



Executive Book Summaries®

www.summary.com

Predictably Irrational

The Hidden Forces That Shape Our Decisions

THE SUMMARY IN BRIEF

When it comes to making decisions in our lives, we think we're in control. We think we're making smart, rational choices. But are we?

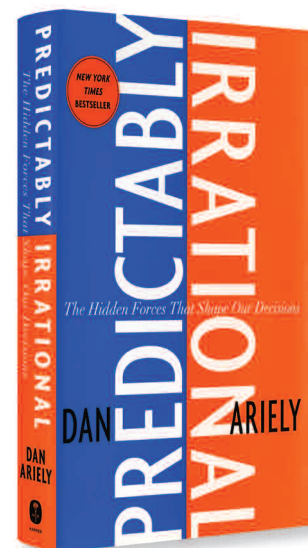
In a series of illuminating, often-surprising experiments, Duke psychologist and behavioral economist Dan Ariely refutes the common assumption that we behave in fundamentally rational ways. Blending everyday experience with groundbreaking research, *Predictably Irrational* explains how expectations, emotions, social norms and other invisible, seemingly illogical forces skew our reasoning abilities.

Not only do we make astonishingly simple mistakes every day, but we make the same *types* of mistakes, and we make them over and over. We consistently overpay, underestimate and procrastinate. We fail to understand the profound effects of our emotions on what we want, and we overvalue what we already own. Yet these misguided behaviors are neither random nor senseless. They're systematic and predictable — making us *predictably* irrational.

Predictably Irrational explains how to break through systematic patterns of thought to make better decisions. It also changes the way we interact with the world — one small decision at a time.

IN THIS SUMMARY, YOU WILL LEARN:

- Why we splurge on a meal but cut coupons to save cents on a can of soup.
- Why everything is relative, even when it shouldn't be.
- Why options distract us from our main objective.
- Why our headaches persist after taking a one-cent aspirin but disappear after taking a 50-cent aspirin.
- Why we are dishonest and what we can do about it.
- Why dealing with cash makes us more honest.



by Dan Ariely

CONTENTS

The Truth About Relativity

Page 2

The Fallacy of Supply and Demand

Page 3

The Cost of Social Norms

Page 4

The High Price of Ownership

Page 5

The Power of Price

Page 6

The Context of Our Character

Page 7

Beer and Free Lunches

Page 8

THE COMPLETE SUMMARY: PREDICTABLY IRRATIONAL

by Dan Ariely

The author: Dan Ariely is the James B. Duke Professor of Psychology and Behavioral Economics at Duke University, where he holds appointments at the Fuqua School of Business, the Center for Cognitive Neuroscience, the School of Medicine and the Department of Economics. He is also the founding member of the Center for Advanced Hindsight.

Predictably Irrational: The Hidden Forces That Shape Our Decisions by Dan Ariely. Copyright © 2008 by Dan Ariely. Summarized by permission of the publisher, Harper, an Imprint of HarperCollins Publishers. 280 pages, \$25.95, ISBN 978-0-06-135323-9. To purchase this book, go to www.amazon.com or www.bn.com.

Summary copyright © 2011 by Soundview Executive Book Summaries, www.summary.com, 1-800-SUMMARY, 1-610-558-9495. For additional information on the author, go to <http://www.summary.com> or www.danariely.com.

Introduction

We are not only irrational, but *predictably irrational* — our irrationality happens the same way, again and again. Whether we are acting as consumers, businesspeople or policy makers, understanding how we are predictably irrational provides a starting point for improving our decision making and changing the way we live for the better.

Life is complex, with multiple forces simultaneously exerting their influences on us, and this complexity makes it difficult to figure out exactly how each of these forces shapes our behavior. Social scientists approach such complex problems by carrying out experiments. For social scientists, experiments are like microscopes or strobe lights. They help us slow human behavior to a frame-by-frame narration of events, isolate individual forces, and examine those forces carefully and in more detail. They let us test directly and unambiguously what makes us tick.

Think about the experiments as illustrations of general principles, providing insight into how we think and how we make decisions — not only in the context of the particular experiment but, by extrapolation, in many contexts of life.

