



Book Predictably Irrational

The Hidden Forces That Shape Our Decisions

Dan Ariely
Harper, 2008
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Recommendation

This is surely one of the decade's best books on decision making, economics, psychology and behavior – because it touches all of those topics. Author Dan Ariely is a distinguished academician, but his style is so clear, accessible and straightforward that he does not seem to belong to academia at all. Although he recounts numerous experimental procedures and discoveries, he never bogs the reader down in technical minutiae or jargon. Moreover, he provides a clear connection to the reader's life with every account. The book is eminently practical and stretches beyond the boundaries even of the several sciences in his research. At times, themes from spiritual and philosophical literature resonate in the text. *BooksInShort* believes reading this book can help anyone make more conscious decisions – no matter what those decisions are about, from setting a corporate strategy to finding a date to just choosing what brand of soda to buy.

Take-Aways

- People are irrational, and they foreseeably do the same irrational things repeatedly.
- Social norms and market norms are incompatible.
- Companies that invoke social norms to build customer or employee trust and loyalty cannot invoke market norms to cut costs without causing bitterness and alienation.
- Be very careful what you use as a context for decisions or a basis for comparisons.
- Most people procrastinate; to deal with it, first they must admit to having the problem.
- Beware of ownership – attachment to anything can cause unreasonable decisions.
- No decision is small or inconsequential. Every one can lead to a long train of subsequent decisions and influence the rest of your life.
- Stereotypes are so powerful that people who are reminded of a stereotype about their age, race or gender tend to act out the stereotype.
- Left alone, most people will cheat a little bit most of the time – but when they think of the 10 Commandments, people don't cheat at all.
- People don't understand most of the factors that affect how they make decisions.

Summary

Lessons in Irrationality

Author Dan Ariely was 18 when an explosion burned him so severely that he was confined to a hospital for three years. Cut off from friends and normal routines, he began to observe and reflect upon behavior – his own and that of others. He suffered extreme pain from his burns and from the regimen of therapy. Nurses bathed him daily in disinfectant, first tearing off his bandages as quickly as possible. He felt that the pain might have been less if they removed the bandages slowly. The nurses

insisted that there was no difference. After he left the hospital, he conducted research at Tel Aviv University that proved his point.

“We are not only irrational, but predictably irrational...our irrationality happens the same way, again and again.”

Although his research did not cause a widespread change in patient treatment, it led him to a lifetime of studying why people misjudge the ramifications of their behavior and persist doing unreasonable things. Traditional economic theory dealt with what people should do, and fundamentally assumed that people are rational. Behavioral economics examines what people actually do; in that endeavor, it has discovered the depth and breadth of human irrationality.

Relativity and Choice

A magazine once advertised three subscription options: \$59 for a subscription to the online version only, \$125 for a subscription to the print magazine only and \$125, again, for both. No one in a group of 100 MIT students chose the print-only option, 16 chose online-only and 84 chose the print-and-online option. When the magazine eliminated the print-only option, 68 students chose the less expensive online-only option and only 32 chose the costlier, two-version option.

“My goal...is to help you fundamentally rethink what makes you and the people around you tick...Once you see how systematic some mistakes are – and how we repeat them...I think you will begin to learn how to avoid some of them.”

If the students had been making rational decisions based purely on facts, such a difference would not have existed. The combined price clearly made the print version virtually free. People look at context, comparisons and relativity – not only in magazine subscriptions, but also in decisions on more important matters, such as dating and salary negotiations. They can be more or less happy depending on the group of alternatives they use for comparison. That offers an important life lesson: Be careful about your context for comparison. For example, people who might easily spend thousands for leather car upholstery would not spend that amount on leather upholstery for their living room furniture. Expanding the context for comparison would help them decide if they could do better things with the money than cover their car seats.

It's Not Supply and Demand

Conventional economics say that supply and demand determine price. However, the study of behavioral economics has shown that factors completely irrelevant to the supply-and-demand curve can determine prices. For example, in one experiment, researchers asked U.S. participants to put the last two digits of their Social Security numbers at the top of a form where they were to record the prices they were willing to pay for various products. Participants with high Social Security numbers consistently made higher offers than those with low Social Security numbers.

