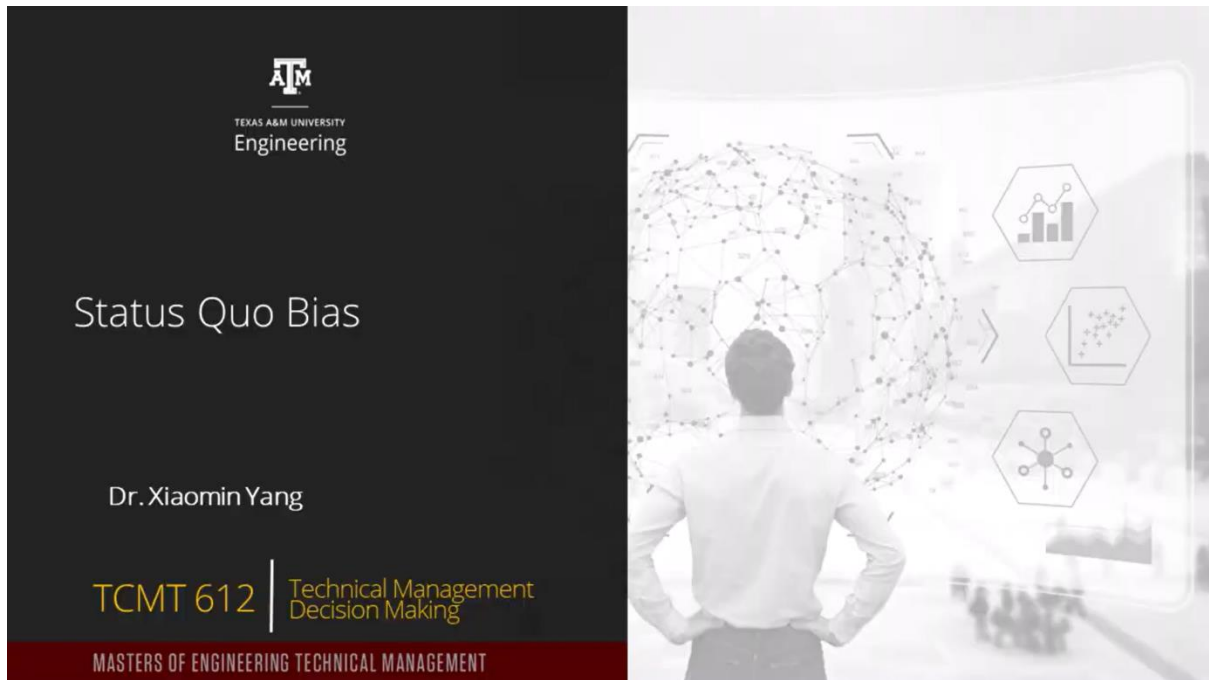


M2L16. Status Quo Bias

Slide #1

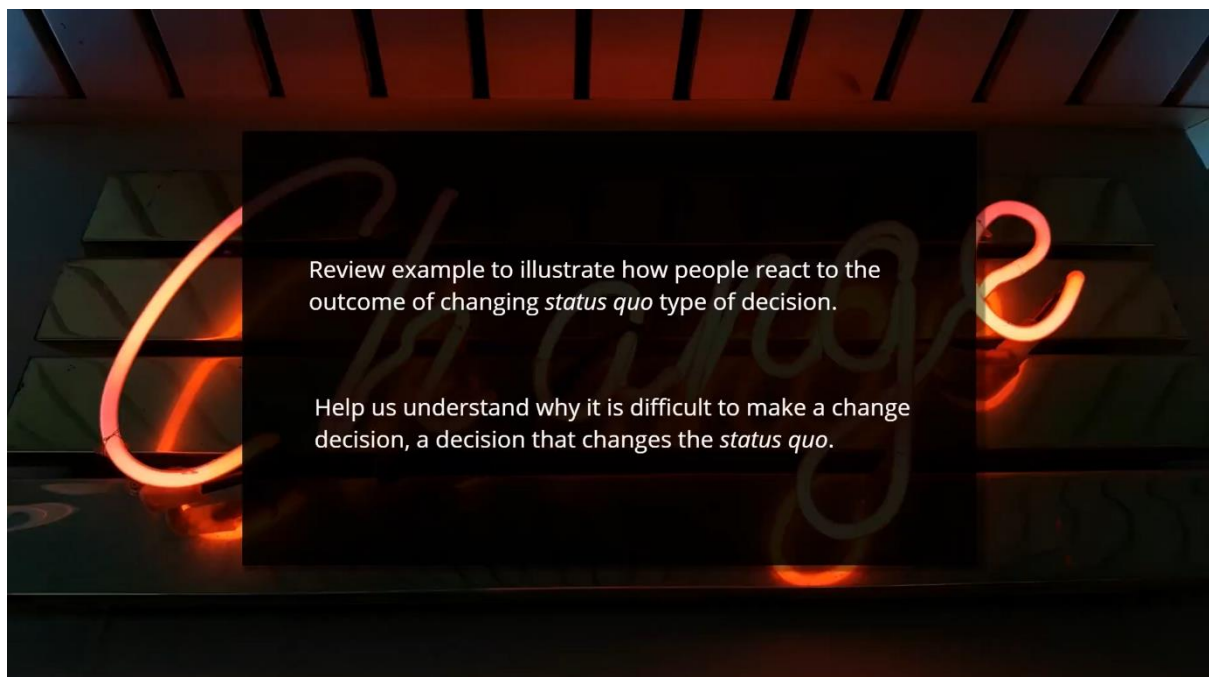


Now, let us discuss status quo.

How do we handle status quo and how do we think about the current situation?