On top of that, try to consider whether the principles revealed in these experiments might make your life better or worse, and more important, what you could do differently, given your new understanding of human nature. This is where the real adventure lies. ●

The Truth About Relativity

Here is an example of the problem of relativity from a

study conducted by two brilliant researchers, Amos Tversky and Daniel Kahneman.

Suppose you have two errands to run today. The first is to buy a new pen, and the second is to buy a suit for work. At an office supply store, you find a nice pen for \$25. You are set to buy it when you remember that the same pen is on sale for \$18 at another store 15 minutes away. What would you do? Do you decide to take the 15-minute trip to save the \$7? Most people faced with this dilemma say they would take the trip to save the \$7.

Now you are on your second task: You're shopping for your suit. You find a luxurious gray pinstripe suit for \$455 and decide to buy it, but then another customer whispers in your ear that the exact same suit is on sale for only \$448 at another store just 15 minutes away. Do you make this second 15-minute trip? In this case, most people say that they would not.

But what is going on here? Is 15 minutes of your time worth \$7, or isn't it? In reality, of course, \$7 is \$7 — no matter how you count it. The only question you should ask yourself in these cases is whether the trip across town, and the 15 extra minutes it would take, is worth the extra \$7 you would save. Whether the amount from which this \$7 will be saved is \$10 or \$10,000 should be irrelevant. But this is not how we view our financial decisions.

This is the problem of relativity — we look at our decisions in a relative way and compare them locally to the available alternative. We compare the relative advantage of the cheap pen with the expensive one, and this contrast makes it obvious to us that we should spend the extra time to save the \$7. At the same time, the relative advantage of the cheaper suit is very small, so we spend the extra \$7.



1-800-SUMMARY
service@summary.com

Published by Soundview Executive Book Summaries (ISSN 0747-2196), 500 Old Forge Lane, Suite 501, Kennett Square, PA 19348 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions starting at \$99 per year. Copyright © 2011 by Soundview Executive Book Summaries.

Available formats: Summaries are available in several digital formats. To subscribe, call us at 1-800-SUMMARY (240-912-7513 outside the United States), or order online at www.summary.com. Multiple-subscription discounts and corporate site licenses are also available.

Rebecca S. Clement, Publisher; Sarah T. Dayton, Editor in Chief; Andrew Clancy, Senior Editor; Edward O'Neill, Graphic Designer; Chris Lauer, Contributing Editor

Summary: PREDICTABLY IRRATIONAL

This is also why it is so easy for a person to add \$200 to a \$5,000 catering bill for a soup course, when the same person will clip coupons to save 25 cents on a \$1 can of condensed soup. Similarly, we find it easy to spend \$3,000 to upgrade to leather seats when we buy a new \$25,000 car but difficult to spend the same amount on a new leather sofa (even though we know we will spend more time at home on the sofa than in the car). Yet if we just thought about this from a broader perspective, we could better assess what we could do with the \$3,000 that we are considering spending on upgrading the car seats. Would we perhaps be better off spending it on books, clothes or a vacation? Thinking broadly like this is not easy, because making relative judgments is the natural way we think. Can you get a handle on it?

The more we have, the more we want. And the only cure is to break the cycle of relativity. ●

The Fallacy of Supply and Demand

Traditional economics assumes that prices of products in the market are determined by a balance between two forces: production at each price (supply) and the desires of those with purchasing power at each price (demand). The price at which these two forces meet determines the prices in the marketplace.

This is an elegant idea, but it depends on the central assumption that the two forces are independent and that together they produce the market price. The results of many recent experiments challenge these assumptions.

First, according to the standard economic framework, consumers' willingness to pay is one of the two inputs that determine market prices (this is the demand). But as those experiments demonstrate, what consumers are willing to pay can easily be manipulated, and this means that consumers don't, in fact, have a good handle on their own preferences and the prices they are willing to pay for different goods and experiences.

Second, whereas the standard economic framework assumes that the forces of supply and demand are independent, the anchoring manipulations suggest that they are, in fact, dependent. In the real world, anchoring comes from manufacturer's suggested retail prices (MSRPs), advertised prices, promotions, product introductions, etc. — all of which are supply-side variables. It seems then that instead of consumers' willingness to pay influencing market prices, the causality is somewhat reversed, and it is market prices themselves that influence consumers' willingness to pay. What this means is

The End of Cash?

