Loss aversion
• Anchoring
• Framing
• Status quo bias
• Intertemporal choice
• Social proof
• Power of the situation
• Self-fulfilling prophecy
• Discounting
• Compelling & restraining forces
• Channel factors
• Automenticity
• Procedural justice
• Criterial control
• Actuarial v clinical
• Fundamental attribution error
• Group value model
• Framing
• dissonance

WEEK 1: Psychology for Public Policy Analysis

Thaler’s Illusions and Mirages in Public Policy
➢ Theme: We should be aware of both the illusions (we don’t see what we think we see) and mirages (we think we have choices that we do not) in public policy.
➢ Availability heuristic: We estimate the frequency of an event by judging the ease by which we can recall the instances of it (Daniel Kahneman & Amos Tversky).
Endowment effect: An individual will demand much more money to give something up than he would be willing to pay to get it. (Richard Thaler).

Certainty effect: People will pay more to eliminate a risk than to reduce it (Kahneman & Tversky).

Complexity and Ambiguity: Complexity and Ambiguity are both aversive.
- Psychologist Daniel Ellsberg designed an experiment with two urns that gave the same chance of winning, but one of the urns had a more complex and ambiguous process and therefore was less attractive.

Precommitment: Committing oneself to a particular choice in advance may avoid sub-optimal outcomes.

Lowenstein’s Cost and Benefits of Health and Retirement-Related Choice
- Theme: Choice is not necessarily desirable because it has costs: 1) Time, 2) Erroneous decisions, 3) Regret

Criteria:
- It is desirable to expand choice when: a) heterogeneous wants and needs that can be satisfied by an expanded choice set, b) people have personal expertise that allow them to chose high quality low cost options with minimal expenditure of time and effort.
- It is undesirable when: a) expanded choice set includes options that are tempting because they are safe in the short-term but offer low long-term returns, b) might increase regret because individuals will be able to determine in hindsight the option that would have cost them less.

Bazerman’s Judgment in Managerial Decision Making Chapter 1
- Theme: People make mistakes most often from unconscious, systematic biases in their decision making, not from intentional choices/misrepresentation/subversion/personality flaws, etc.
- Self-serving bias: People tend to confuse what is personally beneficial with what is fair or moral.
- Rational Model versus Bounded Rationality: Decision makers would like to make optimal decisions, but are boundedly rational and thus hindered by imperfect information and other constraints.
- Heuristics: Rules of thumb that we use to simplify decision making process.
  A) Availability: (see above) – Problematic because the rate at which something comes to memory may not have any relation to it’s frequency.
  B) Representativeness: People assess the likelihood of an occurrence by the similarity of that occurrence to similar past occurrences. Problematic because it can lead to practices such as discrimination or stop deacon makers from seeking more accurate information.
  C) Anchoring and Adjustment: People make decisions by starting from an initial value and adjusting to the final decision. Problematic because the initial value may be arbitrary and different decisions therefore can result from the same set of facts.

Ross and Nisbett’s The Person and the Situation Chapter 1-3, 8
Theme: **Fundamental Attribution Error:** People inflate the predictive value of disposition/personality and undervalue the effect of the situation.

Theme: The individual within the group and the group within the individual. Groups provide guides for behavior, in-group favoritism, create sense of self.

**Pillars of social psychology:**
- Situationalism: the immediate social situation, peer groups, and channel factors have a lot of influence over behavior.
- Principle of Construal: It is important to allow for the process of subjective construal of objective stimuli in predicting behavior.
- Tension Systems: Individuals and groups exist in a state of tension between behavior-promoting and behavior-restraining forces.

**Milgram’s obedience studies (1960s)**

**Predictability:** Both social scientists and laypeople think we can predict more than we actually can.

*Muzafer Sherif’s “Autokinetic Effect” paradigm (1937):* Subjects sat in a darkened room and watched a point of light move. Subjects were asked to say how far the light had moved. Group norm developed and distances reported converged.

*Solomon Asch paradigm (1951, -2, -5, -6):* Subjects asked to indicate which of the comparison lines was the same as the original line in the front of the room. When group members started giving the wrong answer, the subject had to decide whether to conform or remain independent. Anywhere from 50-80% conformed. Group does not have to be that large, but it does have to be unanimous in its erroneous answer.