“Wouldn't economics make a lot more sense if it were based on how people actually behave, instead of how they should behave?”

The initial price someone may be willing to pay for an item is more or less arbitrary. But, once established, that price becomes an anchor. The same is true in other areas of life. People fixate on those anchors. That means no decision is really inconsequential or minor. Every decision can echo through your future. Like people deciding that a restaurant is good because it has a long line of people waiting to get in, you'll effectively get in line with your previous decisions.

Be Aware of Giveaways

The prospect of getting something for nothing is powerful. Ariely once offered subjects the choice of buying a premium chocolate truffle for 15¢ or an ordinary Hershey's Kiss for a penny. Almost 75% chose the truffle. Then he reduced the price of both by a penny, so the truffle cost 14¢, but the Hershey's Kiss was free. “Some 69%” of the subjects who got those two choices picked the Hershey's Kiss, because it was free.

“Relativity helps us make decisions in life. But it can also make us downright miserable. Why? Because jealousy and envy spring from comparing our lot in life with that of others.”

In fact, vendors' free offers are costly to consumers. When Amazon offers free shipping for larger orders, many people order extra books just to qualify for the free shipping. The offer of free oil changes influenced Ariely to buy a red sedan instead of a family van, even though the oil changes amounted to only .5% of the car's price. Policy makers should put this principle to work by making certain health checks free, and offering free benefits to people who do socially desirable things, such as driving electric cars.

Social Versus Market Norms

Market norms apply to monetary exchanges. People expect to pay for what they get, and vice versa. Social norms do not involve payment. Confusing the two leads to problems, as in the case of the young man who spends a lot of money courting a young lady and then wonders why she won't bestow a physical expression of her appreciation. Social norms are so powerful that research suggests people will work as hard for no money as they will for good pay to accomplish a social good. However, social norms are vulnerable, and once relationships shift from social norms to market norms, moving them back is very hard.

“In our experiments we saw clearly that running from pillar to post was not only stressful but uneconomical.”

When organizations build social relationships with their employees and customers, they commit themselves to relaxing market norms. If you evoke social norms to get customers to trust you, they will be angry if you cut services and then market norms as the reason. Similarly, if you reinforce employees' loyalty socially and then fire them to save money according to market norms, they will feel betrayed because the ethos of the market is inconsistent with the social mores you established.

What Men Really Want

Men want sex. All kinds. More kinds than they would ever admit in a calm state of mind. More sex than they could even imagine having any inclination toward – until

excited. In one experiment, Ariely asked male subjects to fill out a questionnaire about sexual desire and behavior. They gave the rational answers you might expect from well-educated, prudent, civilized young men. However, when asked to answer the same questions in a state of excitement, prudence, thoughts of consequences and other rational considerations largely disappeared. The lesson: It is easier to avoid temptation in the first place than to resist it in the heat of passion.

Maybe Later?

Procrastination is a common, albeit irrational, failure. Many people procrastinate about saving, dieting and other important decisions. Ariely found that letting students make their own choices of research paper deadlines, and commit to them in advance, improved their performance. He offered credit card companies a product that would help customers control their spending by limiting their card's expenditures on particular items or during particular time frames. So far, no credit card company has adopted the idea.

Ownership Doesn't Pay, It Costs

The mere fact of owning something seems to endow it with value it did not have when someone else owned it. In an experiment at Duke University, where tickets to major basketball games are available only through a hard-to-win lottery, Ariely asked students who had not won tickets how much they would pay for one. Generally, they said about \$170. Then, he asked students who had won a ticket how much they'd expect to sell it for; the average answer was \$2,400. The mere fact of ownership made the tickets seem much more valuable than the lack of ownership. People form strong attachments to their own things. When they think of selling these things, they consider the value lost, not the value the buyer would gain. They suppose that a buyer should recognize their item's intangible, emotional value. Ownership also applies to opinions. People even find it very difficult to turn loose of what they think. Therefore, try to avoid taking ownership in the first place; maintain as much detachment as possible when ownership is unavoidable. Simply recognizing the risks of ownership may help.

