

Decision Heuristics

- Availability heuristic
- Representativeness
- Anchoring
- Perception of change is proportional to initial level.
- Difficulty of choosing
- Asymmetric Value Function
- Emotion

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Behavioral regularities save scarce mental capacity:
Bounded rationality

- **Lexicographic choice.**
- **Mental accounts.**

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Imagine you are to draw a ball blindfolded from an urn containing 89 red balls, 10 blue and 1 black.

Situation I: Choose between A or B

A. Payoff:

\$1 mil. (.89) if red

\$1 mil. (.10) if blue

\$1 mil. (.01) if black

B. Payoff:

\$1 mil. (.89) if red

\$2.5 mil. (.1) if blue

\$ zero (.01) if black

Situation II: Choose between A or B.

A. Payoff:

\$zero (.89) if red

\$1 mil. (.10) if blue

\$1 mil. (.01) if black

B. Payoff:

\$zero (.89) if red

\$2.5 mil. (.10) if blue

\$ zero (.01) if black

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• **Since red A & B within I & within II are identical, should not affect choice A & B.**

• **Since blue and black are equal in both I & II, if payoff A > B in I, then A > B in II.**

• **If not, then red between I & II is having an effect (non-separable).
Regret?**

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Emotion

- **Emotions shape choices as well as rewards.**
- **Regret, anxiety and guilt.**
- **Non-calculated psychic causality.**
- **Conflicting motivations have to be worked out on the fly.**

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Key Points

- **Individuals have different utility functions and abilities.**
- **Preferences change.**
- **Multiple brains. Functions not transitive and complete.**
- **People do (can) not always calculate.**
- **People like reasons.**

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More points

- **One person's utility is affected by choices of others.**
- **Work has direct utility.**
- **Utility is often non-additive and non-separable.**
- **We are emotional.**
- **Framing is agenda power.**
- **Heuristics save mental energy.**

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Implications for Research

- **"Individuals may be rational but the aggregate is not."**
- **Contingent valuation?**
- **Advertizing?**
- **Political campaigns?**

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Bites

- **Can you live with yourself in the morning?**
- **A dollar is not always a \$.**
- **“I paid for it and I am going to use it even if it kills me.”**
- **Gut feeling is economical.**

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