*1930s Theodore Newcomb Bennington Studies:* The girls were influenced by their peers to become more liberal during their four years at college. They maintained that viewpoint even after leaving school.

*John Daley and Bibb Latane’s bystander inhibition of intervention (1968):* 1) dilution or diffusion of responsibility, 2) there is ambiguity in the construal or the social definition of the problem “it must be a domestic dispute” etc. Studies showed that a victim’s chance of receiving help was greater if there was only a single bystander rather than a group.

*Channel Factor:* A stimulus or response pathway that serves to elicit or sustain behavioral intentions with a particular intensity or stability.

*Darley and Batson (1973):* Participants asked to give a speech on the “Good Samaritan.” On the way to the speech, they were more likely to stop to help someone in need if they were not hurried.

**Relativity in Judgment and Motivational Phenomena:** Adaptation, framing effects, comparison, social comparison (relative deprivation).

*Schachter and Singer’s “Attribution theory of emotion” (1962):* Emotional experience and emotional behavior depend on the inferences we make about the causes of our arousal.

*Daryl Bem’s “attribution” theory of self-reported attitudes:* Basically the same thesis as Schachter and Singer but for attitudes and beliefs.
False Consensus Effect: People tend to rate their own particular choice as more common than it is and less related to their personality than it is. So, for instance, a person who signs a petition thinks, “Well, most normal people would have signed that.”
WEEK 2: Happiness & Well-being

Luxury Fever by R.H. Frank Chapters 5& 6

- Theme: Once a threshold level of affluence is reached, the average level of human well-being is almost completely independent of its stock of material consumption goods. Average satisfaction levels in a given country tend to be stable over time.
- Theme: Having more wealth would be good if we spent it on the right things: reduced commute, less noise exposure, increased free time, increased exercise, more time with friends, etc.

- Subjective well-being: composite measure of overall life satisfaction.
- Adaptation: extraordinary powers of adaptation help explain why absolute living standards do not matter after we escape abject poverty.
- Inconspicuous consumption: Freedom from traffic, noise pollution, more time with peers, etc. Society would be better off with more inconspicuous consumption.

The Psychological Causes of Happiness by Michael and Maryanne Martin

- Theme: Happiness has three components: 1) Frequency of positive affect, 2) average level of satisfaction over a period, 3) the absence of negative feelings such as depression and anxiety.
- Theme: Theories of satisfaction 1) comparison of oneself with others, 2) narrowing the gap between achievements and aspirations, 3) level theory which asserts that we become used to any particular level of stimuli.

- Causes of joy: 1) social contacts with friends, 2) sexual activity, 3) success, achievement, 4) physical activity, 5) nature, reading, music, 6) food and drink, 7) alcohol.
- Campbell et al (1976) classic study The Quality of American Life found that certain domains of satisfaction were important—family life and marriage, with friendship not far behind.
- Berkman and Syme (1979) interviewed 7,000 to ascertain the strengths of their supportive networks. Nine years later the ones with the best networks were most often alive still.
- Job satisfaction and leisure satisfaction have both been linked to happiness.
- Happy people tend to believe that events are under their control.

Experience Utility and Objective Happiness: A Moment-based Approach by Daniel Kahneman

- Theme: 1) The memory-based approach accepts the subject’s retrospective evaluations of past episodes, their remembered utility, as valid data. 2) The moment-based approach derives the experienced utility of an episode from real-time measures of the pleasure and pain (moment utility) that the subject experienced during that episode.
- Duration neglect: The duration does not have a high correlation with the subject’s subsequent evaluation of the procedure.
The Peak-End Rule: The average of the most intense level of pain reported during the procedure and the mean pain level in the last three minutes (colonoscopy example).

Inclusiveness: The measure of moment utility should incorporate all the aspects of an experience that are relevant to the evaluation, including the residual effects of prior events (e.g. satisfaction, adaptations, fatigue) and the affect associated with anticipation of future events (fear, hope). It should also have: Ordinal Measures, Absolute Zero Point, and interpersonal comparability.