Why is it difficult to make a decision to change the status quo?

Slide #2

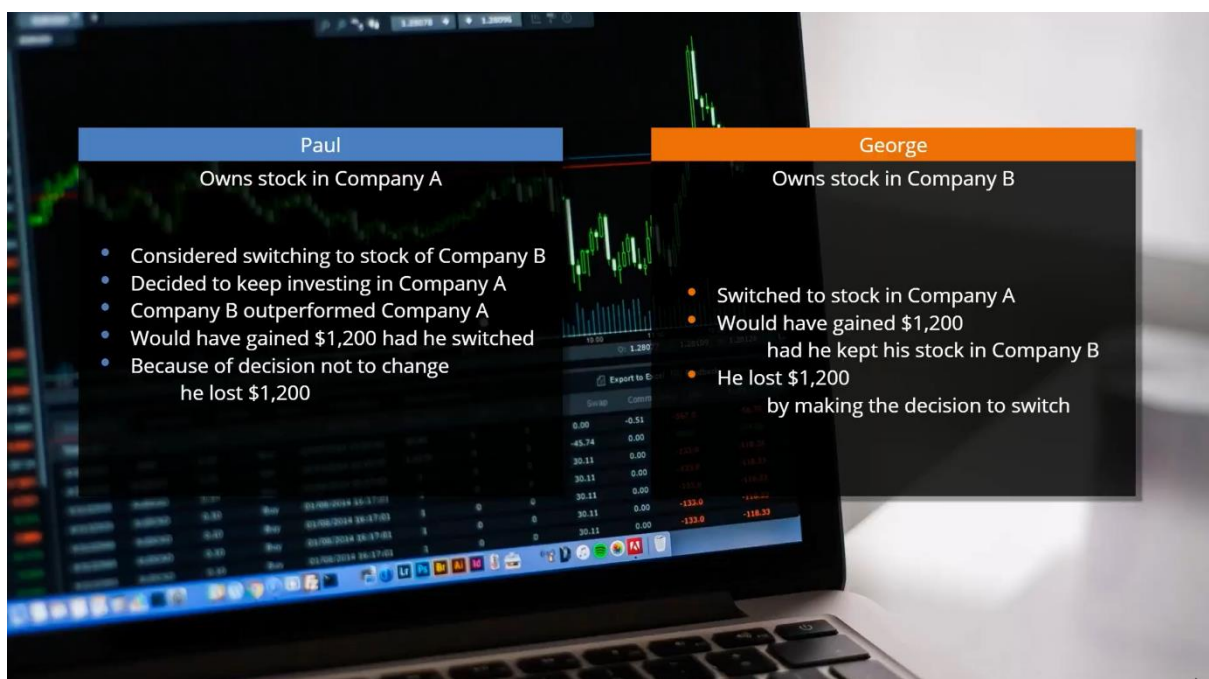


Let us first review an example to illustrate how people react to the outcome of a changing status quo type of decision.