The days of cash are coming to a close. Profits from credit cards in the United States rose from \$9 billion in 1996 to a record \$27 billion in 2004. The question, therefore, is how we can control our tendency to cheat when we are brought to our senses only by the sight of cash — and what we can do now that cash is going away.

that demand is not, in fact, a completely separate force from supply, and the prices in the marketplace are not rational or optimal. ●

The Cost of Zero Cost

It's no secret that getting something for free feels very good. Zero is not just another price, it turns out. Zero is an emotional hot button — a source of irrational excitement. Would you buy something if it were discounted from 50 cents to 20 cents? Maybe. Would you buy it if it were discounted from 50 cents to two cents? Maybe. Would you grab it if it were discounted from 50 cents to zero? You bet!

When choosing between two products, we often overreact to the free one. We might opt for a FREE! checking account (with no benefits attached) rather than one that costs \$5 a month. But if the \$5 checking account includes free traveler's checks, online billing, etc., and the FREE! one doesn't, we may end up spending more for this package of services with the FREE! account than with the \$5 account. Similarly, we might choose a mortgage with no closing costs but with interest rates and fees that are off the wall, and we might get a product we don't really want simply because it comes with a free gift.

Zero is not just another discount. Zero is a different place. The difference between two cents and one cent is small. But the difference between one cent and zero is huge!

If you are in business, and understand that, you can do some marvelous things. Want to draw a crowd? Make something FREE! Want to sell more products? Make part of the purchase FREE!

Similarly, we can use FREE! to drive social policy. Want people to drive electric cars? Don't just lower the registration and inspection fees — eliminate them so that you have created FREE! In the same way, if health is your concern, focus on early detection as a way to eliminate the progression of severe illnesses. Want people

Summary: PREDICTABLY IRRATIONAL

to do the right thing — in terms of getting regular colonoscopies, mammograms, cholesterol checks, diabetes checks and such? Don't just decrease the cost (by decreasing the co-pay). Make these critical tests FREE!

It's certainly counterintuitive in these times of budget cutbacks to make something FREE! But when we stop to think about it, FREE! can have a great deal of power, and it makes a lot of sense. ●

The Cost of Social Norms

If companies want to benefit from the advantages of social norms, they need to do a better job of cultivating those norms. Medical benefits, and in particular comprehensive medical coverage, are among the best ways a company can express its side of the social exchange. But what are many companies doing? They are demanding high deductibles in their insurance plans and at the same time are reducing the scope of benefits. Simply put, they are undermining the social contract between the company and the employees and replacing it with market norms. As companies tilt the board, and employees slide from social norms to the realm of market norms, can we blame them for jumping ship when a better offer appears? It's really no surprise that "corporate loyalty," in terms of the loyalty of employees to their companies, has become an oxymoron.

If corporations started thinking in terms of social norms, they would realize that these norms build loyalty and — more important — make people want to extend themselves to the degree that corporations need today: to be flexible, concerned and willing to pitch in. That's what a social relationship delivers.

Social Norms in the Workplace

This question of social norms in the workplace is one we should be thinking about frequently. America's productivity depends increasingly on the talent and efforts of its workers. Could it be that we are driving business from the realm of social norms into market norms? Are workers thinking in terms of money, rather than the social values of productivity, loyalty and trust?

At some level, we all know the answers. We understand, for instance, that a salary alone will not motivate people to risk their lives. Police officers, firefighters, soldiers — they don't die for their weekly pay. It's the social norms — pride in their profession and a sense of duty — that will motivate them to give up their lives and health. ●

The Influence of Arousal

Looking from an emotional state to a non-emotional state (and the other way around) is difficult. It's not always possible; and it can be painful. But to make informed decisions we need to somehow experience and understand the emotional state we will be in at the other side of the experience. Learning how to bridge this gap is essential to making some of the important decisions of our lives.

We need to explore the two sides of ourselves; we need to understand the cold state and the hot state; we need to see how the gap between the hot and cold states benefits our lives and where it leads us astray.