Objective happiness: a moment-based concept that is operationalized exclusively by measures of the affective wellbeing of individuals in particular moments in time. Differs from Subjective well-being.

Affect Grid:

- Satisfaction Treadmill: Kahneman takes Brickman and Campbell’s idea of a treadmill affect from adaptation effects and adds the idea of aspiration level. People are always satisfied when they attain their aspiration level. Therefore as there is a changing aspiration level, the subject will not report any additional satisfaction with additional goods since his aspiration level has risen with material wealth.

Week 3: Decision- Making I

The framing of information, especially under uncertainty, can greatly affect the quality of decision-making. Framing can cause people to ignore uncertainty and believe they can control outcomes. Good decision-making requires accurate assessments of risk/uncertainty.

Prospect theory is a way of explaining how people actually (i.e., non-rationally) assess risk in decision-making. Essentially, people judge the possible outcomes from a decision as gains or losses w/r/t a neutral reference point. Individuals tend to avoid risk w/r/t gains and seek risk w/r/t losses. Individuals experience loss aversion; they tend to respond more strongly to a loss than to an equivalent gain. Also, framing can alter the relevant reference point and, consequently, the decision. Finally, when the choice is
between single v. multiple gains/losses, people value an initial gain more than a subsequent gain and feel an initial loss is worse than subsequent losses.

Transactional utility is the value of the quality of “the deal” w/r/t what the item should cost.

Know what reference pt you are using; then, use a different one to compare outcomes!

People value certainty and are willing to pay for it.

Know your total portfolio of outcomes before making a decision.

People do not value their time rationally; they evaluate “how good the deal is.”

In making intertemporal choices, if an outcome is good, we’d rather have it now; if it is bad, we’d rather postpone it. → inconsistencies in short v. long-term decisionmaking.

Endowment effect – people demand more to give up (sell) an object they have than they would be willing to pay to acquire it. We add an attachment value to things we own.

Status quo bias – people prefer the current state of things, biasing decisionmakers against change. Policy implication: alternatives are much more popular when they can be framed as the SQ. SQB also explains the power of “default options,” (e.g. no-fault auto).

More on loss aversion - the harm of giving up an object is greater than the benefit of acquiring it. Policy implications: 1) our perception of the fairness of a decision often depends on whether the outcome is framed as a loss or a gain. E.g., imposing a “surcharge” v. eliminating a “discount.” 2) a proposed policy change or improvement will be seen more favorably when presented as restoring a loss as opposed to a pure gain.

People often seek and construct reasons in order to resolve conflicts in decisionmaking and to justify their final choices. For example, with two equally attractive options, people do not choose randomly; instead, they prefer the alternative that is superior on a dimension they view as particularly important. Also, when the decision is to “prefer” one of two options, we place more weight on the pros; when the decision is to “reject” one, we place more weight on the cons. Therefore, an “enriched option” (with numerous, non-average pros or cons) will be preferred/rejected over an “impoverished option” (average pros or cons). Finally, when the choice is difficult, we will seek more alternatives; when one alternative is clearly dominant, we will not.

Week 4: Decision- Making II

In making intertemporal choices (decisions in which costs and benefits are realized over time), people do not discount the costs and benefits rationally, i.e., they do not use the market interest rate. Deviations from rational discounting depend on

1) the magnitude of the cost or benefit – greater magnitude, lower DR
2) whether it’s a cost or benefit – DR for gains is much greater than the DR for losses, i.e., people will pay off debts more quickly than they have to even when the rate they are paying is less than they can earn on safe investments; **debt aversion**.

3) the length of delay – greater delay, lower DR (but greater DR for delayed gain than for delayed loss; again, debt aversion)

4) whether there is an acceleration or postponement from a reference point – past consumption levels are important reference points. People prefer increasing income streams b/c they want to improve current relative to past consumption.

5) how the choice is framed

6) and whether the future cost or benefits induces savoring or dread – delay pleasure to savor the anticipation or expedite unpleasantness to avoid dreading it.

