Thinking Fast and Slow by Daniel Kahneman

Student Name

Institution Affiliation

Course Code and Name

Instructor's Name

Date

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In Thinking, Fast and Slow, Nobel laureate Daniel Kahneman meticulously explores the dual systems of thought that govern our decision-making processes: It includes System 1 that is known to be fast, instinctive, and emotional while the other one is System 2 which is described as being slow, reasoning, and rational. It is an automatic system and very efficient as it runs through the everyday activities and makes spontaneous decisions based on past information successfully stored in the System 1. Yet, it is faster and, thus, prone to producing cognitive biases and errors. On the other hand, System 2 is slower and more deliberately controlled as it involves further thinking and critical analysis. It is a fascinating unique work that explores the minute details of how these systems influence how we perceive and decide on different issues or options – whether small, ordinary or major, extraordinary ones. Thus, through explaining the processes of thinking and showing the vices of fast thinking, which in fact control our slow thinking, Kahneman provides the readers with the knowledge of how their brains work. Finally, he helps people bring out the ways they think and or bear the prospects of a paradigm shift indicating enhanced decision making in social or organizational life.

Part I: Two Systems of Thought

Kahneman brings into the discussion two systems that help to shape the decisions and actions of an individual. System one is considered to be the fast system and also one that operates automatically. It runs smoothly and, in most cases, it is prompted by a hunch. For instance, if we view a picture of a woman screaming with anger, the first thing we know is her attitude, this is an example of System 1. It is optimal and can make fast decisions and these are often helpful when doing routine tasks. However, it is fast, and because of that, it is sensitive to biases and systematic errors as it does not critically dissect the information.

On the other hand, System 2 is the second type less reactive and more deliberative System 2 is the slower system that thinks before it acts. It undergoes vigorous processing activities and not merely a passive receiver of information; it works in problem solving, decision making, for example solving mathematical problems. According to Kahneman, "System 2 is the only one that can follow rules, compare objects on several attributes, and make deliberate choices between options." Kahneman observes that while System 2 is what we would call ourselves and is a conscious processor we should really view it as a 'starter' while the real action happens in system 1. That's how, System 1 creates concepts for the use of System 2 as well as feelings and perceptions that can be unconscious.

This integration of the two systems may create conflicts of cognition in terms of the origin of our ideas and behaviors. According to Kahneman, "We believe that our thoughts and actions are chosen by System 2, but in fact, they are the result of System 1's work." Though System 1 is efficient and fast, it can be useful in making decisions in complex situations, where an instant decision is needed, for instance, in order not to have an accident while driving a car. But it also proves that fast decision-making is advantageous, as man has to make quick decisions to meet the danger he or she encounters.

Since attention and effort are central working systems, the interdependence of these systems is what may be desirable to understand. System 1 is capable of dealing with simple relations and is able to integrate information quickly, whereas system 2's processing is required when making more complex decisions which require evaluation of different thoughts at the same time. Kahneman also notes that this requirement of exertion results in a dislike for using System 2, especially when there are tasks that one may not want to handle. Therefore, people are likely to revert to heuristics of System 1 that are faster and far from always accurate.

Part II: Heuristics and Biases

Kahneman goes further to look at heuristics which are decisions arrived at based on past experiences that when used may produce wrong conclusions. It is especially so with System 1 as it is vulnerable to biases that arise from these heuristics. For instance, the human mind tries to find causation about events happening around him/her or rather in this world, something which most of the time is due to chance. This tendency may lead to the incorrect conclusion; this is evidenced by a situation in World War II where some thought there were strategic patterns in bombings and that some areas were deliberately spared for seemingly strategic reasons. Kahneman also says that “causal thinking excludes the chance of ‘the randomness of truly random events.”

The other bias that is described by Kahneman is the law of small numbers which is an inherent tendency that arises when people believe that a small number collected is enough to depict the rest of the population. Judgment tends to be reductionist in consequence of this, and oversimplified at that. Kahneman also urges a word of prudence on what he has to say on this aspect: “We should not trust statements made on the basis of a small amount of data.” Using the application, individuals can make improvements on the accuracy of the values presented which will help them in their decision-making processes since the initial numbers presented can greatly affect the final estimates. For instance, if a house is set at high price, consumers will have an idea that the price is high that may influence the price they are willing to pay even if they try to overcome the influence of the anchor.

Kahneman also emphasizes the influence of availability on our judgments. Individual narratives and historical examples taking place close and bringing strong feelings are more salient to a person than large-scale numbers and probabilities. He notes that “self-biases are so common: we remember our contribution better than the contributions of others." These biases have the potential of distorting the perception of risk, as in the case of availability cascade whereby despite the frequency of certain accidents being low, they are brought up time and again in the media.

