

#### 4.5.4 Anchoring

Suppose you need to make a decision involving a number

Shall I pay \$28,000 for this new car?

or (as an easier to study issue) answer a numerical question

How many countries are there in Africa?

xxx people think in relative terms, not absolutely.  
xxx for the new car, might compare with  
cost of a more expensive but more desirable car  
cost of a less expensive but less desirable car  
cost of a used car of the same model  
cost of maintaining my existing old car  
how much money you have available or already borrowed  
other things you might do with \$28,000  
how much satisfaction you got from your last large purchase  
the joy of owning a new car

and so on.

xxx same for Africa

All this is perfectly sensible; xxx but instead of balancing all xxx people tend to focus on one particular number for comparison: and thereby bias their decision/answer toward that value: this is the *anchoring* effect.

xxx exploited in advertising; advertisers point to “cost of a more expensive but more prestigious car” or “joy of owning a new car”.

xxx hard to study this “new car” question; so psychologists tend to focus on the “how many countries in Africa” style of question.

xxx in situations of which you don’t have much experience, people may “anchor” to the last number that came to their attention, even if it’s not particularly relevant.

xxx Tversky-Khaneman Turkey example

xxx point: just having a number in mind, tends to “pull” your answer toward that number. A slightly more dramatic instance, I repeated a classic example (xxx) in one of my classes. I asked “How many countries are there in Africa?”; to one group I said “Hint: more than 5” and to the other group I said “Hint: less than 300”.

xxx little info. xxx Bayesian analysis: if any effect, the first group should increase posterior estimate and second group should decrease. In fact the median estimates were 31 (first group) and 37 (second group). Thus “anchoring” overpowers the logical xxx.

As a second example, consider an illustration presented by MIT professor Dan Ariely. An audience is first asked to write the last 2 digits of their social security number, and, second, to submit mock bids on items such as wine and chocolate. The half of the audience

with higher two-digit numbers would submit bids that were between 60 percent and 120 percent more,” far higher than a chance outcome; the simple act of thinking of the first number strongly influences the second, even though there is no logical connection between them.  
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#### **4.5.5 Probability matching**

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#### **4.5.6 Conservatism and base rate discounting**

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#### **4.5.7 The conjunction fallacy**

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