

Making Judgments

by Sophia



WHAT'S COVERED

By the end of this tutorial, you will be able to define heuristic, understand the availability heuristic and overconfidence, and explain belief perseverance and framing. Our discussion breaks down as follow:

1. Heuristics

A **heuristic** (a rule of thumb) is a mental shortcut that allows for decisions, judgments and problem solving to be made quickly with a minimal utilization of mental effort. Such tools allow individuals the flexibility to save cognitive resources that would normally be consumed with decision-making. The negative of this is that heuristics can result in bias due to critical information being overlooked when making decisions.

Cognitive psychologists have identified three main types of heuristics:

- **Availability heuristics** enable people to assess how likely something is to occur based upon how easily the event can be recollected. Although useful, availability heuristics are not always correct and can result in bias.
- **Representativeness heuristics** entails an estimation of the likelihood of an event occurring based on comparing it to our own existing mental prototype. Our mental prototype consists of belief of what is the most relevant or typical example that represents a given event, object, or example. This can result in an overestimation in similarity of the things being compared.
- **Anchoring heuristic (focalism)** deals with the tendency of individuals to accept and rely upon the primary piece of received information prior to making a decision. The initial piece of information is the anchor that establishes the tone for everything that follows. This frequently occurs in marketing when multiple unit pricing often results in better sales than singular unit pricing. For example, advertising soda as 10 bottles for \$10 will generally sell better than \$1.00 per bottle. This is due to the suggested amount (10) being an anchor suggesting to a person to make a larger purchase decision than they otherwise would do.

Overconfidence refers to the overestimation of the accuracy of one's knowledge. Such judgments are problematic as they may be incorrect. Overconfidence can lead to issues such as **planning fallacies** in which people underestimate the time and/or cost that may be required in order to complete a project.



TERMS TO KNOW

Heuristic

A rule of thumb; a shortcut to making a decision that requires minimal mental effort.

Availability Heuristic

A way to assess likelihood based on recollection.

Representativeness Heuristic

A way to assess likelihood based on a current mental model.

Anchoring Heuristic

A way to decide actions that are influenced by the provided information.

Overconfidence

The overestimation of one's own knowledge.

Planning Fallacy

When a person underestimates the time or cost required to complete a task.

2. Belief Perseverance and Framing

Many overestimate the precision of their own judgments or knowledge. This can lead to things such as **belief perseverance** in which we hold on to our own beliefs even in the presence of contradictory information.

Framing is defined as the way an issue is presented. This is a common effect used in advertising to influence purchasing decisions.



TERMS TO KNOW

Belief Perseverance

Holding on to personal beliefs when confronted with contradictory facts.

Framing

The way an issue is presented.



SUMMARY

Heuristics are mental shortcuts that allow you the flexibility to save cognitive resources so you can better focus on decision-making. Availability, representative, and anchoring heuristics relate to how readily a mental model comes to mind, how similar issues have occurred in the past, and how an initial piece of information impacts your sense of the overall situation.

All heuristics can be useful tools, but can also raise potential biases in your thinking. Those biases can lead to overconfidence and belief perseverance which should be monitored for how they influence decision-making.

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