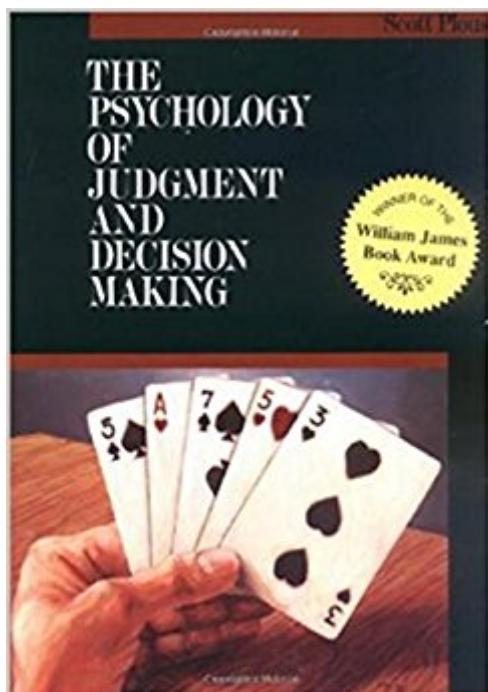


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# The Psychology Of Judgment And Decision Making (McGraw-Hill Series In Social Psychology)



## **Synopsis**

THE PSYCHOLOGY OF JUDGMENT AND DECISION MAKING offers a comprehensive introduction to the field with a strong focus on the social aspects of decision making processes. Winner of the prestigious William James Book Award, THE PSYCHOLOGY OF JUDGMENT AND DECISION MAKING is an informative and engaging introduction to the field written in a style that is equally accessible to the introductory psychology student, the lay person, or the professional. A unique feature of this volume is the Reader Survey which readers are to complete before beginning the book. The questions in the Reader Survey are drawn from many of the studies discussed throughout the book, allowing readers to compare their answers with the responses given by people in the original studies. This title is part of The McGraw-Hill Series in Social Psychology.

## **Book Information**

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## **Customer Reviews**

“Contains a wonderful selection of the classic studies on psychology.” (Journal of Marketing ) --the Psychology of Judgement and Decision Making

This is a fascinating book analyzing how we are all far less Cartesian than we think. In other words, a slew of predictable human bias flaws what we feel is our own objective judgment. The author eminently demonstrates this point by forcing the reader to take a 39 questions test at the beginning of the book. This test is stuffed with all the traps that illustrate the human judgment flaws that he analyzes thoroughly in following specific chapters. You can view the test as a very entertaining IQ

test from hell. The questions seem often simple. But, they are not. Other times, they are obviously difficult. I got a bit more than half of them correct. This was mainly because I had some knowledge or experience regarding certain traps the questions presented. I had made the mistake before. So, I learned from that. When I did not have any prior knowledge of a question, my results were very human, meaning not that good. But, learning the correct answer was both fun and educating. The author touches on several fascinating probability and statistic concepts. One of them being the Bayes theorem, which suggests that medical screen test can be highly unreliable despite being touted as 80% to 90% accurate. In other words, you better understand the Bayes theorem better than the medical specialists who screen you for various diseases. Because, based on the author's study, doctors don't have a clue. Another chapter had an excellent discussion on correlation vs. causation. This includes some tricky nuances that many analysts in the financial industry trip upon. Another interesting probability concept is why it takes only 23 people in a room to have greater than a 50% that two of them share the same birthday. This seems impossible, but it is true. The book has obviously a lot more than I am letting on here. I am not going to ruin it for you. It is really fun, educating, and interesting to read. You will also learn a whole lot about how you think, how others think, and how people think in groups. You will also understand how tricky it is to ask truly open and objective questions. Also, polls that seem objective are not due to the subjective structure of the question. I think you will enjoy this book, and I strongly recommend it.

