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**Shrink Rap Radio #243, August 10, 2010, Exploring Behavioral Economics
David Van Nuys, Ph.D., aka “Dr. Dave” interviews Dan Ariely**

(Transcribed from www.ShrinkRapRadio.com by Billy Braddock)

Excerpt: *The reason I think to attack economics is because of its dramatic role in our lives. So, you know, on an intellectual basis I would say there's no reason to attack economics. A columnist can do whatever they want; historians can do what ever they want. You know we are in different field; we can do whatever we want. But, the fact is that economics have become the social science of choice and not only is it influencing people in undergrad institutions, it's influences people on Wall Street, and people in Washington. Our legal system is basically a translation of economic theory to contract. So, I think the reason to call our field 'Behavioral Economics' is just because economics has been so successful and I think what we want to do is to undermine the success and bring more realistic evidence based empirical observation from social science into business policy in everyday life.*

Introduction: That was the voice of my guest, Dan Ariely. Speaking about behavioral economics and its challenge to traditional economic theory and practice. Dan Ariely is the James B. Duke professor of psychology and behavioral economics at Duke University. Where he holds appointments at the Fuqua School of Business, the Center of Cognitive Neuroscience, the School of Medicine, and the Department of Economics. He's also a founding member of the Center for Advanced Hindsight. In addition, Dan is the author of the New York Times bestseller, Predictably Irrational, The hidden forces that shape our decisions and the Upside of Irrationality, the unexpected benefits of defying logic at work and at home. Using simple experiments Dan studies how people actually act in the market place, as opposed to how they should or would perform if they were completely rational. His interest span a wide range of daily behavior, such as, buying or not, saving or not, ordering food in restaurants, pain management, procrastination, dishonesty, and decision making under different emotional states. His experiments are consistently interesting, amusing, and informative, demonstrating profound ideas that fly in

the face of common wisdom. Dan earned a bachelors degree in psychology from Tel Aviv University. His masters and doctorate degree is in Cognitive psychology from the University of North Carolina and a doctorate in Business Administration from Duke University. His research has been published in leading psychology, economics, and marketing and management research journals; and has been featured occasionally in the popular press. For example the New York Times, the New Yorker magazine, the Washington Post, the Financial Times, and so on. He's a regular contributor to Market Place on National Public Radio. Now here's the interview.

Dr. Dave: Dr. Dan Ariely, welcome to Shrink Rap Radio.

Dr. Ariely: My pleasure, nice to be here.

Dr. Dave: I am thrilled to have you on this show. I was recently a presenter at a market research conference in Prague, and several of the keynote speakers there made reference to the field of behavioral economics, and I realize my own need to get up to speed with the field. So, I'm real excited to have this opportunity to speak with you, to deepen my own education and of course to share all this juicy info with my listeners.

Dr. Ariely: Well I'll do my best let's see.

Dr. Dave: Okay, well I've been reading your most recent book, The Upside of Irrationality, and one of the things I like about it is, it's very personal and you tell lots of good stories. Not only about your research, but also about your personal history and background. So, let's start there. Tell us a bit about your background and how you got drawn into behavioral economics.

Dr. Ariely: Yes, the starting point was actually kind of very sad in many ways. I was badly injured, I got involved in this big explosion and about 70 percent of my body was badly burned. As a consequence, I spent 3 years in hospital. That made me a different person and made me think differently in many ways. But perhaps the most catalytic event was the debate I used to have everyday with the nurses about how to remove my bandages. If you think about it, you know I asked these people, I asked this question to lots of people. Imagine that you have two strategies; strategy 1, you rip the bandages off quickly, you don't take much time but each second is very, very painful. Strategy

2: you rip them off slowly, you take lots and lots of time, but each second is not as painful. Which one of those two strategies is better? The answer that most people give, the vast majority is was my nurses is the ripping approach is a better approach. So, here I was being, it was incredibly painful and the nurses would rip my bandages and they would do it as fast as possible, bandage after bandage for about 45 minutes to an hour. I would try to reason with them that you know maybe we should do things slower, maybe we should take more time, maybe they shouldn't rip just as quickly. They basically told me that they were correct, that they knew what would minimize my pain and they also told me that my role as a patient was not to argue and make comments. So basically be passive.

