Dan Ariely, "Predictably Irrational"

Bad Decisions

- **Influence of ANCHOR**
  - Sets expectation about price / value / experience
    - Example: HD Flatscreen TV advertised for $2,999
    - "Manufacturer's Suggested Retail Price"
  - Once anchor is set, end will probably be close
    - If TV advertised for $2,999, you expect to pay that, or a little less - not a LOT more, nor a LOT less
    - If you move to another city, you expect to spend on housing what you spent before
  - Arbitrary Coherence
    - Thinking of a number can set anchor
      - Experiment: Write last 2 digits of SSN, then bid on various auction items
        - Lower SSNs, lower bids
        - Higher SSNs, higher bids
    - How it works
      - Starbucks
        - 1st time - see it's crowded, assume it's good (social proof)
        - 2nd time
          - Draw on prior experience
          - See yourself in line (social proof)
- **Comparison - A, (A), B**
  - When you have 2 similar things and one different, tend to choose the better similar
    - Nice Apple, Bruised Apple, Orange - Nice apple gets chosen
  - How it works
    - Real estate
      - 1 nice colonial, 1 colonial needs work, 1 rambler - favors nice colonial
- **FREE !!**
  - Skews decisions
    - No "downside"
    - No fear of loss
    - Impossible to pass up opportunity
      - May be primal
  - How it Works
    - Lindt vs Hershey Kisses
      - $0.15 vs $001 - 73% / 27%
      - $0.14 vs FREE - 31% / 69%
- **Social vs Market Norms**
  - What you do for ***people*** vs what you do for ***money***
  - AARP Lawyers - nobody for $30/hr, plenty for free
  - Employers confuse these, AT PERIL
    - People work very hard for social norms - which cost less
      - Engagement with Vision
      - Belief in meaningful work
      - Know how mission depends on them
      - Treated well, challenged
    - Work becomes Market Norm when
      - Conversion to hourly
      - Layoffs
      - Benefits cut
      - Pay reduced
    - People work ***less*** hard for money
      - risk sense of entitlement
      - Lower loyalty, commitment
      - Unlikely to extend themselves for market norm
- **Ownership**
  - Owners place higher value than buyers
    - View potential loss / grief as part of equation
    - Valuation much greater w/ more effort
    - Owners think buyers share their perspective
  - Anticipated
    - Basis of Advertising
    - Auctions
      - Longer
        - More sense of ownership
        - Higher bidding to protect "possession"
- **Expectations**
  - beer experiment - regular vs malt vinegar
    - blind test
      - Most chose altered
    - Informed test
      - almost none chose altered
    - Told after tasting
      - doubled number who added vinegar
  - Expectations influence experience
    - packaging, presentation matter
    - experience guides choices
- **Emotional State Bias**
  - Ex: after fight w/ significant other on phone, must conduct performance appraisal
  - Ex: After awful traffic & road-rage incident, must make sales call
  - **We make very different decisions - measurably - when emotionally charged**
  - Those decisions become unconscious **acceptable choice** for future situations
- **Price**
  - placebo pain-killer
    - higher price = greater result
    - Lower price = little effect
  - expectation: "you get what you pay for"
    - Pricing more expensive = Greater perceived value