

Lecture 32

History of Mankind

Humans have been on earth for the past 200,000 years. Throughout this time we have evolved to have certain behaviors that have been passed on through genetic evolution. These behaviors/instincts were passed on because the people who didn't have them couldn't survive in that environment to pass them on (survival of the fittest). So the behaviors that were appropriate for that environment are in our DNA.

The problem is that we are no longer in that environment. Civilization only started 6000 years ago and industrialization only 200 years ago. So we are still in a new environment and our brains haven't caught on that the behaviors it has aren't appropriate for this new environment. It might have been appropriate to be scared of everything back then, since anything could have killed you but this isn't the case anymore. Because of this change of environment we have all these behavioral biases which are counterproductive for our success.

The endowment effect might have been helpful in the past; valuing something that you own highly meant you kept your stuff more firmly and thus would have had better chances to survive.

Being content with the status quo and not changing probably would have saved your life since with every change you took you faced new risks of being attacked by a predator.

Loss aversion meant you valued risk way more than you valued gains. Back then the more you were scared of losses the better. Anything could kill you.

In today's age though, these behaviors negatively affect us. We are in no danger whatsoever and over sensitization of loss distorts our decision making.