Dr. Dave: Right.

Dr. Ariely: When I got out of the hospital many years later I started doing experiments on this and I discovered the nurses were wrong. I discovered that despite their strong intuition that they were correct, despite their beliefs that they were correct, they were never the less wrong. This approach was actually creating more pain rather than less pain. The thought that kind of got me started from this is that, if the nurses who were good kind individuals and never the less got things wrong, are there other cases in life in which we have very strong intuition, very strong believe in something we do repeatedly day after day with many people that has real consequences. But never the less we get things wrong. That kind of got me to start thinking about behavioral economics, generally or more precisely about the places in life where we have strong intuitions, but it's not necessarily the case that were correct. Now, I should say one more thing about being injured. There are a lot of specific things that happened to me in hospital. They were kind of big events, traumatic, complex difficult that made me think about life in specific ways. But, one of the most interesting things about being in hospital is that, I kind of started feeling as if I was an alien. I don't mean in a simple sense, but imagine all of a sudden you put in a bed for very long time and you don't do anything that you did in your past life, and you don't do anything that the people around you are doing. For example, for many months I couldn't eat, I was fed by tube. I didn't get out of bed, I mean I didn't, lots of things I didn't do and by having this separated life that's different all of a sudden, it made me look at things very differently. So, here I was living a very different life than I used to and everybody around me was behaving in the same way. It made me

think very differently, and I think despite the fact that this was a long time ago, it was over twenty years ago, I still have maintained some of this outside perspective on life where I think one of my advantages as an academic is that I can look at things that happen to everybody and look at them slightly as if I'm an outsider and therefore have a slightly different perspective on them.

Dr. Dave: Okay, you know that was a horrific experience and maybe we'll touch on it as you do in the book. You kind of, it's sort of a touchstone that you come back to depending upon which topic you're talking about. So, maybe we'll have occasion to do that as well as we go along. You know I took one course in economics as an undergraduate about a million years ago and I really hated it. I don't know if it was the content that struck me as boring, or just the very boring delivery of the instructor. But this new field of behavioral economics seems like a really exciting one.

Dr. Ariely: Yes so, so one thing I actually like economics. I think that's of a, economics has a really beautiful theory and some really wonderful insights in it. Some people think of behavioral economics is the opposite of economics. But I think of it as actually complimentary. You know we have lots of ways to describe human behavior. We can use sociology, anthropology, and we can use philosophy, and we can use economics and we can use psychology of course. All of those things are useful in describing how people are living and none of them is perfectly correct and none of them is perfectly wrong. If you think about economics as being just that, it describes part of human behavior and part of the circumstances, then you can say, hey it's quite useful. But what is happened to economics is that instead of describing some of human behavior under some circumstances, people start using it as a prescriptive theory. Saying that all economic is useful but, it's perfectly useful, it's 100% accurate, and you don't need anything else. You understand how life is and in fact we believe it so much that we're going to start creating institutions and market and other things assuming that economic theory is 100% correct. That I think is where things really break down magnificent, magnificent way. So, I don't want to throw economics out, I just want us to have more modest assumptions about how useful economics is and how applicable it is, rather than assuming it's perfectly correct in building the world according to it.

Dr. Dave: Yes. Now social psychologists have always impressed me with their clever research designs and in many ways I could see you in that camp. As I read your book I find myself wondering, well what's the difference between a behavioral economist like you and a social psychologist?

Dr. Ariely: So, I think you know, first of all thanks for the compliment. You know I love social psychologists and I think you're right the cleverness and the insight into human behavior that social psychologists have I think are really unparalleled in the social sciences, that there's so much wonderful stuff.

Dr. Dave: Yes.

Dr. Ariely: I think that any social psychologist could become a behavioral economist. The real issue is are you taking economic theory on or not? Right so,....