What do the experiments suggest? That our models of human behavior need to be rethought. Perhaps there is no such thing as a fully integrated human being. We may, in fact, be an agglomeration of multiple selves. Although there is nothing much we can do to get our Dr. Jekyll to fully appreciate the strength of our Mr. Hyde, perhaps just being aware that we are prone to making the wrong decisions when gripped by intense emotion may help us apply our knowledge of our "Hyde" selves to our daily activities. ●

The Problem of Procrastination and Self-Control

Although almost everyone has problems with procrastination, those who recognize and admit their weakness are in a better position to utilize available tools for pre-commitment and, by doing so, help themselves overcome it.

Resisting temptation and instilling self-control are general human goals, and repeatedly failing to achieve them is a source of much of our misery. When we look around, we see people trying their best to do the right thing, whether they are dieters vowing to avoid a tempting dessert tray or families vowing to spend less and save more. The struggle for control is all around us. We see it in books and magazines. Radio and television airwaves are choked with messages of self-improvement and help.

And yet, for all this electronic chatter and focus in print, we find ourselves again and again in the same predicament as many students — failing over and over to reach our long-term goals. Why? Because without pre-commitments, we keep on falling for temptation.

An Opportunity to Commit

What's the alternative? Of course, barking orders,

Summary: PREDICTABLY IRRATIONAL

while very effective, may not always be feasible or desirable. What's a good compromise? It seems that the best course might be to give people an opportunity to commit upfront to their preferred path of action. This approach might not be as effective as the dictatorial treatment, but it can help push us in the right direction (perhaps even more so if we train people to do it and give them experience in setting their own deadlines).

What's the bottom line? We have problems with self-control, related to immediate and delayed gratification — no doubt there. But each of the problems we face has potential self-control mechanisms as well. If we can't save from our paycheck, we can take advantage of our employer's automatic deduction option; if we don't have the will to exercise regularly alone, we can make an appointment to exercise in the company of our friends. These are the tools that we can commit to in advance, and they may help us be the kind of people we want to be. ●

The High Price of Ownership

Ownership pervades our lives and, in a strange way, shapes many of the things we do. Adam Smith wrote, "Every man [and woman] ... lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society."

Much of our life story can be told by describing the ebb and flow of our particular possessions — what we get and what we give up. We buy clothes and food, automobiles and homes, for instance. And we sell things as well — homes and cars and, in the course of our careers, our time.

Ownership also has peculiarities. For one, the more work you put into something, the more ownership you begin to feel for it. Think about the last time you assembled some furniture. Figuring out which piece goes where and which screw fits into which hole boosts the feeling of ownership.

Another peculiarity is that we can begin to feel ownership even before we own something. "Virtual ownership," of course, is one mainstay of the advertising industry. We see a happy couple driving down the California coastline in a BMW convertible, and we imagine ourselves there. We get a catalog of hiking clothing from Patagonia, see a polyester fleece pullover and — poof — we start thinking of it as ours. The trap is set, and we willingly walk in. We become partial owners even before we own anything.

Ownership is not limited to material things. It can also apply to points of view. Once we take ownership of an

idea — whether it's about politics or sports — what do we do? We love it perhaps more than we should. We prize it more than it is worth. And most frequently, we have trouble letting go of it because we can't stand the idea of its loss. What are we left with then? An ideology — rigid and unyielding.

There is no known cure for the ills of ownership. As Adam Smith said, it is woven into our lives. But being aware of it might help. Everywhere around us is the temptation to improve the quality of our lives by buying a larger home, a second car, a new dishwasher, a lawn mower and so on. But once we change our possessions, we have a very hard time going back down.

A Change in Perspective

Ownership simply changes our perspective. Suddenly, moving backward to our pre-ownership state is a loss, one that we cannot abide. One approach is to try to view all transactions (particularly large ones) as if you were a non-owner, putting some distance between yourself and the item of interest. ●

Keeping Doors Open

Running helter-skelter to keep doors from closing is a fool's game. It will not only wear out our emotions but also wear out our wallets. What we need is to consciously start closing some of our doors. Small doors, of course, are rather easy to close. We can easily strike names off our holiday card lists or omit tae kwon do from our daughter's string of activities.

