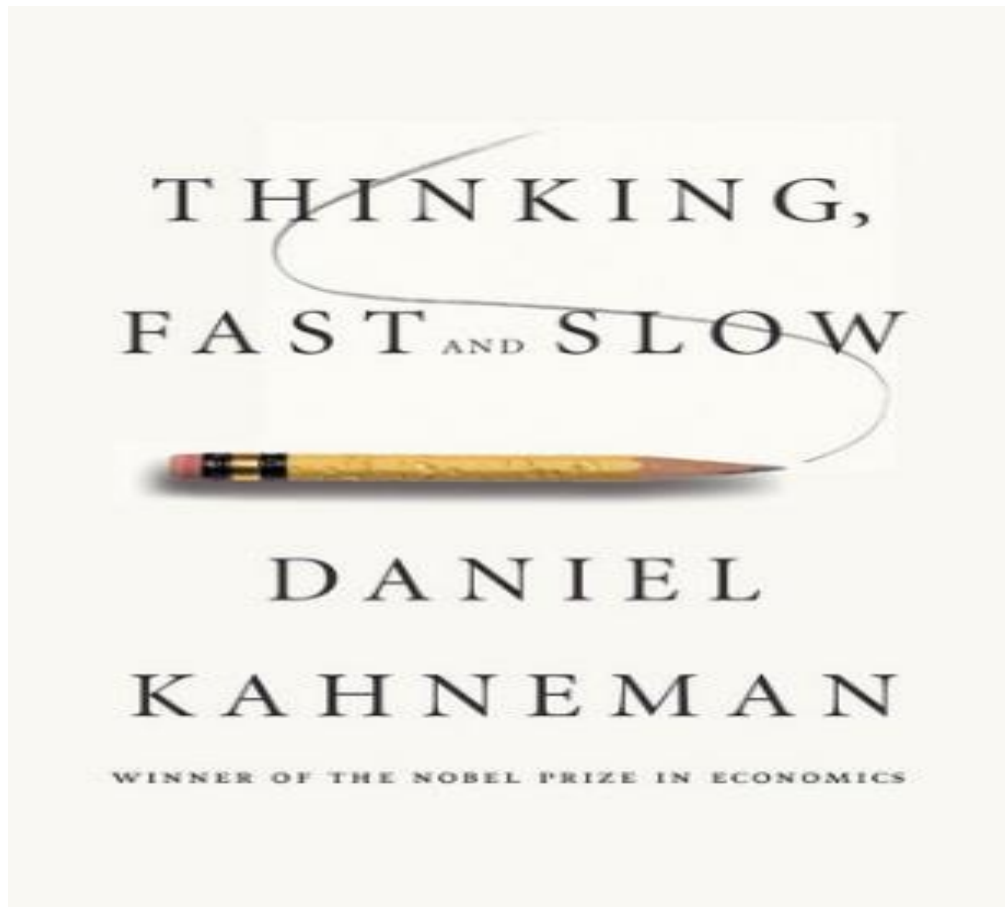


BOOK REVIEW: Thinking, fast and slow – Daniel Kahneman



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"What a piece of work is man! How noble in reason! How infinite in faculties! in form and moving how express and admirable! In action how like an angel!"

-Hamlet

ABSTRACT:

"Thinking, fast and slow" is written by psychologist Daniel Kahneman and published by Farrar, Straus and Giroux on October 25, 2011. The book is about cognitive heuristics and biases, decision making under uncertainty and well-being. It is based on over three decades of research conducted by Kahneman and his collaborator Amos Tversky. The research led to the formation of the new field called "Behavioral economics" and ultimately led to Kahneman being awarded the Nobel Prize in Economics in 2002.

The book is written for a general audience and is 499 pages long. The research behind the book has had an impact all over the world. From the UK Government's formation of a special team to formulate policies to the development of 401(K) plans in the US that helps people save money for their retirement. The review looks at the different sections of the book and concludes with a strong recommendation based on the strengths of the book.

KEYWORDS: Daniel Kahneman, Decision making, cognitive bias, availability bias, anchoring effect, Linda problem, happiness, remembering self, experiencing self

SECTION 1: Heuristics and biases

Thinking, fast and slow was published in 2011 and it is one of the most important books that was written for a general audience in the last 50 years. What makes it especially relevant for MBA students is that the book has several useful lessons for aspiring managers. The author, Daniel Kahneman is a psychologist who won the Nobel Prize for Economics in 2002 for his work on human rationality. If you are interested about decision making and the pitfalls that make us fail at it, then this book is a must-read.

The book is an in-depth exploration of Kahneman's work since the 70s. Kahneman collaborated with fellow psychologist Amos Tversky to discover a variety of errors that make our judgments faulty. Kahneman calls these errors of reasoning '*Cognitive biases*'. Let us take an example of the anchoring effect. I will illustrate this bias with an example. How old do you think Mahatma Gandhi was when he died? Take a guess. I will give you a clue in the form of a question. The question given to you will vary as per your names.

