

EXERCISE - DECISION MAKING

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There are lots of biases, and lots of ways we make mistakes, but two of the blind spots that surprise me most are the continuous belief in the rationality of people and of the markets. This surprises me particularly because even the people who seem to believe that rationality is a good way to describe individuals, societies and markets, feel very differently when you ask them specific questions about the people and institutions they know very well. On one hand, they can state all kinds of high order beliefs about the rationality of people, corporations, and societies, but then they share very different sentiments about their significant other, their mother-in-law (and I am sure that their significant other and mother-in-law also have crazy stories to share about them), and the organizations they work at. Somehow when we look at a particular example of life up close, the illusion of sensible behavior fades almost instantly. And the more we look at the small details of our own life, the more our bad decisions seem to multiply.

As an exercise let's each think about our own life and write down the number of time we have done the following activities in the last thirty days. Two more points to keep in mind: 1) If you don't fill in the numbers it will be much easier for you to keep the illusion of your own rationality, so it is up to you if you prefer to confront your own behavior or not. 2) If you leave lines empty, it feels very different from writing zero, so if you want to be truly honest with yourself, don't leave any line empty.

In the last thirty days the number of times I ...

Overate is _____

Texted while driving is _____

Read email while driving is _____

Spent money and regretted it later _____

Spent too much time on social media _____

Procrastinated _____

Stayed up too late and did not sleep well _____

Drank too much _____

Was not as kind to my significant other as I want to be _____

Did not spend enough time with my kids is _____

Did not exercise as much as I wanted to is _____

Did not take my medications _____

Lied (and not a white lie) _____

Mismanaged my time _____

Said yes to something that I should have said no to _____

Said something inappropriate and then regretted it _____

Took a non-optimal flight just to get a few more frequent flyer points _____

[Please add any additional misbehaviors below]

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

I did this exercise myself and for a few minutes I considered publicly posting my own answers but when I tallied the numbers, I did not want to admit my own failing or increase the number of times I lied – so I decided to keep the details of my own misbehaviors private. Maybe the extent of undesirable behaviors is only prevalent in my own life and maybe I am the most irrational person out there. But on the off chance that my experience is on par with the general human experience, maybe we all need to update our assessments of our abilities and think about how to improve our sorry state. And hopefully sooner rather than later.

The first question that comes directly from this somewhat sad analysis of the state of bad decisions and the modern world, is whether we should be depressed with all of these illustrations and personal anecdotes of substantial personal failings. And the second question that should follow it, is what are we to do?

In terms of being depressed, it might seem that the rational perspective is a much more optimistic view of life and that the behavioral economics perspective is depressing. After all, it seems wonderful to go about our daily life believing that the people around us are perfectly rational superhumans who always make the right decisions. Plus, this perspective has a certain level of respect for the marvel of humanity. In contrast, thinking about the people we interact with both professionally and socially as myopic, emotional, vindictive, unsure about what they want, easily confused, etc. seems rather sad. But let's take a different view on this — one that is rooted in the state of the world and not one that is focused on individuals.

Think about the world. We have somewhere between 7 and 8 billion people in the world, and as far as I can tell, things are far from ideal. We have wars, high crime rates, climate change, pollution, our oceans are unhealthy, we have a large amounts of poverty, we have obesity, smoking, etc, etc, etc. From this perspective, what is more optimistic? To think about the state of the world as the result of 7-8 billion rational people, or to think about it as the result of 7-8 billion irrational people? If we think about the world as an outcome of 7-8 billion rational people, then it means that this is the best we can hope for. But if we understand that the state of the world as an outcome of 7-8 billion irrational people, this means that we can do much better. It means that as long as we understand where we go wrong, we can improve things. This is the version of optimism – and I deeply believe in. True, we are flawed in many ways, and I'm sure that over the years we will find even more ways in which we are flawed. But for me, this only emphasizes the vast room for improvement. Now, this is optimism!

In terms of what to do next, in my mind the challenges are basically design challenges. As long as we build the world around us assuming that people have limitless cognitive capacity and no emotions to interfere with our decisions, we will fail, and we will fail often and on larger scales. But, if we truly understand human limitations and build around this understanding, we will end up with products and markets that are much more compatible with our human ability and will ultimately allow us to flourish. In the same way that we would never design a car assuming that people have an infinite amount of hands and legs to operate the car, we must also recognize our social, cognitive, emotional, and attention

limitations as we design our environment. This is a challenge, but this is also the path of hope.

And finally, I would like to remind us about the wisdom of the Romans. At the peak of Rome's empire, Roman generals who won significant victories paraded through the middle of the city displaying their spoils. The generals wore purple and gold ceremonial robes, a crown of laurels, and red paint on their face as they were carried through the city on a throne. They were hailed, celebrated and admired. But there was one more element to the ceremony: Throughout the day a slave walked next to the general whispering repeatedly in his ear "Memento mori," which means "Remember your mortality."

If I could create a modern version of this Roman phrase, I would probably pick "Remember your fallibility" or maybe "Remember your irrationality." Whatever the phrase is, recognizing our shortcomings is a crucial first step in the path to making better decisions, creating better societies and fixing our institutions.