

## “Predictably Human”

In 2009 Dan Ariely showed us some of the ways in which people are “Predictably Irrational” in that we often make choices which are apparently not utility maximising. In my mind though, these irrationalities simply reflect the fact that we human and not computers or “econs”.

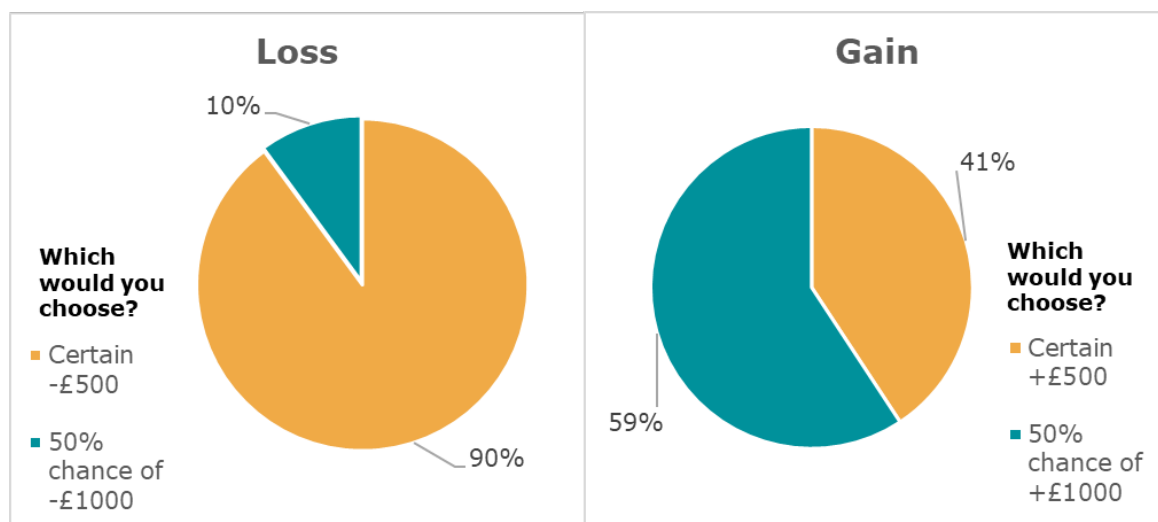
Over the years I’ve tested out a number of these irrationalities or biases when giving introductory lectures to behavioural science and through my website (<https://www.beyondlogicconsulting.com/>), with one example being the response to the question: *Would you accept this bet on the toss of a coin? Heads I give you £15 Tales you give me £10?* A rational utility maximising econ would take the bet since the expected value is +£2.50 (0.5x£15 minus 0.5x£10). However, real humans (as represented by the sample of people responding to my survey) only take the bet 25% of the time.

This finding reflects one of the more commonly known and accepted behavioural effects (or biases as a classically trained economist might describe it), namely **loss aversion**. Loss aversion effects decision making because the pain of losing is psychologically about twice as powerful as the pleasure of gaining.

This effect is further illustrated by comparing the response to two bets, one resulting in a gain and one a loss (see Figure 1). Conventional economic theory says that these would be treated the same, but my survey (along with many others) shows that this is not the case. So, faced with a possible loss people are far less likely to take a risk with 90% going for a smaller, but certain loss and just 10% taking a chance of a larger loss compared with around six times as many (59%) taking a chance when they have the opportunity to gain a larger amount (in this case, £1,000).

This aversion to a potential loss is one of many traits which separate humans from econs, and is why forecasting behaviour or looking to change behaviour requires humans and not just computers.

**Figure 1: an example of Loss Aversion**



<https://www.linkedin.com/pulse/predictably-human-tony-duckenfield>