**Mental account theory as a challenge to the life-cycle theory of consumption and savings.** Life-cycle theory fails b/c consumption is excessively sensitive to income and b/c people are more likely to spend some categories of wealth and less likely to spend other categories. Think of “household accounts” – current income, assets (savings), and future income. People tend to consume all of current income, some of assets, and none of future income. Small gains are perceived as income and spent; large gains are perceived as a new asset and will be saved. Also, people are impatient, using too high a DR in the short run, and, therefore, need to impose (non-rational) household spending rules.

Policy implications: how to make credit card debt more real to trigger debt aversion; how to encourage people to put their money in the right mental account; how to encourage the right household spending rules?

Once we have selected a course of action, particularly in a competitive environment, we tend to **escalate our commitment to it even when that commitment is not rational.** Escalation occurs b/c people 1) look only for confirming facts (**perceptual bias**), 2) reframe subsequent decisions to make the risk more attractive than a sure loss (**judgmental bias**), 3) like to appear consistent and save face (**impression management**). Policy implications: resources are often allocated to justify previous commitments (failure to ignore sunk costs); people need to impose constraints on potential escalation in competitive environments, e.g., colluding/info-sharing agreements.

People sometimes engage in **anticipatory self-command**, seeking to restrict now their later options in order to exclude an option that they know they will prefer at the later moment of decisionmaking. In other words, people try to overrule preferences through denials, interventions, or restructuring incentives. Policy implication: should policy makers honor preference as stated today or preference as experienced tomorrow?

**502 Week 5: Judgment and Cognitive Illusion**

**Actuarial judgments are more accurate.** To diagnose/ predict behavior, we can either employ clinical or actuarial decision-making processes. Clinical => the decision-maker combines or processes information in his or her head. Actuarial => judgment made only on empirically available evidence. Greater overall accuracy is achieved when clinicians
rely on actuarial decisions and avoid discretion because they are consistent. Dawes (1989).

Prior expectations matter for interpreting outcomes because of anchoring heuristic. We use initial anchor and make adjustments from there – even if anchor is totally irrelevant or arbitrary. We place undue emphasis on first impression of someone. Kelley study (1950) showed that people’s impressions of another’s personality were greatly influenced by a simple manipulation of prior expectations. Also, Nisbett & Ross (1980). Preconceptions bad when prior theory created for poor reason. When theory applied unconsciously, in the belief of objectivity; and when theory pre-empts examination of data.

We remember certain events and outcomes when they are cognitively available. This is more likely when we can easily recall a similar event (due to media reports, we think people die more often of motor accidents than stomach cancer) and when we experience frequency of events. We use this availability heuristic – what we remember – to make judgments.

But we assume (often erroneously) that our recollections actually represent a larger pool of occurrences. We make inferences based on information we have and often forget that a small sample is much more likely to be misrepresentative than a larger sample size.

We misperceive chance. But the chances are not correlated - they are statistically independent. This is often hardest bias to reject.

We ignore tendency to regress to the mean – we assume perfect correlation with past data and future prediction. In reality, the correlation is between 0 and 1, i.e. winning streaks end.

As knowledge of events/performances decreases, the confidence with which individuals believe they can predict answers does not decrease. But giving people objective feedback or pointing out contradictions can help reduce this phenomenon.

People tend to search for confirming evidence and exclude disconfirming evidence. But to really test hypotheses, one should actually seek out disconfirming evidence – “confirming trap”.

Week 6 was vacation (we read as Week 8)
Week 7: PUBLIC OPINION / CONTINGENT EVALUATION

- **Attitudes** - General evaluations that people hold in regard to themselves; Guide and direct behavior in lots of different contexts. Influence how we process info. Determine how we interpret ambiguous stimuli; Attitudes determine what people will see, think and do. Make sense of an ambiguous situations

- **People don’t have attitudes**: Making it up as you go along – ask em for an attitude people construct them as they go along. Zaller – Opinion statements reflect no prior thought. Minor changes in context, wording, ordering of questions impact responses. Why would you get big shifts pending wording if people have such stable views.

- **People DO have attitudes**: Attitude v attitude expression – stable evaluation – express attitude across various question wordings and contexts. Variance around a mean, central tendency – can, pending on context, shift expression one way or another, but attitude is basically stable. Non-attitudes to strong attitudes continuum.