Dr. Dave: Yes

Dr. Ariely: Many times a psychologist I go to presenting the psychology department and I say, Hey economic theory believes that, let's look if this is really correct, and people say, why would you ever spend your time on that? Why would you care about this stuff? They say there are lots of wrong theories and lots of different fields. Why not attack historians, or people in chemistry. Why you so obsessed with attacking economics, eh. The reason I think to attack economics is because of its dramatic role of our lives. So, you know on an intellectual basis, there is no reason to attack economics. An economist can do whatever they want. Historians can do whatever they want. You know we are in different fields we can do whatever we want. But the fact is economics have become the social science of choice. Not only is it influencing people in undergraduate institutions, it influences on Wall street, people in Washington, and our legal system is basically a translation of economic theory to contract. So, I think that the reason to call our field Behavioral Economics is just because economics has been so successful and I think that what we want to do is to undermine this success and bring more realistic evidence based empirical observation from social science into business policy and everyday life. If economic was not so successful, I don't think we would call it behavioral economics. I think you know, maybe we would call it applied social science or

something else. But, but we are, I think it's more kind of a pedagogical, demagogic point of saying we want stay in contrast to economics because people have such strong belief in economics. I mean since Milton Friedman, if you think about it, and you ask people on the street, what are their beliefs about how the world works. Economics has really become almost like an intuitive theory of behavior. So, it's almost like it's a practical reason, I think that we call this field behavioral economics, more than intellectual.

Dr. Dave: Okay, well moving in that direction, one of the things that you discuss in your book touches on a question that many of have wrestled with namely the huge bonuses that CEO's, investment bankers, and stockbrokers get, especially on the heels of the recent economic meltdown and bale-out. So, how does your research shed light on that?

Dr. Ariely: Here's what happens when you ask people what is your intuition about the relationship between the amount of bonus and motivation and performance. They say when you give me more money as a bonus, I will try harder and because I try harder I'll be more successful. So people that bonus leads to motivation and motivation leads to success. And it turns out that that's correct when you deal with mechanical things. So, for example; if ask you to jump and I gave you a small bonus or a big bonus, as the size of the bonus increase your jump many more times? So, more bonus would lead to higher motivation, would lead to higher success. But it turns out that this intuition doesn't work as well for things that have to do with creativity, problem solving, and memory and concentration. Because on those things we don't have the same level of control over our brains as we have over our muscles, and because of this things can backfire. So, for example, imagine I told you that if you will be really funny, if you'll tell me really the most amazing new joke I've never heard before in the next 48 hours, I'll give you \$100,000.00. You know, what could you control? You could spend, you could sleep less, you could drink more coffee, you could check Face book less, email less, be more hours at your desk. But the question is aside from these things that you can control, could you put yourself to a higher level of funniness, could you push your brain into a higher level of creativity? It turns out that this is where people fail. I will describe to you one experiment that we have done, is we, we took a group of people and we divide them into three groups. In group 1 we said, hey, here are six tasks that require creativity and problem solving and concentration,

memory and if you do well on those six tasks we will give you one day of wages. If you do well on half, we give you half, a third, a third, and nothing, nothing. A second group of people we said the same thing, but we said if you do well on those six tasks we will give you two weeks of wages and the third group we said we will give you five months salary. So the amount of bonus they could make varied between, one day of salary, to two weeks, to five months. What we found was that there was no difference between the one-day and the two weeks. People worked as hard they could and increasing dramatically. The bonus did not increase their performance, but performance actually went down. It went down dramatically. In some tasks it went down from people completing 40% of the task, appropriately to about 4 or 5% of the times. In the five months condition, things basically backfired in a really bad way. So.....

Dr. Dave: Yeah if the incentive gets too big, people can get very nervous, very anxious, right?

Dr. Ariely: That's right. It turns out there's multiple mechanisms that work, they all work in a negative way. So, one thing is the anxiety and the focusing and inability to concentrate. The other thing is just time. So, imagine, you know I went to talk to bankers at Wall Street as you can imagine and they don't like this result.

Dr. Dave: Right!

Dr. Ariely: But and they say that they don't get stress and it never effects them. But what they admit is that first of all they talk about nothing else around the office, but bonuses in October, November, and December. They also admit once a day, at least, they go into their desks, they open excel spreadsheet and they try to calculate how much bonus they will get this year.

Dr. Dave: So they are wasting a lot of their time calculating their bonuses.

Dr. Ariely: That's right and you know in many ways it's obvious that they would do it right. I mean imagine.....

Dr. Dave: Sure.