This example will help us understand why it is difficult to make a change decision.

A decision that changes the status quo.

Slide #3



A person named Paul owns stock shares in Company A. During the past year, Paul considered switching to the stock of Company B, but he decided to keep investing in Company A and not to switch to Company B. At the end of the year, the stock of Company B outperforms that of Company A. Paul now realized that he would be better off by \$1,200 if he had switched to the stock of Company B. This means that because of a past decision not to make the change, he lost \$1,200.

In the other case, another person called George owned shares in Company B. During the past year, he switched to stock in Company A. He now finds he would be better off by \$1,200 if he had kept his stock in Company B. This means that George lost \$1,200 by making a decision to switch.

Who would feel worse, Paul or George?


Slide #4

Like most people,
George should feel much worse than **Paul**.

Series of decision-making experiments
and surveys
people stick to *status quo*,

Feel more comfortable to accept outcome
of doing-nothing decision.

Samuel Johnson, British writer
"To do nothing
is within the power
of all men."

A portrait of Samuel Johnson, a British writer, wearing a dark coat and a white wig. He is looking slightly to the left with a serious expression.

Like most people, George should feel much worse than Paul.

A series of decision-making experiments and surveys show that people tend to stick to the status quo and feel more comfortable accepting the outcome of their doing nothing decision.

Samuel Johnson, a British writer, described our status quo bias in a vivid way. To do nothing is within the power of all men.

Slide #5

Exhibit status quo bias across wide range of decisions:

- (a) selection of health care plan
- (b) reallocation of investment options
- (c) different technology and engineering solutions for a business.



Most real-world decisions have status quo alternative. We have an option to do nothing, maintain previous decisions without making any changes.

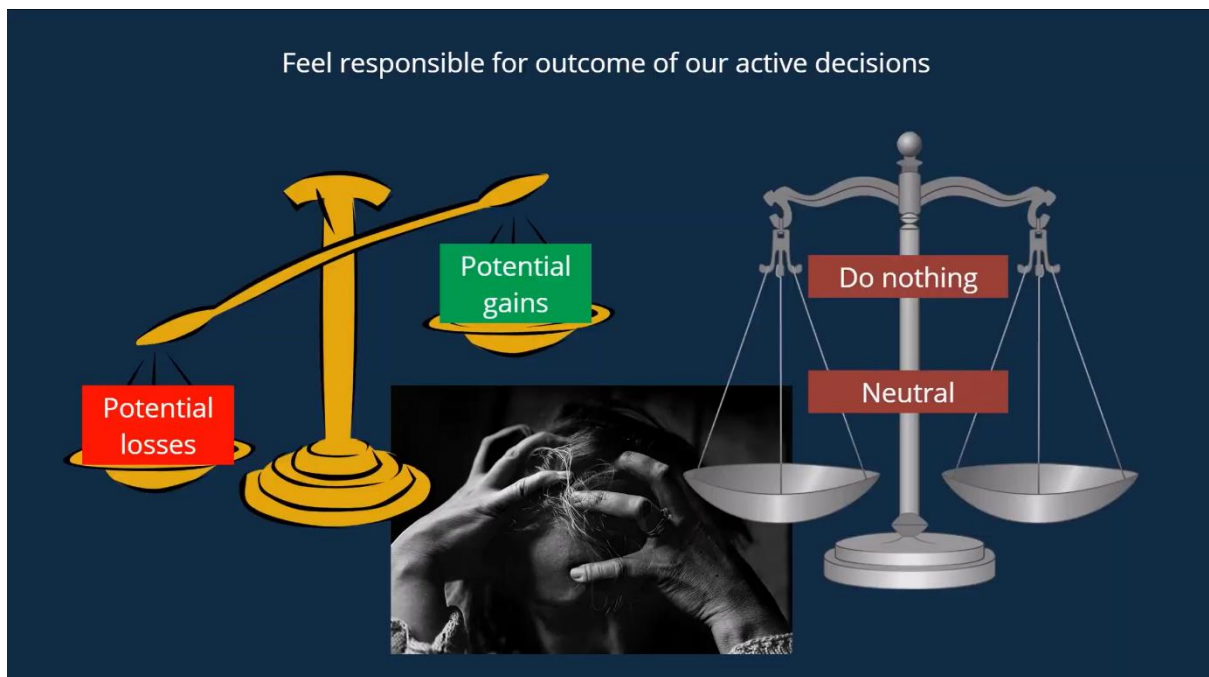
Human beings exhibit a significant status quo bias across a wide range of decisions, such as the selection of health care plans, reallocation of investment options, and the choice of different technology and engineering solutions for a business.

