PA 4010
Public Affairs
Decision Making

SESSION 3: DECISION MAKING PROCESSES

TUESDAY, AUGUST 27

Review

- What did you think of *Funes the Memorius*?

- How can we understand this story in the context of policy research and practice?

- Housekeeping – no problems with modules? Readings are accessible and digestible? Do you know at least one person from class?

Objectives for Today

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▶ Describe broadly two ways that psychologists believe people make decisions.

▶ What do we mean by rational decision making?

▶ When does a rational decision making process (like cost benefit analysis) make sense for public affairs decisions?

With a small group around you...

▶ What are the two ways of thinking described in Kahneman?

▶ Using your past experiences (academic and not), tell me what you know about how people make decisions.

▶ Are people rational? If so, what implication does this have for policymakers? For academics?

▶ Are people always rational?

▶ In a cost-benefit analysis, what are the relevant costs that should be considered? Is this just an accounting exercise?

System 1 and System 2 Thinking

System 1

- Automatic thinking
- "Intuition"
- Driving a car on same route

System 2

- Controlled thinking (*ratio*)
- Scientific reasoning
- Navigating a road closure

System 1 and System 2 Thinking

System 1 <u></u>

- ▶ Automatic thinking
- ▶ "Intuition"
- ▶ Driving a car on same route

System 2

- ▶ Controlled thinking
- ▶ Scientific reasoning
- ▶ Navigating a road closure

So What!?!

"We often think in automatic ways when making judgments and choices. These automatic thinking processes can be described by certain psychological rules (heuristics) and they can systematically lead us to make poorer judgements and choices than we would by thinking in a more controlled manner about our decisions" (Hastie and Dawes 2010, 6).

Example (Health)

Situation: John feels off. He is an hourly worker at Starbucks and he is deciding whether he should take time off to be checked out by a doctor (who can only see him during work hours). He believes with some probability that he could be getting sick, and that by going to the doctor he can prevent the illness from setting in and missing more future work (and hence income). Yet by missing work, he is certainly giving up income. Income allows John to pay for things that he really enjoys in life. <u>What should John do?</u>

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▶ In your group, discuss: (1) What are the important points of this question's setup? I.e. What is John actually trying to decide or maximize here in this decision? (2) Tell me a story about how John might make a decision using `Type 1` and `Type 2` thinking? (3) What are the relevant costs and benefits that John might consider when making this decision?

What is rational decision making?

▶ Rationality is simply the idea that individuals follow rules when making decisions.
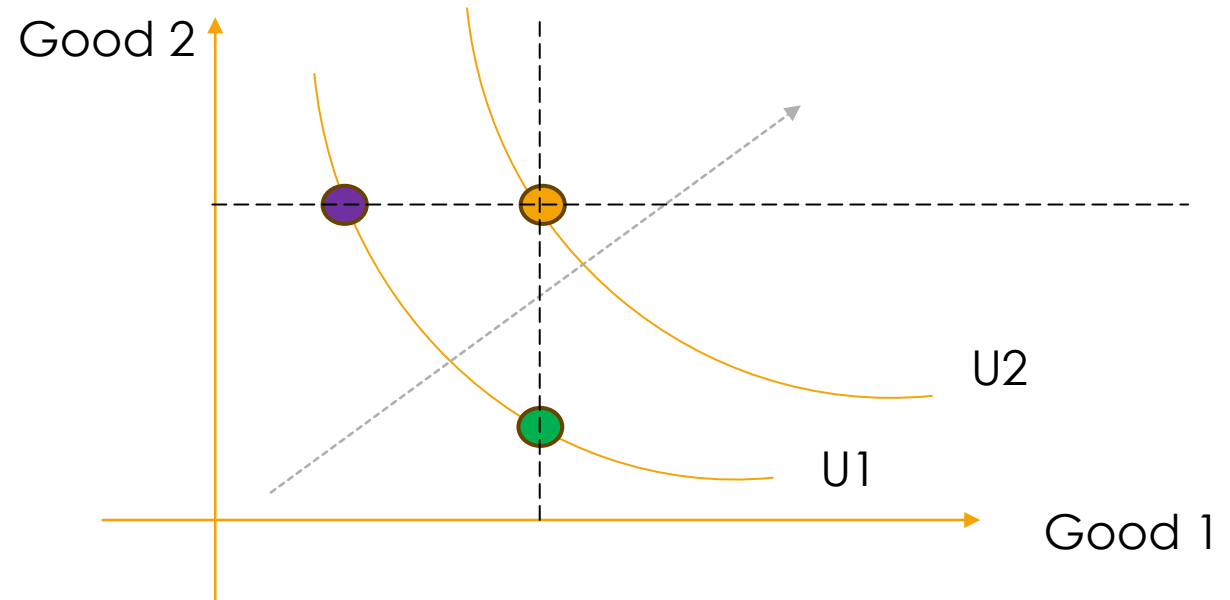
▶ **Ratio-**nality

