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Bias in Decision Making in Uncertainty

Strategic Innovation and Artificial Intelligence - Velvet Edition

March 12, 2024

Example of a survey

> **Question: How are you today?**
>
> (A) Excellent
>
> (B) Very Good
>
> (C) Good
>
> (D) Not so Good

How do you see yourself?

> **Question: What describes you best?**
>
> (A) Impulsive, biased, judging, and jumping to conclusions
>
> (B) both A and C
>
> (C) Logical, structured, open-minded, and conscious

Abstract

In this paper we present behavioural biases and introduce behavioural finance. We show how our brain is programmed to use mental short-cuts to observer the world, make sense of it and decide. When we have to decide fast, we will inevitably use these short-cuts and our decisions will not be "rational". We have of course the ability to take a step back, consider the big picture and reflect on what the most logical or rational decision would be.

We present the reader with some biases and show how their effect on our thinking can be understood. We argue that it is not possible to become "unbiased", but that it is possible to understand bias and use frameworks to bring decisions to the conscious reasoning process and improve decision making.

Contents

1 Introduction

Behavioural economics in general and behavioural finance in particular studies the effects of psychological, social, cognitive, and emotional factors on the economic decisions of individuals and institutions and the consequences for market prices, returns, and resource allocation.

Behavioural economics is primarily concerned with the bounds of rationality of economic agents. Behavioural models typically integrate insights from psychology, neuroscience, and microeconomic theory.

The study of behavioural economics includes how market decisions are made and the mechanisms that drive public choice.

In 2017, economist Richard Thaler was awarded the Nobel Memorial Prize in Economic Sciences for his contributions to behavioural economics and his

pioneering work in establishing that people are predictably irrational in ways that defy economic theory.

Generally one considers three main themes in behavioural finances:

- Heuristics: humans make 95% of their decisions using mental shortcuts or rules of thumb.

- Framing: The collection of anecdotes and stereotypes that make up the mental emotional filters individuals rely on to understand and respond to events.

- Market inefficiencies: These include mis-pricings and non-rational decision making.

In this short presentation we will provide context and elaborate on those main themes.

2 Behavioural Finance (BF)

2.1 Market Efficiency and Limits to Arbitrage

Efficient Markets

- **Rational Approach**: people make decisions
  - according to Expected Utility (EUT) or at least Subjective Expected Utility Savage, 1954
  - and apply correctly Bayes Law

- **Friedman, 1953**: rational traders (arbitrageurs) will fast eliminate non-efficiencies created by irrational traders (noise traders)

- **Efficient Market Hypothesis** (EMH)Fama, 1965 and Fama, 1970

Note
The EMH together with EUT is an elegant, appealing, compelling and rational framework

Market Efficiency

- **Behavioural Finance** (BF), is the stance where some financial phenomena can be better understood, assuming that some agents are **not** (fully) rational

- **Examples** of behavioural models:
  - (A) Adam Smith's Theory of Moral Sentiments Smith, 1759
  - (B) Keynes's beauty contest Keynes, 1936
  - (C) Prospect Theory Kahneman and Tversky, 1979
  - (D) Behavioural Portfolio Theory Shefrin and Statman, 2000

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Long Term Capital Management (LTCM)

Example 1: Exploiting Inefficiencies can be Risky

- LTCM was a well known Hedge Fund with 3 well known partners with excellent reputation:

    - John Meriwether (Salomon Brothers)

    - Myron Scholes (Nobel Laureate)

    - Robert Merton (Nobel Laureate)

- consistent and very good performance between 1994 and 1997

- more than USD 7 Bln. assets by 12/97

- banks eager to lend to LTCM

LTCM in 1998

- NAV: -82%

- 9/98: Federal Reserve Bank of NY organises rescue plan with 14 banks and brokers