Too Many Choices

A great Chinese general motivated his troops to be single-minded in pursuit of victory by burning their transport ships and smashing their cooking pots. Return was not an option, nor was delay – because they had nothing to eat. Foreclosing options and eliminating choices secured victory. People with too many options tend to make suboptimal decisions. However, they are reluctant to release any options and focus on one thing. They play too many sports, serve on too many committees and take on too many obligations, to the detriment of all. They spend too much time comparing similar alternatives, thus incurring the paralyzing “consequences of not deciding,” though they are seldom aware of it.

Expectations Are Powerful

People pretty much get what they think they will get. Tell people that their beer has vinegar in it before they take a sip and they will wrinkle their noses at the taste. Don't tell them, and they are apt to find the flavor refreshingly novel. A presentation that sets expectations – for example, a fancy set of wine glasses – will affect perception of the taste. Brain scans show that if you tell people they are about to taste Coca-Cola, that information activates an area of the brain associated with memory and ideas. Their association with the brand predisposes them to enjoy the taste.

“It can be rather depressing to realize that we all continually make irrational decisions...but there is a silver lining: the fact that we make mistakes also means that there are ways to improve our decisions.”

Asian-American women whose attention is drawn to their race before they take a math test perform better on the test than those whose attention is drawn to their gender. The stereotype of Asian Americans is that they excel at math; the stereotype of women is that they do not. Merely considering the stereotype affected the women's performance.

You Get What You Pay For, Strange to Say

Experimental subjects offered an expensive painkiller reported that it was very efficacious; those offered a discount pill reported mediocre results. In fact, the “painkiller” was Vitamin C and people got the relief they thought they had paid to get. This placebo effect is real. In the Middle Ages, the “royal touch” actually healed victims of crippling ailments. Placebos often work as well as medicines. Moreover, a medication's efficacy often depends on the placebo effect. In fact, “If placebos can make us feel better, should we simply sit back and enjoy them?”

Everybody Cheats

Controlled experiments found that most experimental subjects, when given a chance to cheat, would cheat a little bit. They would not cheat blatantly, but they would chisel. They were not as likely to cheat to gain money as they were to gain some noncash item. Ariely once put a six-pack of soft drinks in communal dormitory refrigerators. The soft drinks disappeared. Then he put a small sum of cash in each refrigerator. No one stole the cash.

“If I were to distill one main lesson from the research described in this book, it is that we are pawns in a game whose forces we largely fail to comprehend.”

Cheating is widespread, but you can turn to a strong deterrent: the 10 Commandments. Experimental subjects asked to think about the 10 Commandments before participating in the experiment did not cheat. Even students who could only remember a few of the Commandments did not cheat. References to the Commandments, or to codes of honor and other reminders of the sacred trust can indeed have a desirable impact on conduct.

There Is a Such a Thing as a Free Lunch

People who order restaurant meals in groups are apt to order food they don't really like because their companions' orders influence theirs. Americans seem to want to

demonstrate independence by ordering something different from other people, while diners in Hong Kong feel pressured to demonstrate conformity by ordering the same thing as others. Diners in both places report lower satisfaction with their meals as a result.

“We are far less rational in our decision making than standard economics assumes.”

Conventional economics suggest that there is no such thing as a free lunch, because rational decision makers make irrational choices – and free lunches get arbitrated away. Behavioral economics, which looks at how people actually behave, not how they would behave if they were rational, finds that free lunches can exist: That is, the benefits of an action may very well outweigh its costs. The difference is free.

About the Author

Dan Ariely is the James B. Duke Professor of Behavioral Economics at Duke University, with appointments at the Fuqua School of Business, the Center for Cognitive Neuroscience and the Department of Economics. He is a visiting professor at MIT’s Media Lab.
