

DANIEL KAHNEMAN'S

Thinking Fast and Slow

BOOK ON BEHAVIOURAL
PSYCHOLOGY AND DECISION
MAKING

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TWO SYSTEMS

TWO MODES OF THOUGHT PATTERNS

SYSTEM 1

- Operates automatically and quickly, with little or no effort and no sense of voluntary control.
- Effortlessly originating impressions and feelings.
- Impulsive and Intuitive
- Forms first impressions and often is the reason to jump to conclusions.



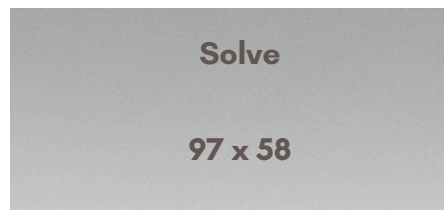
When we look at this picture, we quickly form an impression that the image in the picture is angry or screaming. Quickly forming first impressions



SYSTEM 2

- Allocates attention to the effortful mental activities that demand it.
- It is often associated with the subjective experience of choice and concentration.

Solving this equation requires some mental action.



When we think of ourselves, we identify with System 2

THE CONSCIOUS REASONING SELF THAT HAS BELIEFS, MAKES CHOICES AND DECIDES WHAT TO THINK AND WHAT TO DO

HALO EFFECT



The tendency to like or dislike everything about a person - including things you have not observed - is the Halo Effect

JOHN **VS** SAM

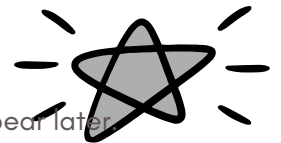
Intelligent - Industrious - Impulsive - Critical - Stubborn - Envious

Envious - Stubborn - Critical - Impulsive - Industrious - Intelligent



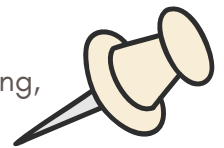
Generally, John is viewed as more favourable than Sam.

The initial traits in the list change the very meaning of the traits that appear later. The stubbornness of an Intelligent person is seen a likely to be justified and may evoke respect, but the intelligence in an Envious person makes him more dangerous.



Halo effect increases the weight of First impressions !

As a Leader or Manager, it is extremely important not to fall prey to this bias. Very often leaders end up stereotyping people. Someone is not good in something, may mean this person is not good in other things.



Same way, someone is good in something may lead us to believe that the person will be good in everything else. And this may not be true.

Hence while dealing with people and team, leaders need to be careful committing any kind of "Halo Errors" in judging people capability.

PLANNING FALLACY

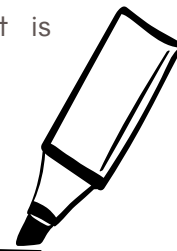
It is the phenomenon in which predictions about how much time will be needed to complete a future task display an optimism bias and underestimate the time needed.

COMMON CAUSES OF PLANNING FALLACY

- Does not cater the plan for Unknown - Unknowns.
- Likelihood of something will go wrong in bigger initiatives are high.
- Over-estimating benefits and Under-estimating Costs/risks.
- People having more Inside-view than the Outside-view.

“Pallid” statistical information is routinely discarded when it is incompatible with one’s personal impressions.

In the competition with the Inside-view, the Outside View doesn’t stand a chance!



MITIGATING PLANNING FALLACY

- Recognize the need for an outside view before proceeding or approving something.
- Have a reference class or base line information for your plan, before preparing a plan

SUNK COST FAILURE



When one doesn’t want to admit failure to the plan, they spend additional time and money to get work done , to prove they are capable or right...

BIASES - YOUR BRAIN CAN TRICK YOU!

Availability Bias

Dependence on data readily / easily available to make decisions.

Anchoring Bias

Increased weightage to the first piece of information while making decisions.

Representative Bias

Our tendency to Stereotype.

Confirmation Bias

Use data that only fits in to our world view and beliefs.

LOSS AVERSION

System 1 responds more strongly to Losses than to Gains - This is called Loss Aversion

Most studies show that losses are twice as powerful as gains on our psyche. We either ignore risks altogether (Over-confidence) or give them far too much weight (Loss-aversion) with almost nothing in between.

WYSIATI - WHAT YOU SEE IS ALL THERE IS

WYSIATI causes us to “Focus on existing Evidence and Ignore absent Evidence”

As a result, System 1 often quickly creates a coherent and believable story based on limited evidence. These impressions and intuitions can then be endorsed by System 2 and turn into deep-rooted values and beliefs. WYSIATI can cause System 1 to “Infer and Invent causes and intentions”, whether those causes or intentions are true.

OVER-OPTIMISM





People tend to create plans and forecasts that are “unrealistically close to best-case scenarios”. In this view, people often (but not always) take on risky initiatives because they are overly optimistic about the odds.

People make decisions based on “delusional optimism” rather than on a rational weighting of gains, losses and probabilities. They spin success scenarios while overlooking the potential for mistakes and miscalculations.

PRINCIPLE OF INDEPENDENT JUDGEMENT

Simple Rule: When an issue is being discussed or important decisions to be made, all members of the group should be asked to write brief summary of their position.

REMEMBER! → *The standard practice of open discussion gives too much weight to the opinions of those who speak early and assertively, causing others to line up behind them.*

-  **Use Power to data to correct our biases.**
-  **Make room for Luck. Focus on Actions and Decisions and not obsess with Results.**
-  **Be aware of your Thinking Style.**
-  **Leverage System 1 only when you have lots of experience and ability to solve problems in an area, else set aside time for thinking and invoking System 2**