- They raise \$3.6 bln. in exchange for 90% of LTCM's equity

...How was this possible?
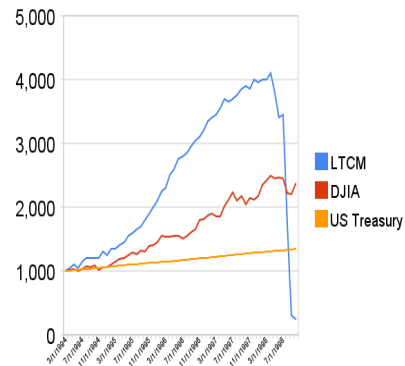
LTCM made rational bets
The Pairs Trades

- Royal Dutch Petroleum (RDP) and Shell Transport & Trading (STT) Both owned by Royal Dutch Shell

    - a DLC (Dual Listed Company)
    - 1998: a corporate charter linked the two companies by dividing the joint cash flows between them on a 60/40 basis
    - both shares quoted on the NYSE and the LSE
    - $\implies$ Rational expectation: market cap of RDP = 1.5 $\times$ market cap of STT
    - LTCM noticed that STT traded at a 8% discount
    - $\implies$ pairs-trade: Long in STT and short in RDP

- but, the spread continued to widen ...

- and LTCM had to close its position at a spread of 22%

- of course there were also the swaps, equity volatility, emerging markets (Russia), etc. ...

Conclusion for Limits to Arbitrage

- Exploiting non-rational pricing can be

    - Risky
    - Costly

- $\implies$ non-rationalities **may** persist longer than the rational trader can stay liquid.

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- $\implies$ markets can during certain periods deviate from what we would expect via the EMH framework

- $\implies$ riding the trend can be the rational thing to do ...

- and ... who knows the real price anyhow?

Further Evidence of Non-Rationalities in Financial Markets

- The **Tulipomania** – Amsterdam, 1637 – Mackay, 1841

- The **South-Sea Bubble** – LSE, 1720 – ibid.

- **Twin Shares** – e.g. Froot and Dabora, 1999: STT and RDS

- **Index Inclusions** – e.g. Harris and Gurel, 1986 and Shleifer, 1986

- **Internet Carve-Outs** – e.g. 3Com and Palm (March 2000) – Lamont and Thaler, 2003

Did we learn something?
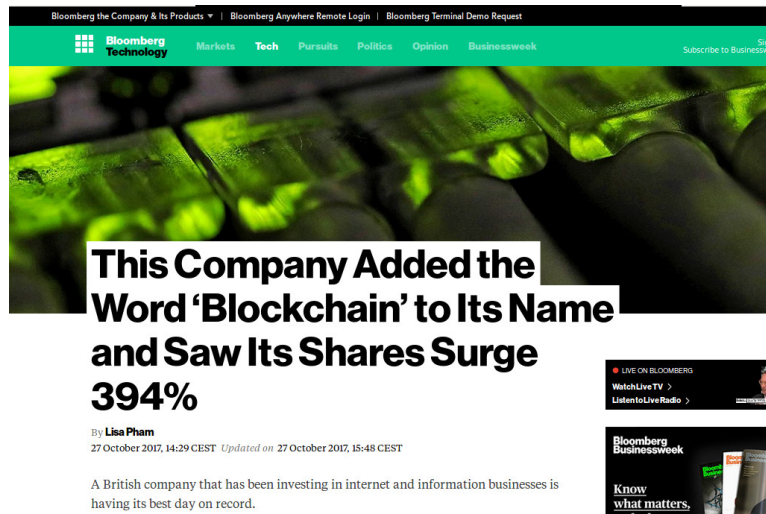
Figure 1: The reaction of the market to the name change of the company On-Line Plc. Source: https://www.bloomberg.com/news/articles/2017-10-27/what-s-in-a-name-u-k-stock-surges-394-on-blockchain-rebrand.

Did we learn something?