For those whose names start with the alphabet A till the alphabet M: Did Mahatma Gandhi die before the age of 9?

For those whose names start with the alphabet N till the alphabet Z: Did Mahatma Gandhi die before the age of 140?

Write down the age that comes to your mind on a slip of paper. You might be puzzled by the clues I have given you. Everybody

knows that Mahatma Gandhi was definitely older than 9 years and the oldest person who ever lived was 122 (Oldest Person, NA). So why did I give you these useless clues?

According to research conducted by psychologists Strack & Mussweiler (1997), the clues I have given will affect the answer you guess. For the first group, the guess for the average age was 50 years and for the second group, the guess for the average age was 67. The correct answer is that Mahatma Gandhi was assassinated at the age of 87. This exercise might seem silly but it's a fundamental mistake that our minds make. We have a tendency to use 'anchors' or reference points while taking decisions.

Kahneman illustrates a whole bunch of cognitive biases like the one illustrated above. Some of the other biases include availability bias, causal stereotyping, illusion of validity, duration neglect, the peak-end effect, affective forecasting and "miswanting". Each chapter ends with dialogue between two people, showing what it would be like to use the concepts introduced in that chapter in everyday speech.

SECTION TWO: Two systems of thinking

Kahneman explains the mind through two systems. System 1 is fast, automatic, intuitive and largely unconscious. It is what helps you avoid accidents, catch balls thrown in the air and make accurate judgments about other people's emotions. System 2 is a slow, deliberate, analytical and consciously effortful mode of reasoning about the world. System 2 is what helps you

park your vehicle in a narrow space and fill out your tax form and read bank statements.

It is because System 2 is more careful and slow, it tires more quickly. System 1 is what dominates our thinking most of the time. You might ask if our mind really can be divided into two separate systems like a person with a multiple personality disorder. The answer according to Kahneman is not really. They are useful concepts that explain how the mind works.

Consider the most famous example in the book, "The Linda Problem". There is a young woman called Linda. She is single, very bold and very intelligent. As a student, Linda was very active in college elections. Which of the following two statements is more likely to be true?

- A. Linda is a bank employee
- B. Linda is a bank employee who is also interested in politics.

Given this background information, majority of the people who participated in this experiment chose option B; this is a violation of the basic laws of probability. Every bank employee who is also interested in politics is ultimately a bank employee; adding a detail can only lower the probability. Even among students in Stanford's Graduate School of Business, who had extensive training in probability, 85 percent failed the Linda problem.

What made you choose the wrong option? An easy question ("how much sense does statement B make?") is substituted with the more difficult question ("how probable is

statement B?”). This is the source of many of the biases that affect our thinking. System 1 jumps to conclusion and System 2 lazily support this without bothering to check whether it is logical.

How can these biases harm you in everyday life you ask? Well, consider this statistic. In 2002, Americans remodeling their kitchens, expected the process to cost \$18,658 on average, but they ended up paying \$38,769. This is because of the planning fallacy. We have a tendency to overestimate benefits and underestimate costs and hence to foolishly take on risky projects.

SECTION THREE: Well-being

Towards the end of the book, Kahneman moves away from the topic of rationality and discusses human happiness. Kahneman started research on what makes a human happy in the early 1990s, and as it turns out, the formula for happiness is not simple. Kahneman asks us to consider ourselves as two different personalities – the experiencing self and the remembering self. The experiencing self is focused on how happy we feel at the present moment while the remembering self cares about how long an experience lasts. It rates an experience by the peak –end rule – the level of pain or pleasure in the course of the experience -and by the way the experience ends.

Consider this real life experiment Kahneman conducted to illustrate this concept. Two groups of patients had to undergo painful

colonoscopies. The patients in Group A got the normal procedure. The patients in Group B, (without being informed) were given 10 extra minutes of mild discomfort after the end of the colonoscopy. Which group suffered more? Well, Group B endured all the pain that Group A did, but then had 10 extra minutes of pain. But since the prolonging of Group B’s colonoscopies meant that the procedure ended less painfully, the patients in this group retrospectively minded it less. How does this affect you? A college student’s decision whether or not to repeat a beach side vacation is determined by the peak-end rule applied to the previous vacation and not by how much fun (or miserable) it actually was moment by moment.

Kahneman’s research has had several real world implications. French mothers who spend less time with their children than American mothers, enjoy it more. Women who live alone seem to enjoy the same level of happiness as women who live with a mate and a household income of about \$75,000 in high-cost areas of the country is sufficient to maximize happiness. Policy makers interested in making societies happier will find this useful. The British government has also formed a special unit dedicated to applying decision science to successful policy-making; it is called the Behavioral Insight Team.

MY VERDICT: By the time I finished the book; I was impressed and humbled by the whole range of mistakes our mind makes and the surprising ideas on happiness. I recommend this to everyone. It is one of the few books that practically illustrates our

mental processes and gives us advice on improving our decision making.

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