rational (adj.) ›

late 14c., *racional*, "pertaining to or springing from reason;" mid-15c., of persons, "endowed with reason, having the power of reasoning," from Old French *racionel* and directly from Latin *rationalis* "of or belonging to reason, reasonable," from *ratio* (genitive *rationis*) "reckoning, calculation, reason" (see **ratio**).

ASIDE: Formalizing rationality (preferences)

▶ **Huge simplification but presented for intuition**…

▶ <u>Indifference curves</u> are a way to represent consumer preferences by equating a value to a bundle of goods.

Relevant characteristics:
1. Consumer is indifferent between two points on the indifference curve (Purple and Green).
2. More is always better (U2 preferred to U1 because same of Good 2 but more Good 1).
3. Along an indifference curve, you must give up some of Good 1 to get more of Good 2.

Good 2

Good 1

U2

U1

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- If people are rational (that is, if they follow systematic rules or heuristics when making decisions), then we can model or predict their behavioral responses to external stimuli.

  - Remember Funes the Memorius?

- Policymakers can predict how individuals will respond to policy.

- Policy can be used to address systematically `irrational` behavior (that is, when people are acting sub-optimally for one reason or another).

Example (Policy #1)

Situation: A hurricane strikes the Southeastern part of the country and devastates entire communities. As part of relief efforts, policymakers are considering establishing `housing zones` in part of the city where people can live temporarily while the community is rebuilt. People that qualify to live in these zones are those whose incomes are in the bottom 25%ile of the region.

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Discussion: (1) What are the merits of this proposed policy? (2) What aspects of people's lives are not considered that might be important? (3) What unintended consequences might this policy have (for better or worse)?

Example (Policy #2)

Situation: "Solid organ transplantation remains a field of medicine in which demand continues to overwhelm supply. As of August 2021, there were at least 106,698 patients awaiting organ transplantation within the United States but only an estimated 23,372 transplants were performed in 2020. Of those, the majority of organs transplanted came from deceased donors rather than living donors. While the majority of Americans support organ donation (95%), only 58% are actually registered donors."

→ **Opt-In Effect** : Rational individuals should be equally likely to opt-in to something that they like as they are to opt-in out something that they do not like. But the framing tends to matter.

How should we make decisions?

PrOACT

▶ What is the **p**roblem?

▶ What are the **o**bjectives (decision criteria)?

▶ What are the **a**lternatives?

▶ What are the **c**onsequences?

▶ What are the **t**radeoffs?

Hammon, J.S., Keeney, R.L., & Raiffa, H. (2002). *Smart Choices: A practical guide to making better decisions.* New York, NY: Broadway Books.

If we have time…

PrOACT

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A few problems and one solution:

- Declining HS education performance → Increasing teacher pay.
- Increased homeless presence around national monuments → establish new shelter away from monuments.
- Declining road quality across city → Increase gasoline tax to pay for road construction.
- Poor voter turnout → Allow for electronic voting.
- Shrinkflation → Regulation that requires all [chips] to be same size.