Dr. Ariely: you got five million dollars a year as average compensation and four of it will be in a bonus. Wouldn't you be really curious about how much

of it will be in a bonus this year and wouldn't you calculate it everyday to see how things change?

Dr. Dave: Yes. Now our listeners might think that you have a really large research grant that you could offer people. What was it a five weeks vacation. Ah, this was one of the clever things I thought, was that you conducted this research in India, where actually it was a small amount of money at the highest level I think was \$11.00 or something like that.

Dr. Ariely: That's right. The per month expenses, expenditure is really, really low so we could do it. You know, we also ran this experiment at MIT where people could get about \$700.00 in 10 minutes. Now it's not five months salary and it's not as much, but the results were basically the same. So, I think it's much more general. You know people sometimes say, oh it just happened in India, no it turns out it's not just India, it turns out that it's much more general.

Dr. Dave: Yes. Now you also devised some clever experiments that support the notion that the meaningfulness of work might be more important than either high pay or big bonuses. Tell us a bit about what you did there.

Dr. Ariely: This is an area, which in many ways is kind of baffling about how primitive our thinking is, or how primitive is the thinking in the industry about it. So, think about the question of why do people work? It turns out that you know the answer, people work for money is correct, but there's probably more than just that answer. Very few people would get you to recognize or think about the other reasons to work. Of course I'm not advocating that people should stop getting paid, or people would be just as happy if they lived in a cardboard box. People do need to get paid. But, human motivation for labor are much more complex than just working for money. When we think about how we motivate people, I think it's important to take this into account and say to ourselves, how do we motivate people, what else is missing, what would tilt their motivation equation? Now in one particular experiment we did, which is the one you're referring to is, the question about meaning at work. Of course there's lots of ways to think about meaning and we thought about very, very tiny meaning. In fact, we thought about what happened when businesses eliminate meaning of work. The way I started on this was that one day there was a student who came to my office, he was an ex-student, he left 2 or 3 years earlier and he came to visit. He told me a story about how he was working on a power point presentation for a merger and he worked very hard for quite a few weeks on this power point presentation when he sent it to his boss, his boss said, oh

very nice thank you for doing it, ah, the merger is off. The guy was completely devastated. I started thinking about how will this look like? Here was a guy from a functional perspective; everything was good. His boss liked what he was doing, he enjoyed as he was going along, but somehow because he didn't think anybody would ever see it or appreciate it there was very little meaning and value in what he was doing. So the experiment with it was very simple. We took bionicals, which are little leggo robots, and we got people to build them, and we paid people on the diminishing wages. We paid them \$3.00 for the first one, and \$2.70 for the next and \$2.40 for the next and so on. In one condition every time they finished one we said, hey do you want to build the next one for thirty cents less, and they would say yes or no. If they said yes we will give them the next one, they will build it. As they would build it we would take the one they just finished and put it on the table and we told them that when they finished everything, we would take their leggo robots and we will unassembled them and prepare them for the next participant. This was their first condition. In the second condition imagine you were a subject, you started the first one, you finished the first one, you hand it to me, I ask you if you want to build the second one and if you say yes, I give you the second one. I take the first one and as you build the second one, I unassembled it in real time.

Dr. Dave: um, fine.

Dr. Ariely: Then if you finished the second time and you want to build the second one, you want to build the third one, I give you the one that you build and I unassembled to build again. We call this the specific task right. Because of this is the first one of the interesting things is about it is that he pushed a big rock up and down the same mountain. It wasn't down different hills.

Dr. Dave: Right!

Dr. Ariely: And two interesting things happened. First of all, people stopped working much faster. Right, even though it was pay per labor and so on. They stopped working much, much faster. And the second thing that happened that was very interesting was that the correlation between enjoyment of leggo and persistent in a task became zero. So think about it. You know people vary in how they much leggos and presumable people who love leggo would want to do this task for longer, even if they didn't get paid that much, because they are enjoying the task. And for the first condition, what we call the meaningful condition; there was a really substantial correlation. People who liked leggo persisted much more than

people who don't like leggo. But for the second condition, the specific condition this correlation basically became zero. The people who liked leggos and the people did not like leggos did not differ how long they persisted in a task. What I think basically happened is that we were able to choke the joy out of people's enjoyment of leggo. We took whatever internal motivation they had and we just completely eliminated that.

