

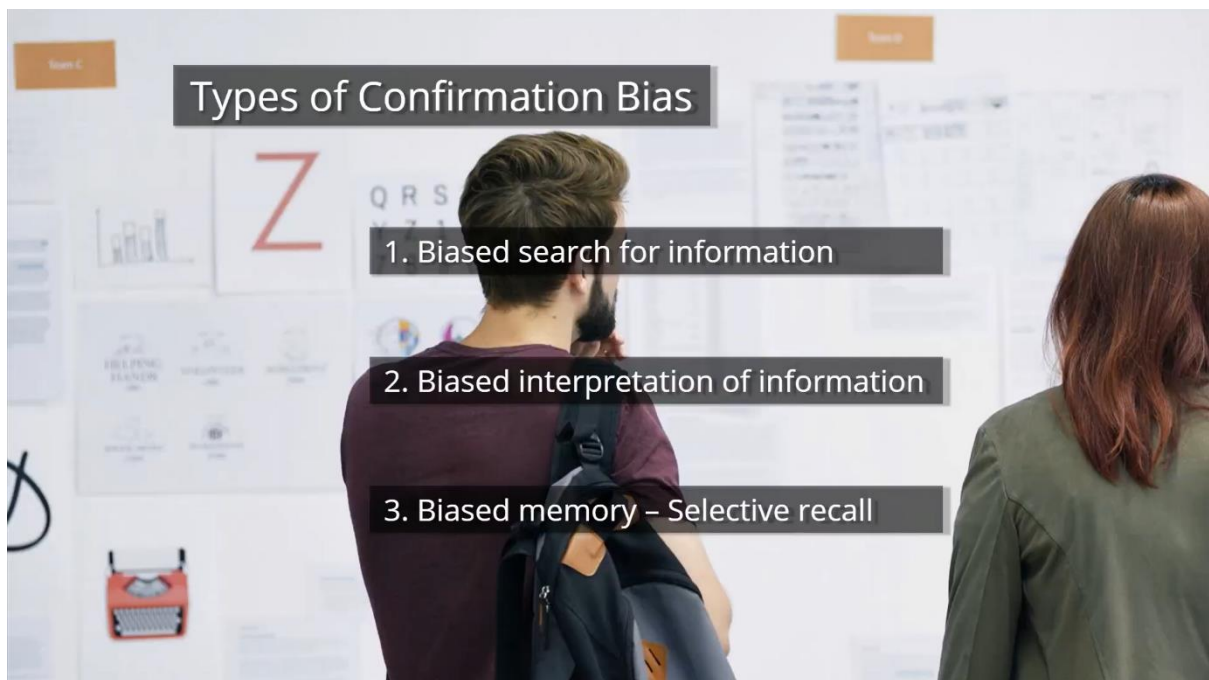
M2L2. Confirmation Bias

Slide #1



In this topic, we will discuss confirmation bias.

