



Irrationality & Decision Sciences

Shakespeare, Maupassant, Dostoevsky et al always knew it. Psychologists and Economists have now confirmed it. There is some madness in most of us. The Nobel Prize for Economics for the year 2002 has gone to Dr. Vernon L. Smith and Dr. Daniel Kahneman for their work on the analysis of human judgement and decision-making.

A stunning survey of **psychological research** showed that irrational behavior is far more widespread and normal than is generally believed. Here are four of the errors/phenomena that very often induce irrationality:

1. **Availability error:**

Judging by the first thing that comes to mind: Very often managers are influenced by a conversation they had at lunch or by a stray item read in a newspaper, rather than by the evidence at their disposal.

2. **Primacy error:**

Beliefs are formed by first impressions; the later evidence is interpreted in the light of these beliefs. In one experiment, two groups were asked to evaluate a person on the basis of a list of six adjectives describing him. The first group was told that the person in question was 'intelligent, industrious, impulsive, critical, stubborn and envious'. The second group was given the same six words but in the opposite order: 'envious, stubborn, critical, impulsive, industrious and intelligent'. The first group evaluated the person more positively than the second.

3. **Halo effect:**

If a person has one salient (available) good trait, his other traits are likely to be judged better than they really are. During an interview, interviewers are too often influenced by comparatively trivial but salient aspects of the interviewee, which in turn affects their judgement of her other characteristics. A good-looking interviewee is often judged brighter and more sincere. The opposite of Halo effect is devil effect.

4. **Obedience:**

Acting out of obedience is an automatic habit. In cases where two people share responsibility, but one has authority over the other,



Dr. Kahneman

Dr. Smith

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the respect for authority often makes the junior person hesitate to express his own views or observations. In a study of a British obstetric ward, it was found that 72% of Senior House Officers would not voice disagreement to a senior doctor over a course of treatment. Managers often do not voice their disagreement to their bosses.

The other tendencies that induce irrational behavior include **Conformity, Misplaced consistency, Misuse of reward and punishment, Ignoring the evidence, Drive and emotion, Overconfidence, Distorting the evidence, Mistaking the cause, False inferences, and Failure of intuition.**

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assessment of alternatives. A routing algorithm, for example, identifies an optimal vehicle route without assessing countless route combinations.

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