Dr. Dave: Yes.

Dr. Ariely: And that of course is incredibly sad, and I think it is incredibly sad because we do it all the time in business. I was in Seattle 3-weeks-ago talking to a big software company. There was a group of about 80 people in this software company who had just worked for 2 years creating a new product for the company. They thought this was the best new product that was out there. And they worked on it for 2 years and the CO looked at it and said, No, I'm canceling the project. You couldn't believe how depressed, disappointed, a kind of unhappy they were. They basically told me they just felt like they were in this leggo chat.

Dr. Dave: Right, right.

Dr. Ariely: Their boss, he could have cancelled the project in many different ways. But the way he decided to just close it and not do anything else with it, left them completely uninterested and of course create a big probability that they will just leave the company, and some of them were actually thinking about it. But it was really depressing.

Dr. Dave: Yeah, as a humanistically oriented psychologist this is not too surprising to me and I think that it's in this chapter, this connection that you mention Mike Csikszentmihalyi work on flow, and I've been watching the positive psychology movement from the sidelines. You know it's kind of like behavioral economics in that it's generating a lot interesting research. How well does positive psychology interface with what your finding and doing?

Dr. Ariely: So I think in many ways, you know positive psychology I think is really kind of just starting to become, to become more interesting and more rigorous, and more kind of penetrate life outside of you know small scale studies. I think in many ways the title you know saying the upside of your rationality is a little bit influenced by positive psychology, which is to say, there's lots of stuff that we do that, it's not that people are wrong, it's that economic theory is wrong.

Dr. Dave: Umm hmm.

Dr. Ariely: So, you know it's true that we still look at irrationality and look at the bad sides of it. But, there's also many aspects in which we should be grateful without rational. For example, imagine everybody around you was continuously trying to maximize their welfare. Right, I mean would you.....

Dr. Dave: Dog eat dog. (laugh)

Dr. Ariely: Could you leave your door open to your car? Could you get somebody to help you cross the street? Could you get to give you a dollar if you needed it? The truth is that while we make lots of unfortunate mistakes and the financial markets are evidence of this, we are also capable of very wonderful things and that's kind of part of the perspective that I'm hoping will start taking. Not just say people are irrational bad, bad, bad. But to try to understand more deeply where we fail, where are the things we need to fix. But also where are things that we need to understand the wonderfulness of (inaudible). And why we violate.... Why do we violate economic theory and why is it appropriate to do it?

Dr. Dave: Okay; now you've done research on both personal attractiveness or beauty and also about the dating game and on-line dating. How did you come to study these, how did you study them, and what did you learn?

Dr. Ariely: So, there's a lot to say on on-line dating. I think of myself as a social hacker. You know I think of myself as somebody who is interested in practical problems in the world and when I see something I try to think about, what's not going correctly and how can we solve it.

Dr. Dave: Yeah, that's a good description of what you do.

Dr. Ariely: For me, only dating or dating in general kind of looks like a really bad market. So you know I look at this from the perspective of being a graduate student or a young faculty and looks like it's really hard to match people in the dating market. It used to be that there was oriented, there used to be the parents used to match their kids, in some sense this would help the problem. But, over time these market solutions have disappeared and they've disappeared with the idea that everybody should find their own love. It turns out that that's very, very hard, very hard to do. People are just not good at it. On top of that, Americans move great distances for school, for the first job, the second job, the third job, people work many hours, romantic