- **Lavine et al (98) liberal context v conservative context** – context makes a diff if didn’t know much about it, cared more, or ambiguous. Attitudes did shift.

- **Most attitudes** – some combo – most are constructed on the spot, but a chief ingredient in the construction is a fairly stable overall summary evaluation retrieved from memory (aka an attitude.)

- **Psychological Process of Survey Response**: What are the steps people go through to come up with attitude expressions? Bias can creep in at each step. 1. Interpret question.; 2. retrieve info from memory. 3. compute a summary judgement. 4. map judgement onto response options.; 5. report the opinion. Prior questions can help interpret meaning of survey items and also influence retrieval process through prompts (sci v women ID). Mapping Opinion onto response options. Response options constrain attitude expressions. Type of scale will influence the mapping processs. As # of scale points incre, responses become more moderate. Don’t want to seem extreme.

- **The evaluation factor** – semantic differential scales – good/bad; kind/cruel; cold/warm; large/small. Usually good things go together. Evaluations permeates semantic differences.

- The affect hueristic – like judgement hueristic – when many questions, we answer by consulting emotional gut. Ask people about corr between perceived risks and benefits of activities is strongly negative: people express their attitudes. Negative corr between risks people see and benefits people see. Don’t like nuclear power b/c of risk and then also see nuclear power as not that effective/beneficial.
Measuring the value of public goods; the standard theory. How assess indiv values for a public good which is available to all? No market for public goods. Can’t measure in dollars.

But can try to measure $ value of public goods via surveys. 2 kinds of questions can ask to measure value of public good? 1) min acceptable compensation (Willingness To Accept) – what compensation would you dd to turn Yosemite to a pk lot V. Yosemite is going to be turned into a parking lot – unless some action is done to prevent. Max willingness to pay. In (ec) theory, willingness to accept and to pay should be the same. But people reject idea of being compensated to allow destruction. Contingent valuation is useless. Can’t measure value for public goods in $. Why do we need dollar values for public goods? C/b analysis – correct measure is WTP. Environmental litigation – compensation for losses. Eg exon polluted beaches of Alaska – we own beaches collectively so they must pay. So what is the value, what harm did we suffer when exon polluted beaches? Compensation dded should be the appropriate measure. How much compensation do you need to make you whole again? But get too high numbers, so people use willingness to pay, rather than willingness to accept.

The Contingent Valuation Method: survey respondents are asked to indicate a stated WTP for public goods. Proponents argue that properly elicited statements of WTP reveal genuine economic preferences. Kahneman argues against CVM - Statements are better viewed as attitudes expressions than indicators of ec preferences. Problems: Valuations are context dependent, subject to framing effects, and insensitive to scope. If just asked how much to pay – not given a modulus; no standard, wild over-estimations of WTP. If given an anchor, though, response is bias toward that anchor even if it's a random number.

People can’t assign dollar values to public policy in a clear and consistent way. People have no standard to express mapping onto dollars. CVM/consumer theory particularly bad in capturing people's value for environmental goods.

Paradox of mass politics/theory of pol stratification (Neumana) - mass public is stratified along a sophistication continuum: 1. Bottom strata - 20% - apolitical; don’t vote or monitor politics; 2. Activists - 5% - write letters - interest groups, etc; 3. Large and undifferentiated mass - about 75% - share homogenous pattern of opinion and behavior, but can be mobilized to have real opinions, knowledge which translate into political action.

Campaigns: often in politician's interest to be as vague as possible in a 2-party system. Political strategists gain the most if their language can give impression of resonance with opinions of voters while avoiding actually taking a position. Promise to take an action w/o details.
Week 8 Competing determinants of Behavior / Inducing Change

- Dual System view – think of mental events, behavior in terms of 2 systems. When an idea comes very quickly, automatic, multiplication (2 x2), intuitive , emotional, associative, affective – system 1 v. system 2 (reflective) slow, controlled, deductive, less emotional. We run on System 1 most of the time; system 2 is on stand by

- System 1 – carries our habits; controlled by affect, priming and immediate influence; posture diff when talking to someone like or don’t like different, uncontrollable; “norm-guided behavior” – step into roles, not necessarily consly; – Bargh, Chen and Burrows. Study of language proficiency. Give word associations with elderly and then measure how long it takes them to get to the elevator – slower when just thinking of the elderly. Priming of a black man’s name v a white one’s, and subjects perform less well. Cialdini If want to learn, need the skills to become systematic. The learning of system 1 is gradual, associative – not able to acquire and immediately apply a rule. High sensitivity to activating cues, even if sub cons ones.