(c) Philippe De Brouwer
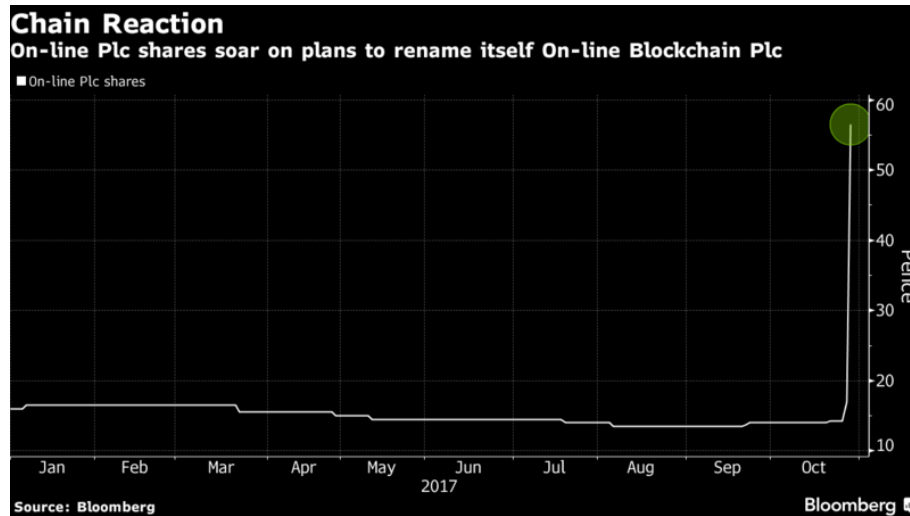
Figure 2: chart supplied by Bloomberg. Source:
https://www.bloomberg.com/news/articles/2017-10-27/
what-s-in-a-name-u-k-stock-surges-394-on-blockchain-rebrand.

ONL today

Figure 3: in R: library(quantmod);loadSymbols('ONL',src='yahoo');lineChart(ONL)

2.2 Conclusion
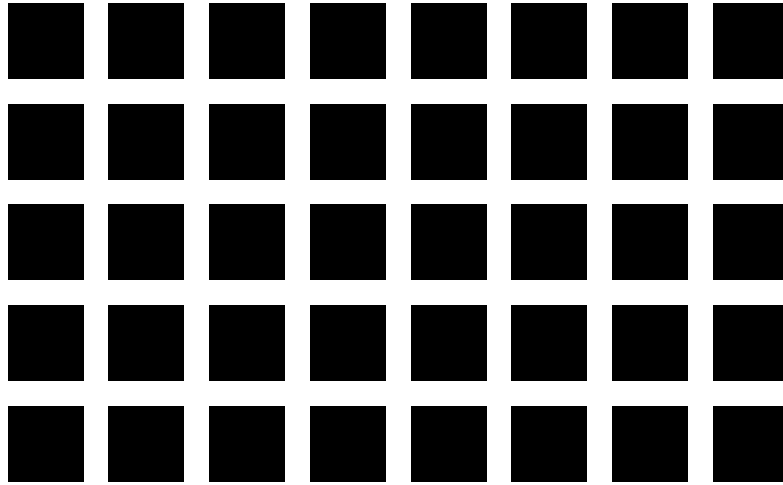
Figure 4: Gray dots appear at the intersection of the black squares (and if you focus on it, then it disappears, but others become visible).

A   B
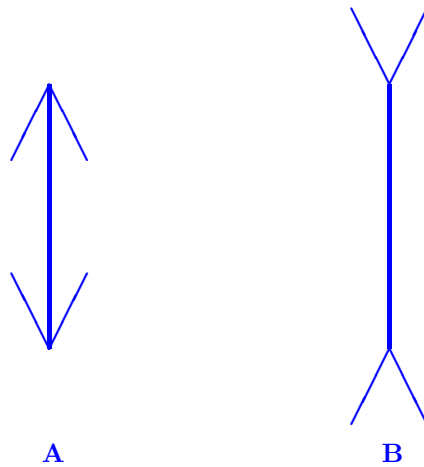
Figure 5: Which vertical line is longer? (only taking into account the vertical lines, not the arrows)

Summary Behavioural Finance/Economics

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	Traditional	**Behavioural Finance**
Investors	rational	cognitive biases
Markets	efficient	not always efficient
Return	driven by risk	driven by risk, greed and fear

Table 1: Behavioural Finance in a nutshell

3 Selected Behavioural Biases

3.1 What is Bias and How Can we Use it?

Warm-up: Math first

Question: what is the next number in the following series: 1, 3, 5, 7, ...