First we need to define what we understand under rational. Initially, researchers measured human rationality by analyzing the degree of "maximization" of utility (net wealth) of their decisions. Using this approach, we seemed not too "rational". Then they came up with a value function, defined in terms of gains and losses as deviations from a reference point and which incorporates decreasing returns. (For a deeper explanation read *The Origin of Wealth: Evolution, Complexity, and the Radical Remaking of Economics*). This curve makes the loss segment steeper than the profit segment ("S-shaped curve"). When measured against this function we seemed a bit more rational. For me, this should come as no surprise since decision making was probably a bit more oriented at preserving our lives and escaping dangers (loss part of the function) than at obtaining food. It would not be too useful to be the best food gatherer if you succumbed to your enemies at the first opportunity. (This is probably my first "hindsight bias", which means that after knowing the outcome of a study, we tend to say that we knew it from the beginning). Apparently we tend to "satisfice" not "optimize", which for me is obvious (second hindsight bias) and I will try to explain why: In several of the examples, in order to "maximize" value, you need to multiply one probability with one or several

others to obtain the "combined probability result" of two or more events happening one after the other. In other problems, you need to add up the individual probabilities in order to obtain the probability of one or the other event happening. Assuming that you knew how to state the problem in terms of probabilities and the rules to calculate them, you would still need to actually perform the calculations (consciously or unconsciously) in order to take a decision. Many decisions need to be taken quickly and even if there is enough time, I do not think people usually do these calculations, so they probably rely on some sort of intuition (what the author calls heuristics or rules of thumb). These rules of thumb will depend on past experiences specially on those that are easily accesible to memory because they were frequent or recent or because they had a great emotional impact on us (positive or negative). If to "maximize value" we need to perform complex calculations, then I am sure we do not "maximize", we rather settle with a fairly good decision. Further, if we need to "maximize value" in order to be considered rational, then we are probably not rational. It would have been interesting to know how people decide when previously given the calculated expected values of each choice (considering the probabilities). I think that "rationality" would increase a bit, but not significantly, since some people believe they can "outperform" the odds (by special luck), while others try to avoid undesirable risks, even if the probabilities are very low (specially if the impact of the risk is big). The book explains thoroughly how we deviate from what would be "rational" decision making. Each of the 20 chapters presents research that exemplifies one or more biases like inconsistency, perception and memory biases, framing, intransitivity, neglecting base rates, attribution errors, social loafing, sunk costs and behavioral traps. It makes quite clear that we do not decide in a "rational" way, but it does not explain the actual process we use to make decisions. Additionally, the author shows that we are not good at probability and statistical analysis, but he does not explain the calculations we should have done were we "rational decision makers". (He could have included it in an Appendix). If you already know this kind of math or if you are not interested, then the book can be read without it. After reading this book I tried some books on probability and randomness: *The Drunkard's Walk: How Randomness Rules Our Lives* (Vintage) narrates the history of probability theory and explains it in a general manner with day to day examples that are quite interesting and: *Taking Chances: Winning with Probability* includes more examples and requires you to take paper and pencil to do the math. Finally and although the book is very interesting and full of insights, I need to say that I am glad that I bought a used one, since its price seems not too rational to me either.

This is a very dense book, relatively easy to read, and very helpful. I love Blink and The Tipping

Point, but this book probably has much much more materials, arguably more than 5 times of inside that those two best sellers combined. I am very interested in the popular psychology stuffs, and Influence by Cialdini is my fav. So this book in some way give you the same chockful of surprises and new insight that will change the way you think. I came across recommended by a University of Chicago MBA -email friend- who has much similar books favourites and he recommended this highly, and i absolutely agree and i would be glad to recommend this to anyone interested in human behaviour and psychology of bias. MBA students should read this one and surely will enjoy this. I always draw, marks and put notes on my book and i think i end up marking so much of the materials. Section one: Perception, Memory and Context Section two: How Questions affect answers Section three: Model of Decision making Section Four: Heuristics and Biases. Section five: The Social side of judgment and decision making Section six: Common traps. Some will complain that this book derived from a lot of previous psychological research, i agree, so for the psychology veteran out there, this might not the right book for you, but for most of us, this book will enlighten, entertain and amuse us all...

Awesome book with great insight into psychology. Read and you will find a few things in there that will give you a light bulb moment. Not a real easy read but worth spending time with.

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