- System 2 – learning of rules; explorations of new situations, attentive, aware of what’s going on; serial, rule-guided operations; self-critique – catch self about to make an error – critiquing systems produced by 1 and reforming.

- Well reasoned beliefs are actually anchored in attitudes – anchoring of system to judgements on first impression. Affective reaction in juries – ‘would I sue under this condition?’ key to outcomes of juries.

- Easy to change weak attitudes (not those anchored in system 1.) BUT there is a long way from changing verbally expressed behaviors (intentions) to changing actual behavior.

- If want to achieve behavioral change, you have to be very specific. In group, indivs aren’t activated personally to help. Is there pressure ON YOU to do something. Cialdini’s examples in an accident. Give specific instructions – ‘you, call the PD.’ And people yield to the request.

- Injunctive norms: what people think you should do v. descriptive norms: what others actually do. People get activated by discomfort of being different. Descriptive (like social) norms, people watching what others doing, very influential. Norms are only influential when salient and hence activated. But an intention to speak about the Good Samaritan is not enough. Not enough of the connection is made between the primer and the injunctive norm that you’re about to give a speech.

- Social Proof (Cialdini): we determine what is correct by finding out what other people think is correct. Can lead us to be fooled by incomplete or untrue info. A) More uncertain we are of ourselves/situation/context, more likely to be influenced by social proof. B) social proof is most powerful when we are observing the behavior of similar people.
• **Werther effect**: following suicides which are well publicized, suicide rates jump. B/c troubled individuals hear about similarly unhappy individuals and decide to imitate it. (also Jonestown example: people were isolated, elevated sense of uncertainty and followed example of similar cult members.)

• When you are not paying attention, **personal endorsements, repetition & # of arguments** are going to influence. Under high personal relevance, attitudes are influenced primarily by quality of arguments. When strongly motivated, people are less influenced by appeals to emotion, authority; more critical, reflective.

• **To maximize effectiveness of informational appeals**, must 1) increase probability that info is perceived, understood and remembered (best is clear, specific, vivid, concrete, personal); 2) make sure message is delivered by credible source (favorable evaluation); 3) give frequent feedback, enables self-justification.

• **Social diffusion**: Most people will adopt a new innovation only after its effectiveness has been demonstrated through the experiences of friends/family (eg efficacy of US agricultural extension.)

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**Week 9: Risk & Insurance/Stress & Incentives**

*Risk & Insurance*

The Kunreuther lecture sought to explain the non-rational behavior of individuals as related to the purchase of catastrophic (earthquake, flood) insurance and insurance in general. His integrative theory, **Positive Model of Demand/Choice**, has five main features: (1) **transaction costs** - costs of obtaining information, (2) **status quo bias** (loss aversion) myopic behavior; people focus on up-front costs, (3) **threshold models of choice** ("it cannot happen to me" syndrome), (4) **budget constraints** (too poor to purchase insurance) and (5) **emotional concerns** (affect). People may not exhibit the appropriate level of demand because they misperceive risks, use simple heuristics, and do not want to consider something new.

Demand Side Anomalies that the Positive Model of Demand/Choice Seeks to Explain:

(1) There is a preference for low deductibles, but people are unwilling to make small claims.
(2) Limited interest in catastrophic coverage (e.g. major medical insurance, flood insurance)
(3) Emotions have an important influence on insurance purchase and claims decisions.
(4) Individuals purchase insurance after a disaster rather than prior to its occurrence.
(5) Individuals purchase flight insurance even though life insurance is a better deal.
(6) People may purchase insurance because of social norms (the friends & neighbors/social proof phenomenon)
(7) Framing a problem in terms of insurance rather than a loss increases demand for coverage.
(8) People may want to cancel their insurance policy if they haven’t made a claim in the last few years.

