you against one another. It's a lot easier to compare you two than to compare one of you with all the other, different looking people, or people they saw a week ago at another club, so if you can get people to think you're hotter than your friend, they'll likely even think you're the prettiest person at the club!

Offering comparisons means selling, and while experiments like the one above are fun, you shouldn't abuse this. Plus, for the sake of your own happiness, it's best to try and stop comparing altogether.

Lesson 2: Free is just another kind of price, but a very powerful one.

When people hear something is free they go insane. Do you have a box at home with free gifts you've collected over the years, that you never use, but still keep? Or do you always go for the "buy one, get one free" deal when it's offered to you?

Dan Ariely says free is a powerful emotional trigger, but at its core, **it's just another price - the price of zero dollars.**

However, the difference between \$0 and even just \$0.01 is huge. When Dan did a study offering people to buy a Lindt truffle for \$0.26 or a Hershey's kiss for \$0.01, the groups were split evenly (40% for each of the chocolates, with 20% of people buying nothing). But when they reduced both prices by one cent, making the cost of the truffle \$0.25, but the cost of the Hershey's kisses \$0.00 (=free), **90% decided to go for the Hershey's kisses, even though the difference in price was the same.**

This has to do with our incredibly strong tendency to avoid losses wherever possible. If we buy something and it's bad, we *lose* money. But if we get something for free, the potential downside is zero, but it still might be good for us, so we value free items disproportionately high.

Lesson 3: The endowment effect causes you to overvalue what you own.

In a funny video of one of his shows, famous stand up comedian George Carlin says about how we look at other people's possessions: "Have you ever noticed that their stuff is shit and your shit is stuff?"

In a nutshell, this expresses the economic concept of the endowment effect – the fact that **we value things more highly once we own them.**

For example, if you bought that Lindt truffle in the above example for \$0.26 cents, chances are you wouldn't sell it to me at that price after you've had it for even just a minute. You'd likely quote me a price that's somewhere around twice as high, maybe \$0.50.

At Duke University, this phenomenon was investigated with baseball tickets. To get one you have to enter a lottery, so all participants are equally likely to get a ticket, or not. But once the tickets have been distributed, those who won them wouldn't sell them for less than a staggering \$2,400, while those who didn't win any wouldn't pay more than \$170.

That's the endowment effect at work and it's based on three things:

1. We love what we own, simply because of our memories and fantasies about it ("I loved wearing this shirt at work/I'll have so much fun at the game").
2. We hate losing things we own, whereas we don't mind missing out on something all that much.
3. We expect others to think highly of the same things we do ("If I like this carpet, I'm sure all my friends will like it too").

Predictably Irrational Review

I've rambled way too much, but that's because *Predictably Irrational* is *so good*. Seriously. Dozens of gems and valuable things to learn about. You'll have a lot better idea of the biases working for and against you after reading this. Definite recommend.

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What else can you learn from the blinks?

- Why looking at your social security number is a bad idea before entering an auction
- How a \$2 pill always works better than a \$0.20 pill
- Why you walk slower after hearing the words “Florida, ancient and bingo”
- The two norms that make trying to pay your date for a lovely evening a bad idea
- Why the Ten Commandments are worth the occasional read, even if you’re not religious
- What Dr. Jekyll and Mr. Hide are fighting about in your head
- Why Chinese commander Xiang Yu burned his own ships

Who would I recommend the Predictably Irrational summary to?

The 22 year old computer nerd at college, who’s trying to score a girlfriend, the 43 year old brick and mortar store owner, who can’t think of a good way to get more customers, and anyone whose video games somehow won’t sell on ebay.