

## Module 02 - Judgement in Decision Making

-Announcement-

Howdy,

I think each of you learned something new about decision making in the past three weeks and feel proud of you completing so many topics of intuitive judgment topic in such a short period of time.

It's also extremely encouraging and pleasant to read more than two hundred of group discussion posts about these topics. You obviously relate the learning with your real-world practices, which help the whole class gain practical insights about these psychological biases. Both the volume and quality of the posts are beyond my expectation.

Your discussions illustrate that we are all biased more or less when making decisions. Experience might help us mitigate some of these biases, but our brains are wired to make biased judgment calls. It's why we need other two sets of tools, analysis and strategy, to help us make better decisions.

Here, I would like to emphasize four points:

1. Most of you actively participated in the group discussions. Please keep doing the excellent work.
2. In the next two weeks, we will cover how we make decisions in a competitive environment, negotiation. The key learning point is how to collectively create value and constructively split the value to satisfy the complimentary interests of both parties to the maximum level.
3. The negotiation project will due on Oct. 6 while module 3 will conclude on September 30 and module 4 will start on Oct. 1st. The stretched project deadline will give you more time to complete the negotiation discussions.
4. Sam will send you a note about your negotiation partner by next Monday (September 17). He will also send you the passcode of the negotiation material documents by September 21. Please feel free to arrange negotiation discussions with your partner. Your discussions can be in the format of face-to-face meeting, audio or video conferencing, email chatting, or whatever works for you two.
5. I'm leaving Houston and heading for Saudi this Sunday (September 16). Due to the international travel (20 hrs) and Saudi's internet regulations, I will have very limited access to eCampus for a week or two. Sam should be able to answer most of your questions on behalf me. You can text me at +6303410316 for urgent matters. I greatly appreciate your patience with me.

Thank you. Have a nice weekend.

Dr. Xiaomin Yang

Topic 1 - Module 2 Introduction      Duration: about 1 minute. Download: [Transcript](#)  
*Often you have to rely on intuition". Bill Gates*

Topic 2 - Endowment Effect      Duration: about 6 minutes. Download: [Transcript](#)

Topic 3 - Amplified Endowment Effect      Duration: about 8 minutes. Download: [Transcript](#)

Topic 4 - Mitigate endowment effect      Enabled: Statistics Tracking      Duration: about 2 minutes. Download: [Transcript](#)

Topic 5 - Prospect Principle Revisited      Duration: about 3 minutes. Download: [Transcript](#)

Topic 6 - Mental Accounting      Updated Video and Transcript. Duration: about 5 minutes. Download: [Transcript](#)

Topic 7 - Mental Accounting in Business      Duration: about 6 minutes. Download: [Transcript](#)

**Quiz 2**      Time: 10 minutes      [Due: September 15](#)

Topic 8 - Mental Accounting Test      Duration: about 4 minutes. Download: [Transcript](#)

Mental Accounting Assessment      Please go to this link: <https://goo.gl/forms/ZGbv7NMeyw5oWQrq1> This test is made available using Google Forms which requires you to sign-in using your TAMU email ID. It consists of two questions. You can submit it only once. Contact the TA if you face any issues. [Due: September 15](#)

*"To do nothing is within the power of all men". Samuel Johnson*

Topic 9 Status Quo Bias      Duration: about 5 minutes. Download: [Transcript](#)

Topic 10 - First Mover Advantage      Duration: about 6 minutes. Download: [Transcript](#)

Topic 11 - Escalation of Commitment      Duration: about 7 minutes. Download: [Transcript](#)

Topic 12 - Escalation of Commitment in Business  
[Transcript](#)

Duration: about 9 Minutes. Download:

Topic 13 - Avoiding Escalation of Commitment

Duration: about 6 minutes. Download: [Transcript](#)

Topic 14 - Sunk Cost Bias

Duration: about 3 minutes. Download: [Transcript](#)

Quiz 3

Time: 10 minutes [Due: September 15](#)

## Module 2: Summary

In this module, we discussed some major psychological biases that human beings tend to experience when making decisions. These biases are the nature of our intuitive reasoning process, and define how human beings think and behave in a social environment. So we need to be aware of these biases and make good use of our intuitive judgment under various business situations. Next module will cover how we respond to competition and make appropriate decisions that maximize the value for us and our partners.

## Test Canvas: Quiz 2

Question

Which of the following best describes Endowment Effect?

Answer



- a.  
the apparent increase in value of an object due to owning the object
- b.  
rely too heavily on the first piece of information
- c.  
seek, interpret and remember information to support pre-existing decision
- d.  
present choices in a specific way (positive vs. negative)

Question

In the video explaining endowment effect, which of the following examples is used?

Answer




- a.  
Buying/Selling a mug
- b.  
Selling commodities online
- c.  
Used car salesmen focussing on few positive aspects of a used car to sell faster
- d.  
Buying/Selling electronics

Question

Which of the following is a good description of Mental Accounting?

Answer

- a.  
common human tendency to rely too heavily on the first piece of information offered when making a decision
  - b.  
seek, interpret and remember information to support pre-existing decision
- 
- c.

the tendency for people to separate their money into separate accounts based on a variety of subjects, such as source of money and intent

d.

the apparent increase in value of an object due to owning the object

**Question**

Which of the following is NOT an example of Mental Accounting?

**Answer**




- a. The seller demanding more value for an object compared to what the buyer offers
- b. Customers' grocery spending increases when a '\$10 off' coupon is offered
- c. Selection of 97% fat free milk over milk with 1% fat
- d. Categorize a project into a high-risk-high-return when working with risk-loving people

### Quiz 3

Question

Which of the following is **NOT** true about Status Quo?


Answer

- a.  
Individuals exhibit a significant status quo bias across a range of decisions
- b.  
The more options being included in the choice set, the stronger is the relative bias for the status quo
- c.  
Most real decisions have a status quo alternative  

- d.  
Status Quo bias is a mistake

Question

"Tendency to invest additional resources in an apparently losing proposition, influenced by effort, describes which of the following?


Answer

- a.  
Status Quo Bias
- b.  
First Mover Advantage  

- c.  
Escalation of Commitment
- d.  
Game Theory

Question

"The market will become better soon" is a sign of Escalation of Commitment in Business.

Answer

- 
- a.  
True

b.

False