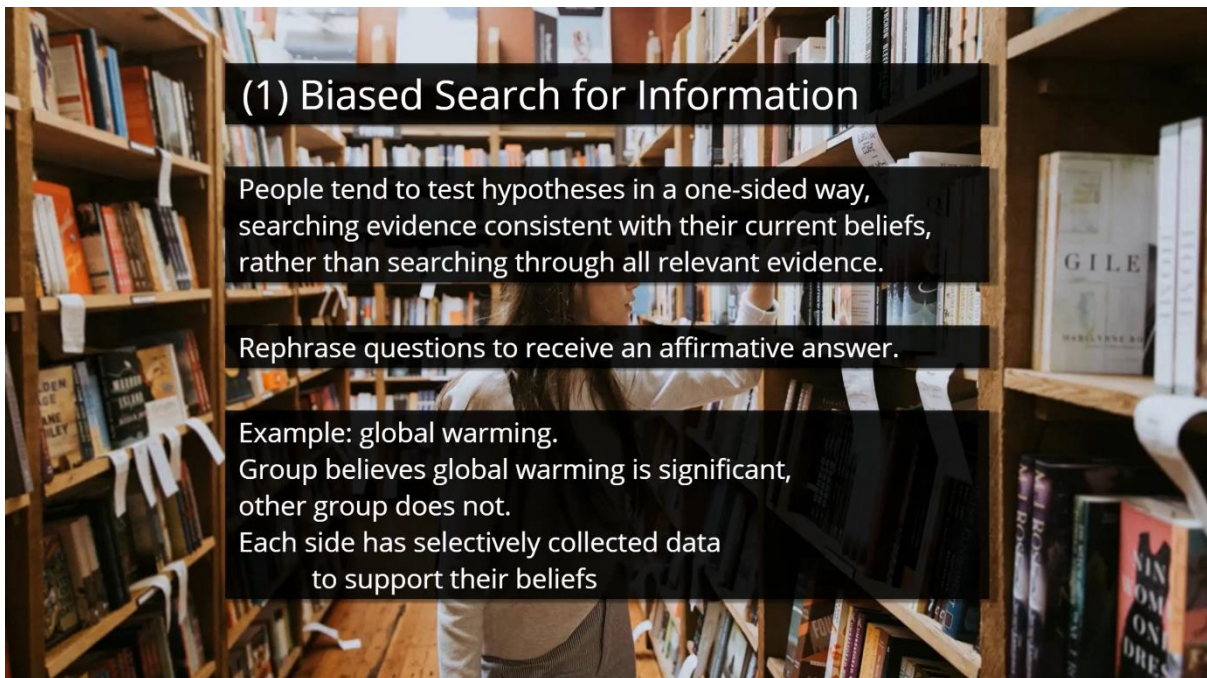
Slide #2



There are three types of confirmation biases.

They are the biased search for information, the biased interpretation of information, and biased memory or selective recall.

Slide #3



(1) Biased Search for Information

People tend to test hypotheses in a one-sided way, searching evidence consistent with their current beliefs, rather than searching through all relevant evidence.

Rephrase questions to receive an affirmative answer.

Example: global warming.
Group believes global warming is significant, other group does not.
Each side has selectively collected data to support their beliefs

Many experiments have found repeatedly that people tend to test hypotheses in a one-sided way by searching for evidence consistent with their current beliefs, rather than searching through all relevant evidence.

They rephrase questions to receive an affirmative answer that supports their decision.

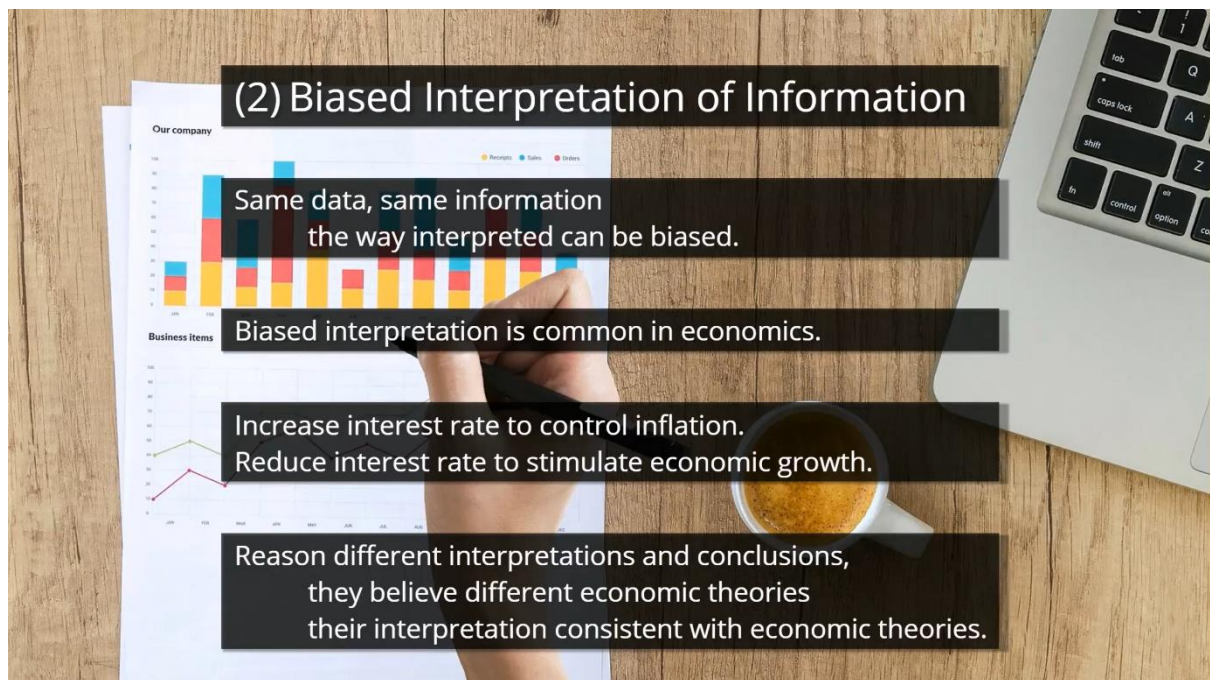
There are many examples of a biased search for information and one is about global warming.