But the bigger doors (or those that seem bigger) are harder to close. Doors that just might lead to a new career or to a better job might be hard to close. Doors that are tied to our dreams are also hard to close. So are relationships with certain people — even if they seem to be going nowhere.

The Importance of Shutting Doors

We have an irrational compulsion to keep doors open. It's just the way we're wired. But that doesn't mean we shouldn't try to close them.

We need to drop out of committees that are a waste of our time and stop sending holiday cards to people who have moved on to other lives and friends. We need to determine whether we really have time to watch basketball and play both golf and tennis and keep our family together; perhaps we should put some of these sports behind us. We ought to shut these doors because they draw energy and commitment away from the doors that should be left open, and because they drive us crazy. ●

The Effect of Expectations

Suppose you're a fan of the Philadelphia Eagles and you're watching a football game with a friend who grew up in New York City and is a rabid fan of the Giants.

An Eagles wide receiver near the corner of the end zone dives for the ball and makes a spectacular catch. But wait. Did the receiver get both of his feet in? It looks close on the Jumbotron so the booth calls down for a review. You turn to your friend and say, "Look at that! What a great catch!" Your friend scowls. "That was completely out! I can't believe the ref didn't see it!"

What just happened? Was your friend the Giants fan just experiencing wishful thinking? Was he deceiving himself? Worse, was he lying? Or had his loyalty to his team — and his anticipation of its win — completely, truly and deeply clouded his judgment?

Expectations can influence nearly every aspect of our lives.

Expectations enable us to make sense of a conversation in a noisy room, despite the loss of a word here and there, and likewise to be able to read text messages on our cell phones despite the fact that some of the words are scrambled. And although expectations can make us look foolish from time to time, they are also very powerful and useful.

Expectations also shape stereotypes. A stereotype, after all, is a way of categorizing information, in the hope of predicting experiences. The brain cannot start from scratch at every new situation. It must build on what it has seen before.

The Influence of Biased Processes

So what about the two football fans and the game-winning pass? Although both friends were watching the same game, they were doing so through markedly different lenses. One saw the pass as in bounds. The other saw it as out. In sports, such arguments are not particularly damaging — in fact, they can be part of the fun. The problem is that these same biased processes can influence how we experience other aspects of our world. These biased processes are, in fact, a major source of escalation in almost every conflict, whether Israeli-Palestinian, American-Iraqi, Serbian-Croatian or Indian-Pakistani.

In all these conflicts, individuals from both sides can read similar history books and even have the same facts taught to them, yet it is very unusual to find individuals who would agree about who started the conflict, who is to blame, who should make the next concession, etc. In such matters, our investment in our beliefs is much

stronger than any affiliation to sport teams, and so we hold on to these beliefs tenaciously. Thus the likelihood of agreement about "the facts" becomes smaller and smaller as personal investment in the problem grows. This is clearly disturbing.

But there's reason for hope. If we acknowledge that we are trapped within our perspective, which partially blinds us to the truth, we may be able to accept the idea that conflicts generally require a neutral third party — who has not been tainted with expectations — to set down the rules and regulations. Of course, accepting the word of a third party is not easy and not always possible. But when it is possible, it can yield substantial benefits. And for that reason, we must continue to try. ●

The Power of Price

Can the price of a drug affect our response to it? Does an expensive drug make us feel better than a cheaper drug does?

Imagine that you're taking part in an experiment to test the efficacy of a new painkiller called Veladone-Rx. (The actual experiment involved about 100 adult Bostonians, but for now we'll let you take their place.)

You arrive at the MIT Media Lab in the morning. Taya Leary, a young woman wearing a crisp business suit, greets you warmly, with a hint of a Russian accent. A photo ID identifies Taya as a representative of Vel Pharmaceuticals. She invites you to spend a moment reading a brochure about Veladone-Rx. "Veladone is an exciting new medication in the opioid family," you read. "Clinical studies show that over 92 percent of patients receiving Veladone in double-blind controlled studies reported significant pain relief within only 10 minutes, and that pain relief lasted up to eight hours." And how much does it cost? According to the brochure, \$2.50 for a single dose.

