

## How We Decide

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In the modern world, people are faced with difficult decisions on an almost daily basis. From consumer purchases to investment decisions to college choices to romantic commitments to health care options to career paths, decisions must be made in the face of plentiful but incomplete information and uncertain outcomes. Many of us, at or near retirement, may think that the days of big decisions are behind us. Not so! We face decisions about how to take advantage of our leisure time, about what to buy, how to invest, how to take care of our health,, and about whether and when and where to move to a senior living facility. And beyond our own personal decisions, we may be noticing how much difficulty our children and grandchildren are having making decisions that are now in our rearview mirrors; where to go to college, how to choose a career, whether to change jobs, whether, and when, and who to marry, whether and when to have children. Our loved ones often seem to be suffering with uncertainty in the face of almost unlimited freedom to choose their futures.

In this course, we will examine both how people *should* go about making decisions and how people *do* go about making decisions. We will see that there is often quite a substantial gap between what people *should* do and what people *do* do, and we will examine what, if anything, can be done to close that gap. We will also examine how to think about the uncertainty we face in the modern world. It is hard to pick up a newspaper without confronting articles that are loaded with uncertainty (about pandemics, vaccines, elections, the stock market; you name it). Somehow, our decisions must take this uncertainty into account. But to do so properly requires that we think about uncertainty properly. We will also examine what can be done in the domain of public policy to help people make decisions with less struggle and more accuracy.

The aim of the course is both to familiarize you with exciting contemporary research on decision making, and to give you tools that might help you to improve your own decision making.

What makes the study of decision making so interesting and exciting to me is that it studies basic psychological processes in a way that is extremely closely connected to real life applications. By studying how people formulate goals, determine values, gather and evaluate evidence, think about uncertainty, make choices, and think about the results of those choices, we will (I hope) make ourselves more conscious of our own decision-making processes so that we can improve upon them.

## How the Class Will Operate

Sessions will be mostly lectures, but I urge you to participate by asking questions or making observations, some of which might provoke discussions among all of us. Since you are all experienced when it comes to making decisions, I hope and expect that you will bring your experiences with you to class, and offer views informed by your experience to enrich the conversation. The class has six major sections, and we will meet for six weeks. We will spend roughly a week on each major section, but the timing is only approximate. I'll alert you in class about when we are going to be moving on to the next section.

### Recommended Reading

There has been an explosion of books written for popular audiences that covers material in this course. Here are some.

- Ariely, D. (2008). *Predictably Irrational*. Harper.  
Duke, A. (2018). *Thinking in Bets*. Penguin.  
Gigerenzer, G. (2007). *Gut Feelings*. Viking.  
Gilbert, D. (2006). *Stumbling on Happiness*. Knopf.  
Groopman, J. & Hartzband, P. (2011). *Your Medical Mind*. Penguin.  
Iyengar, S. (2010). *The Art of Choosing*. Twelve Books.  
Kahneman, D. (2011). *Thinking Fast and Slow*. Farrar, Straus and Giroux.  
Schwartz, B. (2016). *The Paradox of Choice (Revised edition)*. Harpercollins.  
Silver, N. (2012). *The Signal and the Noise*. Penguin.  
Thaler, R. (2015). *Misbehaving*. W.W. Norton.  
Thaler, R. H. & Sunstein, C. R. (2008) *Nudge*. Yale.

### Taking Initiative

Some of the ideas and phenomena we will be discussing are much in the news these days. I urge you to take the initiative to bring course-relevant material that appears in popular media to my attention. When you see an article in a newspaper or magazine or a web site that you think is relevant to material in the course, let me know, and/or send me a copy of the article. I will bring your submissions to everyone's attention when they seem to warrant being broadly shared. This is your chance to educate me and your classmates.

### Class 1. Introduction

- A. Components of decisions
- B. A framework for thinking about decisions: Rational choice theory
- C. Normative aims of decisions: Truth and effectiveness
- D. The two systems of information processing
- E. What it means to be "rational"
- F. Decisions as predictions about the future
- G. The problem of overconfidence.

## Class 2. Testing Hypotheses and Thinking about Uncertainty

- A. Role of hypothesis testing in science
- B. Role of hypothesis testing in daily life
- C. Confirmation and falsification
- D. Bias in hypothesis testing
- E. Role of counterfactual thinking: The role of experiments
- F. What correlations are
- G. Importance of correlations in everyday life
- H. What is probability?
- I. What randomness looks like
- J. Heuristics and biases in thinking about probability

## Class 3. Deciding: Frames, Prospects, and Mental Accounts

- A. Normative theory of decision making
- B. Determinants of value: Mispredicting happiness
- C. Prospect theory: Thinking about gains and losses
- D. Framing decisions: The importance of context
- E. Mental accounting
- F. “Leaky” rationality
- G. The two systems revisited

## Class 4. Freedom and Choice

- A. What economists say about choice
- B. The problem of choice overload
- C. Choice overload and paralysis
- D. Choice overload and dissatisfaction
- E. Maximizing and satisficing
- F. Satisficing in an uncertain world
- G. Choice and the self
- H. What to do about too much choice

## Class 5. Making Decisions: Utility, Tradeoffs, and Moral Thinking

- A. Cost-benefit analysis
- B. Missed opportunities
- C. Rules, tradeoffs, and commensurability
- D. Utilitarianism
- E. Rights
- F. Biases in moral thinking
- G. Moral reasoning vs. moral intuitions
- H. Fairness and justice

I. Moral decision making in a “post-truth” world

Class 6. What to Do about Imperfect Rationality: Libertarian Paternalism

- A. What “libertarian paternalism” is
- B. The morality of paternalism
- C. Applications of libertarian paternalism
- D. Current and future selves: The problem of self-control