

Chapter 4.9 Review Questions: 1, 5, 6, 9, 10

Problem 1

Kahneman: "People sometimes answer a difficult question by answering an easy one instead."
Relate this to the dual systems approach.

Answer:

Dual Systems - Kahneman

- (a) Intuition: quick, easy, autopilot choices (limbic system - emotion, pain, pleasure)
- (b) Reasoning: deliberate and effortful thought (frontal lobe - higher order mental functions)

Answering a difficult question requires "reasoning", which is an uncomfortable state relative to using intuition. Answering an easy question instead allows the person to use "intuition" which is quicker and easier to use.

Problem 5

People checked Zillow and saw their house valued at 500k.

They list the house for 500k.

The house sells for 490k.

Would the house have sold for 490k if they listed it for 400k?

What behavioral concept related to 400k?

Answer:

The house probably would not have sold for 490k if it was originally listed at 400k.

Under uncertainty (not knowing the true value of the house), people make choices relative to a reference point (initial price). The eventual sale price of the house is dependent on the initial valuation by the sellers.

Problem 6

Jed has a test tomorrow. He estimates he needs to study for 3 more hours. He goes to a party instead.

Before the test, Jed tells himself he has studied a lot that semester + done well on previous test.

Is this cognitive dissonance or loss aversion?

Answer:

This is cognitive dissonance. His original belief was that he needed to study for 3 more hours. The action that he took was studying for 0 hours. He decided to change his belief so that he did not have to study.

Cognitive Dissonance: When actions diverge from beliefs...

Must change belief, change behavior, or accept false belief

Problem 9

Does procrastination relate to time-inconsistent preferences?

Answer:

Yes.

The concept of *discounting* tells us that people tend to value benefits more the sooner they are obtained.

Time inconsistency tells us that people tend to be more impatient when comparing today vs tomorrow than when comparing 30 days from now vs 31 days from now.

When we procrastinate, we are valuing current benefits (leisure time) higher in the short term. We are also more impatient and want benefits quicker right away (now vs tomorrow) than (next Tuesday vs next Wednesday) due to time inconsistency.

Problem 10

What is meant by "precommitment"?

Can you think of an example of strategies for physical exercise?

Answer:

Precommitment reflects an understanding of our own time-inconsistent preferences. We know that we will be impatient and decide that we want to receive benefits now (relaxation) instead of exercising to receive benefits later (long term health).

Precommitment would tie us into obligations that we can't get out of so that we will do what's best for us in the long term. Examples would be prepaying for a gym membership, making plans to go with someone you know, etc.