Unlike multiple choice questions in an academic environment, most real-world decisions have a status quo alternative.

That is, we have an option to do nothing or to maintain our previous decisions without making any changes.

This kind of maintaining a status quo bias is not a mistake at all. It is simply a pattern of our psychological behavior.

Slide #6

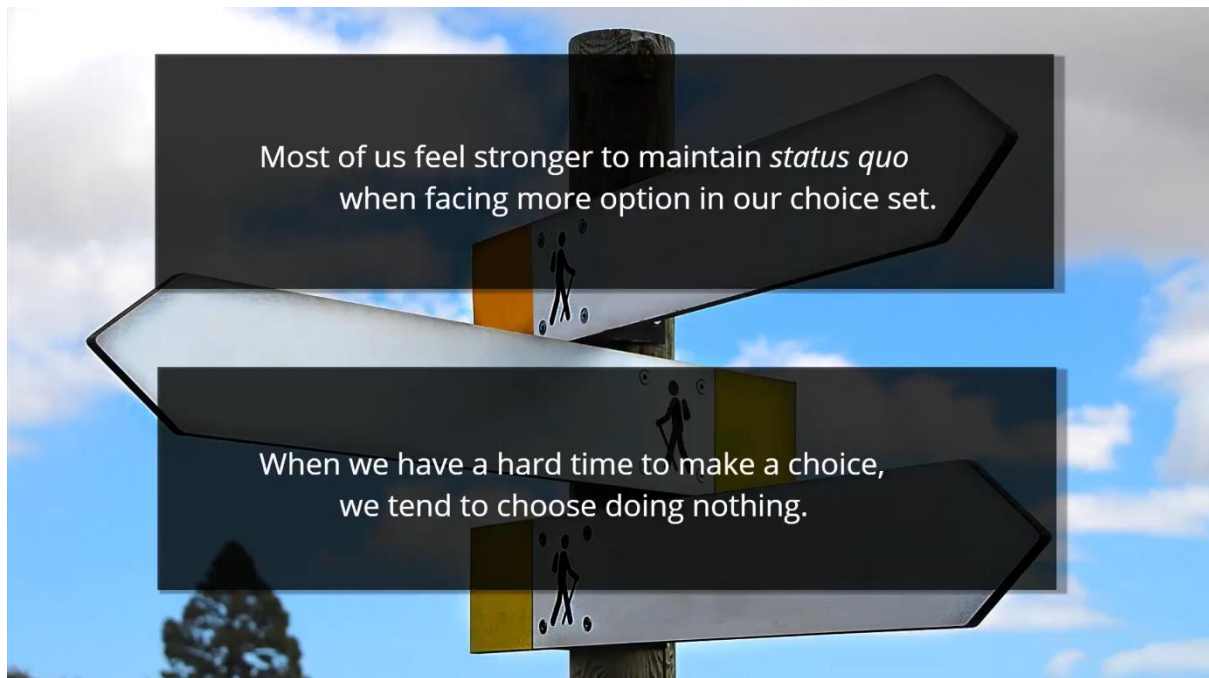


Most human beings feel responsible for the outcome of our active decisions, and people consider potential losses of our active decisions heavier than potential gains.

So when we make a decision to do something, we are emotionally attached to the outcome of our decisions.

On the other hand, if we choose to do nothing, we feel more neutral to accept the outcome of a do nothing choice.

Slide #7



In addition to our risk averse type of psychological reactions to the outcome of our decisions, most of us also feel stronger to maintain the status quo when facing more options in our choice set.

This means, when we have a hard time making a choice, we tend to choose to do nothing.