engagement in the workplace is not favorable. So you're really let with the situation, if you are a young person working in the U.S. it's very hard for you to find anything. So, on-line dating looks like a wonderful solution for this social problem and a much-needed approach. But, if you just start looking at on-line dating you would very quickly realize that this is very far from any kind of wonderful, for any wonderful solution. That in fact it has lots and lots of problems and here is kind of one intuitive way to think about it. Imagine that I said, give me names of fifty people you really like and fifty people you like only so, so. And now I will go to these 100 people and I will ask each of them to fill an online panel, an online description of themselves. This will not include their name and not include their picture, but include all the other attributes that online dating sites are using. They will come back and give you the 100 profiles and I will say, now please sort them into two piles. The piles of people you like and the piles of people you don't like. How good do you think you'll be in that? And it turns out you'd probably about random. Because the way the online website describes people is incredibly not useful, right? And basically what happens is that, online dating sites are trying to take people and make them into digital cameras. They are trying to take people and describe them along dimensions that are easy for computers and you know programmers to comprehend. You know so, what's your zoom and pixels and mega pixels and the aperture and so on. And while these things are easy to describe, it turns out their not very useful. Instead, people are much more like wine. Where it's hard to figure out why we like a specific wine, but it's all about the taste, and it's all about when you taste it. Do you like it or not. Now, it doesn't offer immediately an easy solution for people who are running online dating sites. But, it just says that the problem is that if we describe products in ways that are incompatible with how people process information, we're not going to get very far. Go ahead.

Dr. Dave: Well, you also studied speed dating and so I'm wondering, does speed dating solve the problem because people at least get to see each other face to face, rather than having to rely just on a strictly quantitative approach?

Dr. Ariely: Yes, speed dating is much improvement. I mean, you know, it takes more time to get there and so on. But, on average, if people go and meet twenty people in this speed-dating event, there's a good chance that they'll have 3 or 4 dates out of that. Whereas if you go on online dating and you 100 people, there's not a good chance you'll have 3 or 4 dates out of that. So, speed dating in the immediacy and the feedback that you get from

people and acknowledge immediate communication actually works, works much better in terms of probability of getting, eh going for coffee.

Dr. Dave: But not a perfect solution, right?

Dr. Ariely: Well, you know, you know what they say perfect is the enemy of the good.

Dr. Dave: Okay.

Dr. Ariely: I think it's in the right direction, so, but what we try to do in our approach was; we tried to create virtual dating. We said lets take a step back and let's look at what dating is all about. What is dating? It's not that you and I sit in a room and you know, talk about the weather or how many brothers and sisters you have. Instead dating is about experiencing something together and that I get to see how you behave with the waitress and music and art and whatever it is. And we said, maybe it's this non-direct interaction that actually gives people some feeling about, about the other person. If this is the case, would it make sense to create something that was much more like that? It that was much more like experiencing something together. So we create this virtual dating site in which you could go and do stuff with people. You enter this space and there was music and there was art and there was all kinds of things. And you could text people and there was discussions about stuff. Without going into the details of the experiment, we basically doubled the probability of having a second date often. So, I'm actually, you know I think this kind of feeling is good news, bad news. We can analyze and see how bad things are being done, but we can also see how easy it is to fix things. Sadly enough with relatively little investment we could make the websites much, much better.

Dr. Dave: Great. Now in this context you also studied and discussed attractiveness and beauty and so on. And you touch again on the fact that when you were 18-years-old you were scarred by burns over 70% of your body. And one of the most moving parts of the book, both moving and difficult to read and way more difficult to experience I'm sure you describe that moment as an 18 year old when you first look into a mirror in the hospital. The shock and horror of your damaged body and the impact on your self-image. And of course the good story, you know, leaping ahead is that you've been married for fifteen years to a beautiful woman and you've got two kids. I'm wondering as a psychologist, did you have any counseling or psychotherapy to help you with your self-image?

Dr. Ariely: So, I had the psychotherapy early on and mostly what I got out of this is some tragedies for all the suggestions and kind of coming down, which were incredibly, incredibly helpful. Particularly because, you know, the heat, eh, is very hard to deal with the heat when most of your body doesn't perspire. So being able to calm your body down is, is very important. I got a lot out of this in terms of body image; you know I had kind of a strange reaction to it. For example, you know I'm not a, I really don't know how to analyze dreams, but, when I started, when I just got injured my dreams were basically unaffected by my injury. Later on, I was dreaming about myself in the hospital environment, so with different apparatuses, and different treatments. But I was not, I did not have scars and later on I just stopped dreaming about myself. So, I haven't dreamed about myself for a long time. Or at least I don't myself in my dreams. In some sense I think it's surprising how difficult it is to get used to this new body image.

Dr. Dave: Sure.

Dr. Ariely: When I walk on the street, and I walk by a big glass that looks kind of like a mirror, and I see myself, it's surprising to me every time. So, I haven't, it's amazing how I haven't gotten used to this, to this body. I don't look at myself too much, so it's.....