These cognitive biases mainly stem from the fact that System 1 is designed for fast, intuitive thinking that usually does not give precedence to the quality of the information being processed. While this system is able to responsively facilitate routine decisions and intuitive judgments, such hasty decision and judgments may incur considerable errors. When System 2 ceases to perform efficiently in making rational decisions – because of laziness, because there's too much information being processed in the brain or because the person is distracted – one reverts to System 1 with Its propensity for 'stereotyping.' Such reliance relies on their intuition which opens them for a number of biases that include overconfidence, confirmation bias, and the anchoring effect. Kahneman stresses that the way to counteract these biases is not only within the sphere of working on personal choice or decision but rather the analytical act that needs to be learned and practiced. He notes that people need to adopt the practice of engaging in meta cognitively during which one has to challenge oneself to think deeply and carefully, something that is laborious and can take time. As you would expect, establishing this type of reflective thinking is far from easy but is crucial when it comes to enhancing decisions made. Biased System 2 can be improved making it more active thereby reducing the effects of heuristics in making decisions which are resultant from a selective use of intuitive thoughts.

Part III: Overconfidence

Kahneman describes overconfidence and its perplexing reality of people thinking that they know more than they really do. It leads to the kind of thinking that resorts to the idea that future can be forecasted using erroneous perception of the past. He notes: “Paradoxically, it is easier to construct a coherent story when you know little.” This was what simplification of events commonly results in a social boast known as hindsight bias whereby after an outcome was realized people always say, “I knew it all along.”

Basing decisions on this illusion of expertise further distorts the predictive accuracy due to overconfidence. In this aspect, Kahneman notes that people, including those who consider themselves professionals in a certain area, make significant errors that are caused by overconfidence. A practical example is a study conducted by Philip Tetlock whereby he asked various experts to forecast political and economic events. The subject matter expert data showed the researchers that even the experts was not quite good in making their forecasts accurate. Kahneman uses this example to illustrate the shortcomings of decision making even in uncertain environments. He says, ““Errors of prediction are inevitable, and subjective confidence should not be trusted,” this reminds us that expertise involves risks due to the variability of most conditions in most scenarios.

Intuition or ‘gut feelings’ are sometimes considered as the best source of decision-making; however, in this case, Kahneman explains that it can lead to bias. To illustrate, he cites the example of Orley Ashenfelter; he used statistics to work out a formula that could predict the prices of wine with more than 90% accuracy. This example explains the relevance of formulas an algorithm in real life prediction situations. But, Kahneman also confesses that people always trust a choice made by a person more than that made by a computer. This preference can actually get in the way of decisions being made of the long-term forecasts being accurate.

Self-concept also determines how people treat risks and other issues that they come across in their day-to-day activities. It is true that having a positive attitude and thinking positively does for in fact build up resilience to ensure that people do not give up easily but fight for what they want and for change to happen. However, the same kind of optimism leads to overconfidence in one's decision-making capabilities and the probable consequences of made decisions. It is for this reason that Kahneman says that while optimists have high levels of confidence and are capable of risk taking, they lack information relating to the potential of failure. This may lead to an inaccurate estimation of the risks associated with a particular action in that the potential harm may never be entertained. Hence, optimists may engage in activities without the necessary preparations for change and hence they are bound to be disappointed when things do not turn out as expected. Kahneman, therefore, advises everyone to joyfully embrace optimism while ensuring that they also take their time to size up risks and dangers hence adopting a positive way of thinking but a safe one at that.

Part IV: Choices

Prospect theory is a model pioneered by Kahneman as a superior model to the conventional utility theory, founded on the basic constituent of a reference point and being loss aversive. It was mentioned at the beginning that traditional analyzing models presume that focusing on utility is a primary determinant of an individual's decision and, contrarily, the prospect theory denotes that people compare possible profits or losses to a specific standard. This reference point influences their perspective on it, giving them a pain from a loss that is even larger than an equivalent gain— Pros and losses reference point is called the loss aversion. Categorized by means of probabilities of gains and losses Kahneman together with colleague Amos Tversky used the fourfold pattern of risk. This model shows that different actions are taken when high/low probability events are expected, which again explains the unpredictability of the human decisions within uncertain environments.

When probability of occurrence is high coupled with even high rewards, organizations have low risks taking propensity and opt for the certain outcome. On the other hand, in low-probability gain situations, the individuals show high risk taking just as is depicted by the sale of lotteries. These low-probability events make people become very sensitive to risks and therefore the insurance businesses reap big by harnessing this aspect. However, when people are in high probability of loss situations, they may also display risk seeking which leads to disastrous decisions.