Once you finish reading the brochure, Taya calls in Rebecca Waber and leaves the room. Rebecca then hooks you up to a complicated machine. This is an electrical shock generator, she explains, and it is how we will test your perception and tolerance of pain.

She administers a set of charges that fluctuate randomly in intensity: Some are very painful and some merely irritating. Following each one, you are asked to record, using the computer in front of you, the amount of pain you felt.

When this part of the torture ends, you look up. Rebecca is standing before you with a Veladone capsule in one hand and a cup of water in the other. "It will

Summary: PREDICTABLY IRRATIONAL

take about 15 minutes for the drug to reach its maximal effect,” she says.

Fifteen minutes later you’re hooked up to the machine again, and the shocks begin. The pain doesn’t feel nearly as bad.

Indeed, that’s what most participants found. Almost all of them reported less pain when they experienced the electrical shocks under the influence of Veladone. Very interesting — considering that Veladone was just a capsule of vitamin C.

Price and the Placebo Effect

From this experiment, we saw that our capsule did have a placebo effect. But suppose we priced the Veladone differently. Suppose we discounted the price of the capsule of Veladone-Rx from \$2.50 to just 10 cents. Would our participants react differently?

In our next test, we changed the brochure, scratching out the original price (\$2.50 per pill) and inserting a new discount price of 10 cents. Did this change our participants’ reaction? Indeed. At \$2.50 almost all our participants experienced pain relief from the pill. But when the price was dropped to 10 cents, only half of them did.

Moreover, it turns out that this relationship between price and placebo effect was not the same for all participants, and the effect was particularly pronounced for people who had more experience with recent pain. In other words, for people who had experienced more pain, and thus depended more on pain medications, the relationship was more pronounced: They got even less benefit when the price was discounted. When it comes to medicines, then, we learned that you get what you pay for. Price can change the experience. ●

The Context of Our Character

Adam Smith reminded us that honesty really is the best policy, especially in business.

What can we do to keep our country honest? We can read the Bible, the Koran or whatever reflects our values, perhaps. We can revive professional standards. We can sign our names to promises that we will act with integrity. Another path is to first recognize that when we get into situations where our personal financial benefit stands in opposition to our moral standards, we are able to “bend” reality, see the world in terms compatible with our selfish interest and become dishonest. What is the answer, then? If we recognize this weakness, we can try to avoid such situations from the outset. We can prohibit physicians from ordering tests that would bene-

fit them financially, we can prohibit accountants and auditors from functioning as consultants to the same companies, we can bar members of Congress from setting their own salaries, and so on.

We have learned that given a chance, many people cheat. But what’s really odd is that we don’t understand what causes people to cheat more or less. For example, when we asked students in another experiment to predict if people would cheat more for tokens (that could later be converted into money) than for cash, the students predicted that the amount of cheating would be the same. After all, they explained, the tokens represented real money and the tokens were exchanged within seconds for actual cash. And so, they predicted, our participants would treat the tokens as real cash.

But how wrong they were! They didn’t see how fast we can rationalize our dishonesty when it is one step away from cash. Of course, their blindness is ours as well. Perhaps it’s why so much cheating goes on, why Jeff Skilling (former president of Enron), Bernie Ebbers (former CEO of WorldCom) and the entire roster of executives who have been prosecuted in recent years let themselves, and their companies, slide down the slope.

All of us are vulnerable to this weakness. Think about all the insurance fraud that goes on. It is estimated that when consumers report losses on their homes and cars, they creatively stretch their claims by about 10 percent.

When We Deal With Cash

Isn’t cash strange? When we deal with money, we are primed to think about our actions as if we had just signed an honor code (which we found out reduces the tendency to cheat). Money is a clear unit of exchange. It’s hard to say that a dime is not a dime, or a buck isn’t a buck. But look at the latitude we have with nonmonetary exchanges. There’s always a convenient rationale. We can take a pencil from work, a Coke from the fridge — we can even backdate our stock options — and find a story to explain it all. We can be dishonest without thinking of ourselves as dishonest. We can steal while our conscience is apparently fast asleep.

