

Today's Agenda



- ◉ Approaches to Improving Decisions
 - ◉ Improve Task Environment
 - ◉ Improve the Decision Maker
- ◉ Applications
 - ◉ Improving Admission Decisions
 - ◉ Improving Hiring Decisions

Improving Decisions

- ◉ The source of many decision errors is **a mismatch between**
 - ◉ **Decision task** demand
 - ◉ **Information processing capabilities** of the decision maker
 - ◉ **Example:** the explosion of options and complexity of information in mortgage choices
- ◉ So can we assume that **people are not optimal decision maker?**
 - ◉ Average customers
 - ◉ **Experts?**
 - ◉ **Example:** New York Times magazine shows that in several cases doctors have done more harm than good (*Making health care better*, 3 Nov 2009)

Approaches to Improving Decisions

1 Improve task environment

Leverage System 1

“Choice Architecture”

- ◉ Improve **information** environment
- ◉ **Restructure task** to fit processing capabilities (e.g., decomposition)
- ◉ Restructure tasks to **build on biases** (e.g., base-rate anchor, default)

2 Improve the decision maker

Move from System 1 to System 2

- ◉ Assume that the **decision maker can be made better**
 - ◉ Provide training (awareness of bias)
 - ◉ Provide feedbacks
 - ◉ Provide tools (decision support system)
- ◉ Assume that the **decision maker is incorrigible**
 - ◉ Replace with a model
 - ◉ Replace with a group

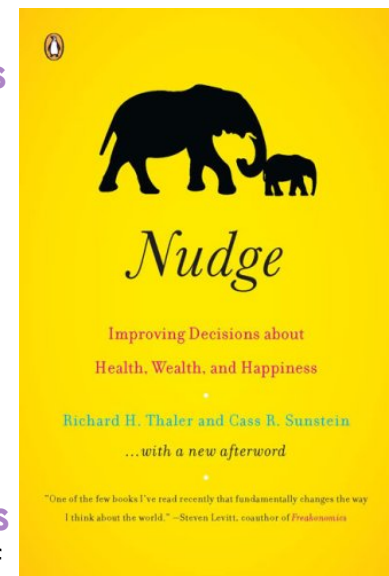
1 Choice Architecture

- ◉ **What is choice architecture?**

- ◉ The way in which **decision can be influenced by how choices are presented** to the decision maker
- ◉ **Nudge** is a **manipulation that changes outcomes without changing** people's underlying **preferences**
 - ◉ **Example:** Countries with an opt-out of organ donor have higher organ-donor rate (86-100%) than those with an opt-in (4-28%)

- ◉ **How does choice architecture improve decisions?**

- ◉ By knowing how people think, we can design choice environments that **make it easier for people to choose what is best** for themselves and society without restricting freedom of choice



Choice Architecture in Toilet



- ◉ Do you see the piece of **choice architecture** making this toilet what **every woman** has been **dreaming for**?
- ◉ This is the example of the nudge ***“Making things easy by making things difficult”***

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