

Ariely, Dan – Predictably Irrational: The Hidden Forces That Shape Our Decisions

Harper Perennial, 2010, [Surrounding Knowledge] Grade ★★★★★

This is an important book. In *Predictably Irrational* Dan Ariely highlights how our cognitive machinery frequently results in irrational behaviour. The book is an amalgate of experimental psychology and economics, with various practical applications. Ariely is a professor in Behavioural Economics and Psychology at Duke University. He's a respected academic in the field, writes a blog and is a regular speaker on the corporate speech circuit. This NY Times best seller is Ariely's first book.

I first developed an interest in behavioral economics as an economics student reading about bounded rationality. My professor at the time recommended I read Kahneman and Tversky's *Judgement under Uncertainty*, a telephone book sized compilation of research which led Kahneman to becoming the first non-economist recipient of the Nobel Prize in economics. This book is the "light" version, and hence a more succinct and palatable introduction to the field. The book draws on the clever experiments conducted by Ariely's team and his wide network of collaborators. It turns out each of us is a collection of many "selves" with varying behaviour depending on the circumstances. We don't save enough for our retirement, we overpay for brands; not only does Coke taste better than Pepsi, but a 50 cent pill relieves pain better than its cheap generic equivalent. We have an emotional hot button for anything FREE, become anchored into initial prices too easily, check our email (and stock prices) too often etc.

Predictably Irrational consists of an introduction followed by 15 distinct chapters, each covering a particular topic. The chapters can be read independently if one has a particular interest in a certain topic. Each chapter begins with an anecdote to draw the reader into the experiment. Results are revealed and relevant conclusions are drawn with digestible direct applications. Ariely is Israeli and not overly concerned with appearing politically correct. Personally I liked his direct

writing style. Make sure you purchase the revised and expanded version of the book, which is more comprehensive and better edited. The first four chapters are the most interesting. The latter studies can become a little repetitive but are still well worth reading. The book proceeds at a fast pace and sometimes I found myself going back to reread chapters in order to remember key insights.

So what can one learn from the book? When negotiating, it's helpful to anchor your counterparty early, throw out a low price, because invariably he/she will not adjust sufficiently. When presenting alternatives include a "decoy", that's how the *Economist* was able to sell more expensive subscriptions. When designing a menu, include a \$50 lobster option because even if no one buys it, it will allow you to price other dishes higher. In management, cash is often the most expensive way to motivate staff and asking your personnel to recite a moral code reduces cheating and encourages good behaviour.

I urge the reader to judge these results within the specific context in which they were conducted and the subjects used. At times, Ariely extrapolates a little too freely and tends to interpret his results as being more applicable than they perhaps are (the behavioural economics community isn't immune to confirmation bias). As anyone worth their two cents in statistics knows, obtaining a significant result in the social science can be achieved through clever study design and endpoint definition. Moreover, we don't see all of the studies that were excluded for lack of theory confirmation. Finally, the MIT and Duke students on which the experiments were conducted may not always be representative of the general population.

Overall, the book is an exciting and highly readable foray into the field of behavioural economics made interesting by Ariely's experiments and often counterintuitive results.

Henry Makansi, April 27, 2013