

Decision Processes Colloquia

Monday, February 20, 2012

Where: JMHH 245

When: 12:00 noon to 1:20 PM

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Elephants Weigh More Than...Elephants: Intuitive Biases in Over/Under Decisions

Many decisions require us to decide whether a quantity is too high or too low. Consumers must decide whether to purchase a good for a stated price, bettors must decide whether a sports team is going to win by more than a point spread, investors must decide whether a company's stock price is too high or too low, etc. I show that these decisions are biased by intuition, especially when the intuition is confidently held.

Intuitions are quick answers to qualitative questions, and so ignore the quantity under consideration. For example, people intuitively decide, is this a good product, is this team better than its opponent, is this company improving, and so on. People who are confident in this intuitive decision are likely to choose the option that their intuition suggests, so long as the quantity is plausible. For example, if people are confident that Team A is better than Team B, they will be more likely to predict Team A to win by more than X , for all plausible values of X . (This gets interesting when X is the correct value, or biased against the intuition). This simple process underlies a wide variety of interesting phenomena. For example, it explains why high-priced, high-quality apartments sell more quickly than low-priced, low-quality apartments (counter to the sellers' intentions), why point spreads are correlated with betting decisions (despite point spreads being accurate), why people predict that Dallas will be hotter than average this summer (but not this winter), and more. It can also generate prediction bubbles.