Kahneman focuses on the affective dimension of decision and especially regrets. Regret arises when a person attains the level of consciousness that other options were available in making decisions and thus an analysis of decisions made on what could have been. He gives a case of two gentlemen, Mr. Brown and Mr. Smith who was robbed after giving hitchhikers a ride in their car., whereas others' costs are higher simply because their choices are more unusual: for instance, Mr. Brown, who usually does not take in hitchhikers, feels more regret. This has helped illustrate how it possible to have skewed evaluations through emotional responses to decisions made.

According to Kahneman to reduce the effect of regret on the process of decision making, people should deliberately think that they are thinking about regret. This cognitive assessment entails identifying potential consequences and how the emotional context would likely feel about such consequences later, enabling people to expect and manage emotional reactions. In this way, a person is able to avoid the effects of emotions that dictate the judgments and enable making the right decision. This process makes people reflect on what they are doing more with an open mind and lack of 'regret-rush' that often makes one go in circles in their decisions. Also, the notion of regret is a familiar one to every person, which allows obtaining a new view on one's failures and missteps as the experience that is worth analyzing rather than as failure. Lastly, this reflective perspective helps enhance decision making and reduce the cost of regret in peoples' lives.

Part V: Two Selves

Kahneman introduces the concept of the two selves: The first of them is the self who is in the moment experiencing what's going on and the second one is the self who observes and remembers what has happened. Such selves are frequently in opposition which creates confusion as to the nature of experiences. The first one is known as the experiencing self; the second one is called the remembering self. Kahneman illustrates this with an example of a symphony: when the ending is perceived to be wrong then it is seen a s a negative experience even though the greater part of the perusal was a positive one.

This cognitive illusion goes a long way into the explanation of events that the remembering self provides are always distorted. Kahneman dwells on this distortion, stating: "It is a compelling cognitive illusion—and it is the substitution that makes us believe a past experience can be ruined." This selective memory can even give one completely wrong impression about what was fun or what caused pain as the final perception is most of times all that sticks in the mind. For example, if a holiday has been marked by a bad beginning it may be regarded as good if it ends well, on the same note, if the holiday was good, it may not be so good if it was spoiled in the last few minutes. Kahneman's analysis of this phenomenon shows that while we may think our memories actually contain some of the actual experiences themselves, they actually are just focalization of an event.

In an experiment in which participants had to put their hands in the cold water, Kahneman pointed to the remembering self as the key element that determines our preferences. The experiment involved two trials: One was as long as the other was shorter but as equally painful and one was long and the pain lessened towards the latter part. Notably, although participants went through the variant form of the pain for a longer time, a vast majority of them expressed willingness to do it again. This preference reveals a fundamental insight into how the remembering self operates: it looks more at the process at which something comes to an end than the process of the experience itself. Kahneman used this experiment to make a point that the remembering self fails to account the duration and the intensity of the discomfort as it prefers to focus on the periods of improvement. This predisposition to positive outcomes emphasizes on how memory and perception work to distort reality since decisions are made based on recall rather than the lived experience.

However, Kahneman explains that sometimes System 1 thinking is less effective and can actually cause people to make bad decisions mainly in conditions that require our logical thinking and critical analysis more than in any other condition, such as when stressed or under pressure. In such states, System 1 tends to take control hence making people to make decision without adequate time for reflection hence the likelihood of making errors and applying bias is high. It is notable, Kahneman underlines that his book is not designed to be a manual for decision makers only, but also for critics and observers of the decision- making. In this sense, through analyzing and evaluating other people's decisions one gets awareness of one's own thought processes and possible prejudices. It enables one to develop self-insight and be able to realize when one is making similar mistakes in the future. This emphasis on critical thinking is an important note to heed that can be used to learn from others' mistakes as a way to enhance judgment and avoid some of the pitfalls of intuition.

In conclusion, Thinking Fast and Slow can be regarded as a detailed analysis of the nature of human reasoning with reference to numerous and often subtle peculiarities of decision making. A brief discussion of the two systems and the heuristics suggest that Kahneman's work offers helpful tools for managing the realities of human cognition. The recognition of two selves and the influence of emotions on the decision making in individuals helps raise social awareness of individual's thinking and increasing the level of rational thinking. The works of Kahneman help the readers to view their own thought processes under closer scrutiny and for that, the patent complexity of cognition is unveiled.

Reference

Kahneman, D. (2011). *Thinking, fast and slow*. Penguin UK.