Public Policy Implications w/ Regard to Mitigation Measures (suggestions are in parentheses):

**Framing** makes a difference • (change time dimension in presenting probabilities, offer rebates w/higher premiums)

Focus on **emotional aspects** of the problem • (show graphic films, emphasize importance of loss dimension)

Requirements and **regulation** • (insurance as a condition for mortgage, raise minimum deductible on insurance policy)

Supply-side anomalies (from Kunreuther and Pauly article):

(1) Insurance companies that charge more when risks are known rather than when they are unknown.
(2) Overweighting of recent losses
(3) Individual health insurance with guaranteed renewability
(4) Limited impact of financial instruments in securitizing risk
(5) Decline in reinsurance prices
(6) No premium discounts when individuals adopt mitigation measures in disaster prone areas.

**Stress & Incentives (Janis & Mann article)**

Stress
- Stress increases with number and degree of goals at risk in making a decision.
- Level of commitment to previous action determines amount of stress associated w/ a decision.
- When stakes are high, **defensive avoidance behavior** leads to selecting the least objectionable choice due to absence of **vigilant information search, selective inattention and forgetting**, and incorrect interpretation of warning signs.
- In time-limited situations, **hypervigilance** (panic which disrupts thought processes) kicks in and can result in poor decisions. This can lead to premature closing (deciding before considering all options), nonsystemic scanning (reviewing options in a haphazard manner), and poor quality of performance. Also can lead to temporal narrowing of attention, problem-solving rigidity, and reliance on stereotypic thinking/simple heuristics)
- Moderate stress produces optimal decision making situation, but only up to a point. Can lead to “tunnel vision” if it becomes hypervigilant in nature.
- Stress undermines our sense of control. People like to feel that they are in control. High stress = bad 😞

Processes of Coping w/ Making Decisions

1) **vigilance** • thorough information search, objective integration of new data • best possible decision making situation

2) **unconflicted inertia** • perceiving low risks, one continues with previous behavior

3) **unconflicted change** • one understands that risks are involved, but is aware of and comfortable with how to deal with them, either based on past experience or on previous affirmation and instruction received from friends and other sources (for example, a pilot in an emergency situation)
4) **defensive avoidance** • choosing from insufficient number of situations at hand • can take the form of evasive behavior (denying reality with drug/alcohol abuse, for example) or “buck passing” (transferring responsibility for decision making to another source)
5) **hypervigilance** (previously defined, but basically being really, really, really stressed)

**Incentives (Visser lecture)**

Incentives rarely eliminate (and sometimes exacerbate) errors and biases in judgment and decision making because:
- incentives sometimes lead us to implement flawed strategies more vigorously
- incentives sometimes lead us to abandon strategies that we should stick with (when stakes are high, we want to use intuitive/clinical method, instead of actuarial method; when the outcome is important, we want to be able to account for all the variance; we are reluctant to rely on decision rules or algorithms increases as incentives for accuracy increase)
- incentives sometimes evoke negative affective arousal (think harder, but feel worse)

**Week 10: Motivations Other Than Self-Interest**

People care about more than just maximizing outcomes. They also care about **fairness**.

- To reduce stress, people are motivated to restore **equity**. In the short term, we might change our behavior to restore equity (underpaid – work less hard; overpaid – work harder). In the long term, we might change our evaluation of task required (underpaid – the task itself is more difficult; overpaid – the task does not seem as challenging).

- People cognitively reframe situations to maintain the belief that the world is just; **just world phenomenon** we have a fundamental need to believe that people get what they deserve • partly motivational, partly social-learning • confers order and predictability, reluctant to give up this belief. Beliefs about fairness are formed during childhood. Our beliefs about fairness do not extend beyond our “group,” however we define it.

- Definition of “fairness” depends on the function of the group, relates to distributive justice (distribution of goods which affect psychological, physiological, economic, and social well-being):
  - maximizing productivity = equity, according to ability, efforts, achievement
  - maintaining enjoyable relationships = equality
  - fostering personal development/welfare = need

- Injustice w/regard to distributive justice might occur when there is an (1) injustice of values (values that underlie the rules), (2) injustice of rules, (3) injustice of implementation, and (4) injustice of decision making procedures. (Deutsch article). Our view of the injustice depends on which group function (listed above) is being served.
• **Microjustice** (fairness of rewards allocated to individuals) have resources been allocated on the basis of just principles? vs. **Macrojustice** (fairness of distribution of rewards across members of a society) are resources distributed across all members of the group in ways that are just?

