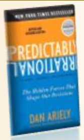
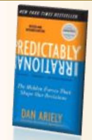


# PREDICTABLY IRRATIONAL

by Dan Ariely



## Overview

Dan Ariely is a professor of psychology and behavioral economics. Despite what many economists think, Ariely points out that these decisions are not necessarily rational, but rather based on emotions and external factors triggering unconscious or irrational behaviors. This book discusses irrationalities such as how we change our expectations based on price and why free samples are so effective.

*"Indeed, just thinking about money makes us behave as most economists believe we behave — and less like the social animals we are in our daily lives."*

## The Power Truth About Relativity

Humans usually make decisions by comparing multiple options, not by examining things in absolute terms. Specifically, when given 3 choices, most people will choose the middle option. For example, a store may place the television they want you to purchase in between a smaller and larger one.

*"This is the problem of relativity — we look at our decisions in a relative way and compare them locally to the available alternative."*

Using relativity to make decisions does not only apply to purchases, but also to experiences, emotions, and points of view. We want to believe we had a better vacation, that our attitude is more positive, or that our point of view is superior. While comparisons are useful in decision-making, they can also cause great distress. For example, if you constantly compare yourself to others, it can lead to feelings of inferiority and envy.

When things are *not* easily compared, we tend to avoid making *any* comparison. Marketers know this and show buyers two similar items to encourage quicker decision-making. Including an option that will clearly *not* be chosen (meant to highlight a desired option), is known as the "decoy effect".

*"Once you see the decoy effect in action, you realize that it is the secret agent in more decisions that we could imagine."*

## The Fallacy of Supply and Demand

Once you associate a product with a particular price, that will always be your default, fallback price; anything more will feel too expensive and anything less will seem like a great deal. This is known as "arbitrary coherence", as the initial price is arbitrary yet sticks with us. This initial arbitrary is called an anchor, since it anchors our thoughts on prices.

"Herding" is believing a product to be either valuable or worthless based on the actions of others. For example, when travelling, many people assume the most crowded restaurants are the best choices. Self-herding is similar, but in this instance you follow your own earlier experiences, believing that your original choice was a good one.

Pay attention to your decisions and wonder why you are making them. Self-questioning is important because we are vulnerable to the effects of arbitrary coherence. If something costs a great deal less than our anchor price, we may be willing to buy it even if we do not need it to avoid passing up such a good deal!

## The Cost of Zero Cost

*"Zero is an emotional hot button — a source of irrational excitement."*

Including FREE! items with other items can lead to subpar decisions. For example, if a subpar bottle of shampoo includes a FREE! travel container, we may buy it over the better shampoo we prefer. When the author performed an experiment offering expensive truffles (worth 30¢) for only 14¢, and Hershey's Kisses for free, most people passed up the great deal on the truffles for the free chocolates.