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Topics in the course

- irrationality
- psychology of money
- dishonesty
- labor and motivation
- self control
- emotion
- we are going to try to understand what causes irrational behavior
- we don't really know what to do
- we really don't know what we want
- the extent we don't know ourselves
- how much do you love your spouse? with 3 reasons? with 10 reasons?
- it's very difficult to come up with 10 reasons. they stuck. people

infer that they love their SO less than those who look for 3 reasons.

same goes for bmw

Learning From Our Mistakes

what do our mistakes tell us?

behavior economics

we have many decision biases

our intuitions are often wrong and we don't recognize our faults

we need to rely on empirical evidence from experiments

Defaults

- organ donation rates: belgium 98% vs. netherlands 28%
- reality show in netherlands only made it so far
- the only difference is the default choice

- Choice Sets and Relativity
- how often do you floss your teeth: 1 per day vs. 9+ per month
- infer something about hygiene habit
- answering to the left (1/day) makes one uneasy
- answering to the right (9+/month) makes one more happy
- answering to the left makes one “let’s call the doctor”, answering to the right makes one “i’m ok”
- a change in momentary mindset affects long term judgment
- rome or paris, which one do you want? rome + coffee is better than rome - coffee

if we add an option that’s not desirable, we make the one desirable hence a good option

decoy effect: asymmetric dominance

the market share reversed

when you provide a non desirable rome - option, you make more expensive rome+ option desirable

relative prices

bob frank says, father of economics is not adam smith but darwin

week 1 - office hours

there are two ways about thinking on rationality. (1) people have all information and they can compare all things perfectly. (2) we understand what drives our behavior. The course is interested mainly about the second version.

the fact that we are capable of being altruistic also makes us irrational.

why do people listen to sad music?

Tactfully correcting people: Not by pointing fingers but by pointing to other people’s mistakes.

Is it ethical to run experiments on people’s behavior?

Are people really can make best decisions for themselves?

We need to be empirical about the ethical issues as well.

The more I study irrationality, the more I become pro-regulation.

I don’t think we understand what creates good education.

which force wins? the force says that's illegal or that says everybody does that?

film: harold and maude

aging and life cycle, and what causes people to be happy

Dating in the age of internet

Do we have insight to our romantic preferences?

Are there sex differences in preferences? (Man like looks etc.)

To what degree we have accurate insight about our romantic preferences?

Men prefer good looks over earning prospects and women prefer earning prospects over good looks.

In tests, both of these were independent of the sex.

The previous study is about flesh and blood partners.

In the meta analysis, there wasn't a statistically significant change across genders about preferences.

Do people know what they want?

people who say who are attracted to looks, and those that say they don't attract to the good looking prospects in the same way

these were the students in the northwestern

for the middle aged people

two parallel lines, which appear to be relevant to two sets of people

people articulate some preferences but they don't obey these when flesh and blood partners appear before them

Week 2

Loss aversion

Instead of earning more, people prefer not to lose in their hand.

A supplier pays you in advance to cause loss aversion: People are more motivated.

People sell more TVs when their commission is prepaid, even though they can make money more with the alternatives

giden paranın etkisi gelecek paradan çok daha fazla

endowment effect

ticket owners want \$2000 whereas ticket buyers would only pay \$100

Once ownership is established, people favor the object they own

Week 3 Guest: Sexual Economics

- Men demand sex more than women.
- This brings a whole new economy
- Week 3 Office Hours

Illegal downloading dishonesty

In Switzerland, not downloading but uploading is illegal

When the distribution cost is 0, we don't see downloading as theft

The solution might be to make downloading harder

Medical Decision Making

- Leukemia patients in deciding chemo
- Chemo might save or shorten their life
- People don't know how much they can adapt to pain beforehand
- They become happy even after disability or serious illness
- Good deeds as bad behavior license
- Acknowledgement

Experiment

Sheets. Pairs of letters. People are asked to find pairs.

Three different conditions: 1) acknowledged 2) ignored 3) shredded

Average number of sheets is highest in (1). (2) and (3) are almost identical

It's easy to make people feel good about their work

Simply ignoring them could be as destructive to shred their work

Meaning

The cancellation of revolutionary project after two years work is extremely demotivational. (Software company, probably Microsoft)

CEO didn't acknowledge the importance of their employees work.

Appreciating the importance

How could the CEO have canceled the project without removing the meaning?

- present it to others
- build prototypes
- fit aspects of their technology to other projects

Purpose and meaning are important to people to invest money.

Extrinsic vs. Intrinsic motivation

What's the issue with motivation?

More money = more motivation?

Feeling of completion?

All kinds of drivers about motivation: Feeling of completion, connections, goals.

The standard thinking: Motivation is directly related with money or the tangible rewards.

There are some work that people do just for the money but not all motivation is about money.

How much is the motivation can be driven by reward?

Pride + reputation + sense of purpose + meaning + camaraderie + helping the world + money

Mountain climbing: All kinds of difficult peaks. Looks like pure misery every moment.

You get a sense that it would be better for them to lie on a beach

Annapurna

Not enjoying the top

The description of mountain climbing and beach clubs are different but joy seems similar.

What would happen if you knew you can't reach to the top?

We do things for all kinds of reason and money is one of them.

We can give people a sense of achievement.

What people aim for, strive for?

Merger cancellation story. Employee prepared a detailed merger plan and felt down when the boss said it's cancelled.

Book cancellation story. Editor began writing a book and felt down after cancellation.

In these two stories, the tangible rewards are there, though the participants felt pain for not accomplishing their task.

What happens when you write things nobody reads?

Ikea Effect

How does labor lead to love?

What are the cases in which our efforts lead us to love it?

Cake mixes: People hated them. Then *egg theory* developed. People can't relate to it if only thing they do is mixing it with water and baking

Our liking is not only related with what it is, but how much effort we put into it.

Builders of origami paid more than evaluators.

The creators (mistakenly) thought everyone would love their creations

Difficult origami builders loved it more, even if they are uglier

More effort leads to more love if they are able to *complete* their work.

Our love to our kids is partly due to them but partly due to us. The love is in the eye of parent.

The effort we expend on our kids increase our love for them.

Allowing people to design their stuff increase their liking.

Higher effort may also lead them to abandon the work

Not-Invented-Here Bias

Ikea effect works for ideas as well.

When someone expresses an idea, they become attached to it even if it's a stupid idea.

People like their solutions better than ours.

In an experiments, they are asked to use the exact set of 50 words and nothing more

There is something about the pride of creation

Alternating current vs. direct current. Edison fired Tesla, because he hated alternating current

Even Edison could not overcome the preference for his own work.

Toothbrush theory: We have a toothbrush and don't want to use another's. Theory is the same.

Pro: results in more time and passion devoted to our ideas

Con: Hinders our ability to consider other ideas

/Mine is the best./

Sony lost because of this.

The secret to a happy marriage is having life insurance but not too much of it.