Dr. Dave: Yeah (laughter)... What do you think got you through, I mean you, you know even though that's the case, it seems to me that there's a way in which you have made a remarkable recovery from this horrible experience. Psychologically, what do you think got you through?

Dr. Ariely: So, so you know the question of resilience, is a question I think that you don't understand much in who is most successful, less successful. But I have to admit in the beginning I went through, because I didn't understand how bad it was. If you put me again in this situation and you say, then imagine that you got injured today and you have these three years in the hospital ahead of you, do you want to continue or do you just want to terminate your life, I would say let's just end it here. I would say it's not worth it.

Dr. Dave: Right.

Dr. Ariely: But, but in the beginning I didn't really understand how bad it was and how unrecoverable the situation is. You know we all have burns as kids and they all go away and I thought about my burns as burns like that. I

didn't understand that extensive burns of the level and the amount I had just don't go away. The skin never gets healed in the same way and that it's just not the skin, it's the bones, it's blood supply, it's tendons, it's lots of things under the skin. So, I think in the beginning it was just lack of knowledge.

Dr. Dave: Ignorance is bliss. Not bliss, but it helped to get you through.

Dr. Ariely: That's right. And actually one of the most difficult psychological periods were, when I realized as I was getting better and I realized that how long the struggle would be. Well, I think depressed people often have this experience where they are depressed, they don't do anything bad, it's also when they get out of depression and they realize how bad it was and then try and terminate their lives. For me the same thing happened when the critical period was over, when I was no longer in danger of losing my life and I was getting to be better, then only did I realize what, what a long road ahead, in front of me that was actually quite a depressing and difficult time.

Dr. Dave: Well, I can imagine. Well, let me switch ground a bit here. Dan as you know, I'm also a qualitative market research consultant and I saw in your blog that you have some criticisms to focus groups that rather than debating that. I'm wondering what the implications of behavioral economics might be for market research.

Dr. Ariely: Yes, you know you wrote me about this thing. You know I looked into after our initial email. You know it's amazing how little research there is comparing focus groups to other research methods. About when they're better and when they are worse. It's really kind of amazing. Especially if you think about how much money goes into research. So, understanding exactly under what circumstance a focus group is more useful and under what circumstance are worse I think is incredibly important. But I'll tell you more generally that I think the research shows quite convincingly, that there are many errors in life in which people's intuition about their behavior are off. So, and this kind of fits with lots of social psychology which is saying when you ask people why they behave the way they do. People are fantastic in giving us stories. But there often-just stories and the question is how much do you want to, to emphasize and make conclusions based on these stories. And so the first issue would be that if people's intuition are off, then we don't want to do focus group, which would rely on their intuitions. And I think is the first, part. The second part is that there's a question of what people use as convincing evidence and we know for example from something called identifiable victim effect, is that when you present people with a story about one single girl, their emotions get activated and they start

caring. When you present statistically data people don't seem to care as much. And I think the same thing happens in research. So if I did some research project and I showed you that 78% of the people do X, so I told you that out of 500 people, 300 of them showed this tendency, I think from persuasive tendency it's less powerful than saying, John who was person 4 of the focus group said that he loved these jeans because of reason X. So I think there's two issues here, one is how much do you want to trust intuition, and the second thing is how useful do people find different types of data as a persuasive technique. And I suspect that focus groups are really good as a persuasive technique. And because of that, they have kind of enjoyed longevity of being around such a long time.

Dr. Dave: Well you know I would, as I say, I really didn't want to debate the efficacy of focus groups. Market researchers are well aware that they need to listen beneath the surface and that the reasons people give aren't always accurate. As may or may not be aware. In addition to focus groups we do one on one in depth interviews, we use projective tests, we use homework assignments, we do on-sight ethnographic observations, we do shop-a-longs and so on. And it's not all consumer research. Much of it is business to business. But my real question for you was; okay, I'm a market researcher, you're in this other field of behavioral economics, are there some tools or techniques that I could add to my kit bag that would help me do effective market research? How might behavioral economics some new tools, some new leverage?