We have two opposite groups of people.

One believes global warming is significant and one does not.

Each side has selectively collected a huge amount of data to support their beliefs.

Slide #4



Confirmation biases are not limited to the collection of data.

Given two individuals have the same data and the same information, the way they interpret it can be biased.

This type of bias is called a bias interpretation.

Biased interpretation is pretty common in the economic field.

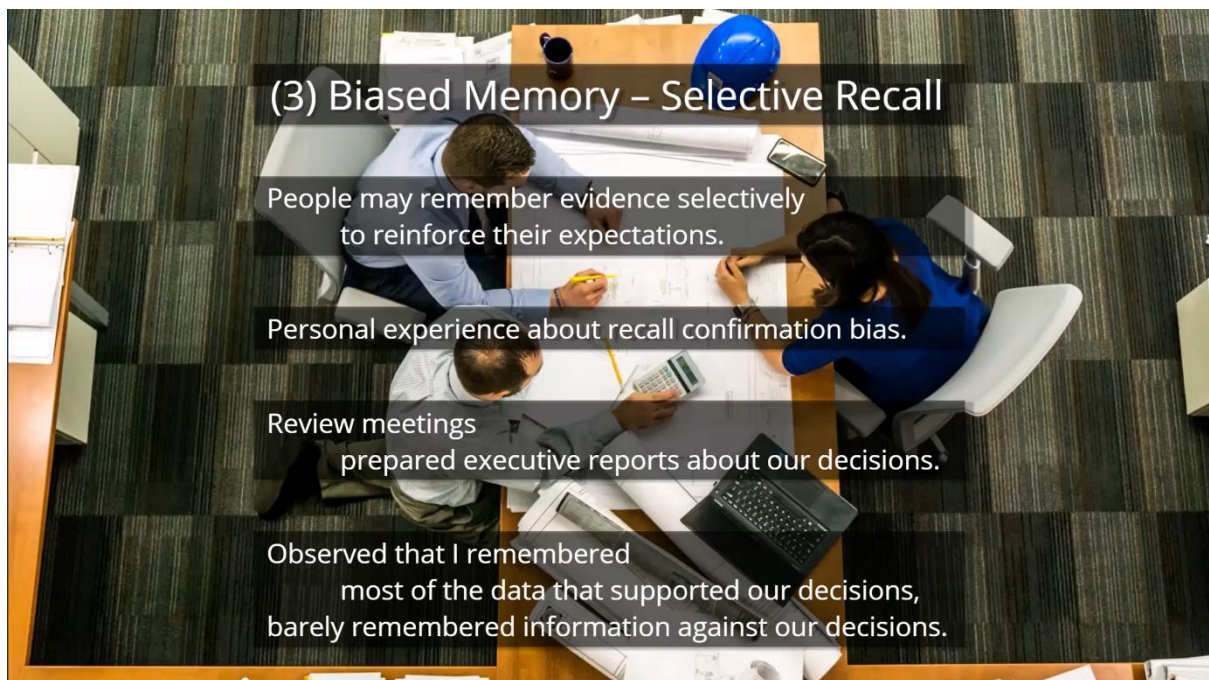
Even though different groups of economists have the same set of economic data, they interpret the data in a different way.

One group may conclude we need to increase the interest rate to control inflation.