Some principles of macrojustice are: 1) equality – flat distribution of resources, 2) examining maximum range between highest and lowest paid worker, 3) floors/ceilings, e.g. no upper bound, but none should fall below a certain standard, 4) subgroup considerations (racial composition of scholarship recipients)

People have a preference for the overall shape of the outcome distribution (and not just the microlevel principles of distribution). Principles of microjustice sometimes produce aggregate outcomes that violate macrojustice preferences (professors and grade distributions of classes – agree with the procedure, but tweak it in the end so that it looks right!)

Outcomes are not the only determinants of perceived justice – **procedural justice matters.** **Representation** (having your say), **consistency** (similar outcomes for others and similar outcomes over time), **impartiality** (neutrality, absence of bias or favoritism), **correctability** (higher-level appeals possible), **ethicality** (use of moral/ethical standards), being treated with dignity and respect are all part of what makes a set of procedures fair. (from Tyler, chapter 12)

People obey the law at least in part because legal rules are seen as moral and legal authorities are seen as legitimate. Two perspectives on compliance with the law are cited in the Tyler article – **instrumental** (focusing on deterrence and behavior) and **normative** (focusing on the values that lead to voluntary adherence of rules and regulations). Normative more important the instrumental when we make the decision to obey.

There is strong support for **retributive justice** (eye-for-an-eye) when people focus on macrojustice issues because people think of symbolism (being moved by the moral meaning of rule-breaking, want to renew commitment to social order) and instrumental use (retributive justice as a deterrent and as a form of behavior control). People favor retributive justice less when considering microlevel issues (should certain groups, mentally retarded, be put to death? vs. do you support the death penalty broadly?)

Group Loyalty & Social Identity Theory
• groups provide clear boundaries between "us" and "them", provide guides for behavior (social norms), have a shared “reality”
• social identity theory (SIT) is “the individual's knowledge that he or she belongs to certain social groups, together with some emotional and value significance to his or her group.”

  American model – focuses on the individual within the group, assumes that group phenomena can be accounted for by the properties of the individual group members

  European model – focuses on the group within the individual, assumes that belonging to a group is a psychological state that is distinct from that of a unique and separate individual

• SIT assumes that we derive our identity from the social groups that we belong to and that we self categorize to accentuate differences between self and outgroup members and to evaluate ingroup more favorably.
- We have competing needs: affiliation versus differentiation • the optimal distinctiveness model (Marilyn Brewer model from Visser lecture) tells us these are always in tension.

**Week 11: Influencing Change**

We like to maintain correct attitudes, but amount of effort devoted to doing so depends upon 1) motivation 2) ability (elaboration likelihood model – Petty and Cacioppo model).

When elaboration likelihood is high, attitude change occurs through "central route": careful scrutiny of persuasive attitude, generation of cognitive responses, and on this basis, attitude change.

When elaboration likelihood is low, attitude change through "peripheral route", that is, no careful scrutiny, minimal generation of cognitive response, looking for cues, such as context, etc.

Association Principle holds that neutral object presented with other objects with non-neutral associations will taken on association of linked object.

Mood is important – association in your memory with a kind of mood. Attempt to try and link mood with product.

Situations and familiarity matters. But not just familiarity itself, but “perceptual fluency” – easier for us to process stimulus we have been exposed to before, even if not aware that we have seen it before. Familiarity tends to create positive associations

Heider’s Balance Theory – If there is dissonance between what we like (friends who like classes) and what we dislike (classes), we attempt to harmonize by adapting attitudes towards one. This is because our cognitive dissonance will create arousal/activity oriented towards reducing and eliminating this imbalance.

Motions can be used as mental shortcuts for positive attitudes (Wells and Petty, 1980). When holding pen in teeth stimulates same muscles as smiling – tends to rate same material as funnier. Rationality is not as predictive as one might think of behavioral response.