Dr. Ariely: So I'm not sure if this behavioral economics, but one of the most interesting developments recently has been market for information. And I don't know if you follow like the Iowa presidential markets for example, or the Hollywood Stock Exchange.

Dr. Dave: No.

Dr. Ariely: It turns out that there are.... So focus group people talk to each other. In markets for information people bid on different things. So for example...

Dr. Dave: Oh yes; okay now I know what you're talking about.

Dr. Ariely: So in the Iowa Presidential market people have everyday, they had stock value for how much the option for Obama is worth and how much the option for McCain is worth and you thought that Obama was overpriced, you would sell Obama, if you thought McCain was overpriced you would

sell McCain and the other way around. And it turns out that those techniques of markets for information where people participate only when they think that they have to add something, when some money is at stake and where the aggregation is knocked down to the individual level, but at the market level turns out to be very, very effective techniques. So I think if you look for one big technique, I think this is the, this would be the main one. You know again, it comes from a combination of things. But I think that's a very useful one. Another, another thing I would um, I would caution about, actually I don't know if I caution about. So another important aspect is that once people say an idea, even if it's a random idea, they fall in love with it. And I'm sure you've seen that in different meetings.

Dr. Dave: Sure.

Dr. Ariely: If somebody says some random comments and all of a sudden they fall in love with it. And in some sense it's a really good tendency because you know this is how you can get graduate students to work really long and try to pursue a project they came up with randomly. And they're really committed to it. On the other hand, um you want to try and figure out how do these ideas fall away from and compared to other ideas that maybe somebody else came with. And I think that's kind of a real struggle for people who lead focus groups. How do you get people to um, not commit to ideas because they are theirs.

Dr. Dave: Okay, you did research you know that was critical of online dating, finding out that, finding that filling out forms, basically a quantitative approach doesn't begin to tap into the richness of being physically present with another person.

Dr. Ariely: That's right.

Dr. Dave: So let me ask you to do a thought experience, (cross-talk), experiment. I'm wondering if you, if you were to gather a group of people together who had done online dating and get them together in a group to discuss their experience. Do you think you might have some fresh insights or some fresh ideas to investigate?

Dr. Ariely: I think, I think you would. This is not to say that, that listening to other people is useless. Right...?

Dr. Dave: Right...

Dr. Ariely: But let's separate two things, let's separate what it means to us experts in the field to tell me what their experiences and what their barriers are and so on. And that's very useful, right?

Dr. Dave: Yes.

Dr. Ariely: You know if I don't date as much it's good to know people who are dating. And people who use this site might know some of the people this is about gathering data. But what worries me is use a focus group as a mechanism to try to find out reasons and solutions. Talking to people is good, learning is always useful and you can learn from anybody. What worries me is that you are going to use focus groups, and again I don't want to talk about all the other things because there's a lot of observational stuff and so on.

Dr. Dave: Right.

Dr. Ariely: But when you ask people about their reasons of why they're acting this certain way, I think that's a particularly problematic thing. So, collecting data is good, but asking people to come up with solutions or to tell you why a solution would work the best and so on, I wouldn't do it that way. So maybe the way we can resolve it is that we both agree that talking to people can be incredibly useful in kind of early stages formulating ideas.

Dr. Dave: Okay, good. I'll accept that.

Dr. Ariely: I think what we need to think more carefully what's good at later stages once you have some, once you want to propose mechanisms or you want to test the efficacy of some mechanisms and whether focus group would be useful under those conditions. And I think not so and I'll tell you what, I'm actually going to this week and try to think about how would you test this, how would you test what focus groups verses other methods could be useful for.

Dr. Dave: You know I think that research is out there. But I don't know where it is. So I can't refer you to it. But it seems to me that I have heard of this sort of research. How does your work, if at all, how does your work on irrationality overlap or intersect with psychoanalytic ideas about the unconscious?

Dr. Ariely: Listen, first of all this is a very tough question, and I think thankfully I have to run to another meeting.

Dr. Dave: Oh no. (laughter)

Dr. Ariely: I have another meeting at four and I have to run.

Dr. Dave: Okay, I am sorry to lose you and I want to thank you so much for being my guest.

Dr. Ariely: My pleasure, it was really nice talking to you. I hope we'll get to do it again.