How can we fix this? We could label each item in the supply cabinet with a price, for instance, or use wording that explains stocks and stock options clearly in terms of their monetary value. But in the larger context, we need to wake up to the connection between nonmonetary currency and our tendency to cheat. We need to recognize that once cash is a step away, we will cheat by a factor bigger than we could ever imagine. ●

Beer and Free Lunches

Does the sequential process of taking orders at a pub (asking each person in turn to state his or her order) influence the choices that the people sitting around the table ultimately make? In other words, are the patrons influenced by the selections of others around them?

Would the patrons sitting around a table intentionally choose beers that were different from or the same as the choices of those ordering before them? And finally, would those influenced by the choices of those ordering before them be better or worse off in terms of how much they enjoyed their beer?

To get to the bottom of the sudsy barrel of questions that they thought of at the Carolina Brewery, Jonathan Levav (a professor at Columbia) and author Dan Ariely decided to plunge in — metaphorically, of course.

Ordering Out Loud vs. Privately

What happened? They found that when people order out loud in sequence, they choose differently from when they order in private. When ordering sequentially (publicly), they order more types of beer per table — in essence opting for higher variety.

Overall, those who made their choices out loud, in the standard way that food is ordered at restaurants, were not as happy with their selections as those who made their choices privately, without taking others' opinions into consideration. There was, however, one very important exception: The first person to order beer in the group that made its decisions out loud was de facto in the same condition as the people who expressed their opinion privately, since he or she was unencumbered, in choosing, by other people's choices. Accordingly, they found that the first person to order beer in the sequential group was the happiest of his or her group and just as happy as those who chose their beers in private.

From this experiment, you can see that a bit of simple life advice — a free lunch — comes out of this research. First, when you go to a restaurant, it's a good idea to plan your order before the waiter approaches you, and stick to it. Being swayed by what other people choose might lead you to choose a worse alternative.

If you're afraid that you might be swayed anyway, a useful strategy is to announce your order to the table before the waiter comes. That way, you have staked a claim to your order, and it's less likely that the other people around the table will think you are not unique, even if someone else orders the same dish before you get your chance. But the best option is to order first.

The Perception of Power

One main lesson from the research is that we are pawns in a game whose forces we largely fail to comprehend. We usually think of ourselves as sitting in the driver's seat, with ultimate control over the decisions we make and the direction our life takes, but alas, this perception has more to do with our desires — with how we want to view ourselves — than with reality.

Many forces (emotions, relativity, social norms, etc.) influence our behavior. And while these influences exert a lot of power over our behavior, our natural tendency is to vastly underestimate or completely ignore this power. These influences have an effect on us not because we lack knowledge, lack practice or are weak-minded. On the contrary, they repeatedly affect experts as well as novices in systematic and predictable ways. The resulting mistakes are simply how we go about our lives, how we “do business.” They are a part of us.

The Way We Make Decisions

Our visual and decision environments are filtered to us courtesy of our eyes, our ears, our senses of smell and touch, and the master of it all, our brain. By the time we comprehend and digest information, it is not necessarily a true reflection of reality. Instead, it is our representation of reality, and this is the input we base our decisions on. In essence we are limited to the tools nature has given us, and the natural way in which we make decisions is limited by the quality and accuracy of these tools.

A second main lesson is that although irrationality is commonplace, it does not necessarily mean that we are helpless. Once we understand when and where we may make erroneous decisions, we can try to be more vigilant, force ourselves to think differently about these decisions or use technology to overcome our inherent shortcomings. This is also where businesses and policy makers could revise their thinking and consider how to design their policies and products so as to provide free lunches. ●

RECOMMENDED READING LIST

If you liked *Predictably Irrational*, you'll also like:

1. ***The Upside of Irrationality* by Dan Ariely.** Focusing on our behaviors at work and in relationships, Ariely offers new insights about what really motivates us on the job, how unwise actions can become long-term habits, and more.
2. ***Buyology* by Martin Lindstrom.** What truly influences our decisions in today's message-cluttered world? Lindstrom presents the astonishing findings from his groundbreaking neuromarketing study.
3. ***Multipliers* by Liz Wiseman with Greg McKeown.** Are you a genius or a genius maker? Learn how to become a multiplier of talent and people.