I think that this reading is a great introduction to psychology and economics / behavioral economics. DellaVigna provides a comprehensive overview of the field work / lab / theory. I definitely will return to this time and time again, because his survey is very thorough, although I am curious if there are any updates since it was published in 2009.

DellaVigna breaks down the standard economic model used today – individuals seek to maximize a utility function while using the information available and processing the information appropriately. The individual is completely rational in their actions. This total rationality can be distilled into three forms – preferences, beliefs, and unbiased decision making. One by one, DellaVigna provides field evidence that contradicts the traditional understanding about these factors.

Individuals have nonstandard preferences, when it comes to time, risk, and others. People misrepresent the discount factor, and the preferences can vary depending on the state they are currently in. Furthermore, preferences take into account the welfare of others, another nontraditional features.

Individuals also possess nonstandard beliefs. Beliefs are represented in this model as the probabilities associated with events. Our psychology may sometimes be flawed, and we may weigh our set of possible events with an irrational/mistaken array of probabilities. We can be overly optimistic, and I am reminded of the Hot Hand Fallacy in basketball – basketball players can over project their own abilities to score after a small series of made shots, and statistical analysis has revealed that there is no “hot hand” that produces additional made shots. However, it is a widely accepted belief in the basketball community. This same overconfidence shows up in gambling and business management.

And the last set of nonstandard characteristics is the nonstandard decision making. Individuals, rather than thoroughly think through each option like the traditional rational person would, are lazy. They will resort to heuristics and “rules-of-thumb”. They can be inattentive or be swayed by social pressure or persuasion. And emotions can often get the better of them.

I want to return to this paper at the end of the course and read it through again. There are also references to other seminal papers that I want to look up and read next. When I return to this paper, I hope that I’ll have a greater understanding of this content, and like a person re-watching their favorite movie, I hope to pick up the nuances and small details that I missed on my first watch.