The other group may conclude that we need to reduce the interest rate to stimulate economic growth.

The reason that those economists make different interpretations and conclusions is that they believe in different economic theories and their interpretation of information is consistent with their economic theories.

Slide #5



Confirmation bias has a lasting effect.

People may remember evidence selectively to reinforce their expectations.

This is called selective recall.

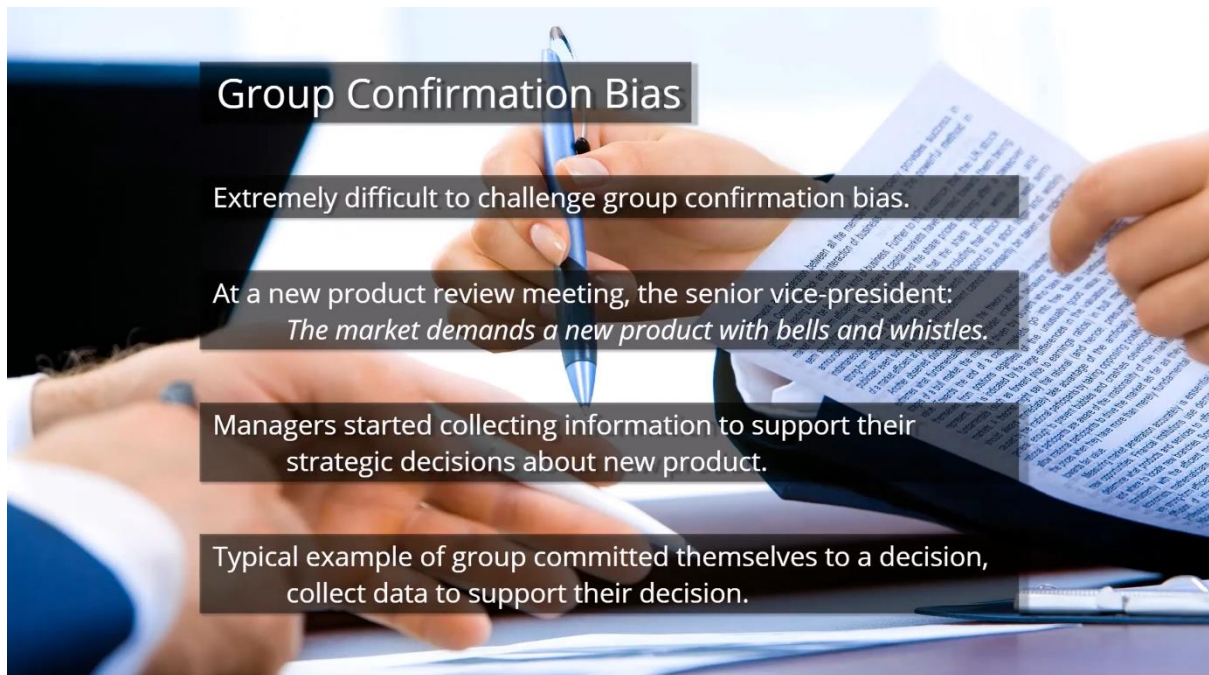
I have a unique personal experience with recall confirmation bias.

When I was the portfolio manager of a global energy company, I frequently participated in review meetings.

I observed that I remembered most of the data that supported our decisions and barely remembered any details about information that was against our decisions.

I definitely experienced the recall bias at that time.

Slide #6



Group Confirmation Bias

Extremely difficult to challenge group confirmation bias.

At a new product review meeting, the senior vice-president:
The market demands a new product with bells and whistles.

Managers started collecting information to support their strategic decisions about new product.

Typical example of group committed themselves to a decision, collect data to support their decision.

Particularly in the group discussion setting, it is extremely difficult for a person to challenge a group confirmation bias, especially when a powerful leader is biased.

For example, at a new product or review meeting, the senior vice president started a meeting with his confirmation statement, the market demands a new product with bells and whistles.

Other managers were obviously influenced by the vice president's confirming statement and then the group of managers started collecting information to support their strategic decisions about the new product.

This is a typical example of a group of people who committed themselves to a decision and collected data to support their decision.