The most complete answer is ...

(A) 9

(B) 11

(C) 217,341

(D) A and B

(E) A, B, and C

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Bias is Rooted in Heuristics for Fast Decisions

THE *NEW YORK TIMES* BESTSELLER

THINKING,

FAST AND SLOW

DANIEL

KAHNEMAN

WINNER OF THE NOBEL PRIZE IN ECONOMICS

"[A] masterpiece . . . This is one of the greatest and most engaging collections of
insights into the human mind I have read." —WILLIAM EASTERLY, *Financial Times*
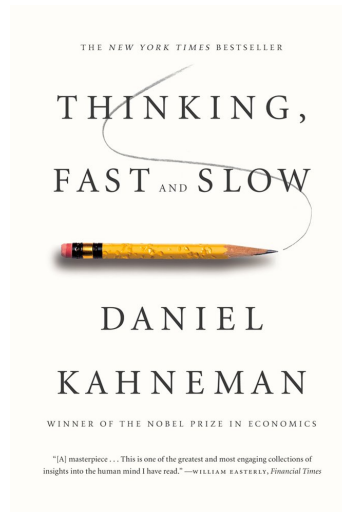
Two systems of thinking

(A) **System 1**:

- automatic
- quick
- no sense of voluntary control
- huge processing capacity (11 000 000 bits per second)

(B) **System 2**:

- requires effort and concentration
- slow
- conscious
- limited capacity (40 bits per second)

When we think about "us", we think of System 2, but from others we see more
of System 1 (e.g. System 1 is only 7%)

What is Bias Anyhow?

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Question:

- -

How much cost the ball?

(A) 0.0$

(B) 25.5$

(C) 50.0$

(D) 75.5$

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3.2   Overconfidence

Are you a bad driver?

Overconfidence

Question: Suppose that we (with the group in which we are now) would do a driving test and rank all drivers from the best to the worst. Then we split the group in half: group 1: 50% relatively best drivers and group 2: 50% relatively worst drivers. In which group would you end up?

(A) group 1: 50% relatively best drivers

(B) group 2: 50% relatively worst drivers

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> **Question: The Amazon river is a river in South America. Provide a confidence interval so that you're 90% sure that the real length is in it. (use km or mi)**

Overconfidence

- When people give a 98% confidence interval, it contains only in 60% of the cases the true value – Alpert and Raiffa, 1982

- When they say to be "certain", then the they are about 80% certain – Fischhoff, Slovic, and Lichtenstein, 1977

- Related to:

    - hindsight bias

    - self attribution bias

    - optimism and wishful thinking: 90% of people believe to be over average in many common skills – Weinstein, 1980; and they generally are too optimistic in meeting deadlines – Buehler, Griffin, and Moss, 1994

Overconfidence Examples

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Discussion – Overconfidence

Here are some examples of the overconfidence bias:

- Someone tells you "I'm sure."

- An investor tells you "it's different this time."

- 90% of startups fail ... but you will start a new company.

- -

Add some examples yourself.

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Figure 6: In 2011, Aaron Barr, CEO of HBGary Federal, bragged that he could exploit social media to gather information about anonymous. Photo: pixabay.com

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3.3   Framing

Question on next slide

Two Gambles
Suppose that you are participating in a game that consists out to two gambles. Choose an option in gamble 1 and 2

Gamble 1

(A) a sure gain of € 2,400

(B) 25% chance to win € 10,000 and 75% chance to win nothing

Gamble 2

(A) a sure loss of € 7,500

(B) 75% chance to loose € 10,000 and 25% chance to loose nothing

Voting

> **Question:**
>
> Gamble 1 and 2
>
> (A) **1A** and **2A** (sure gain of € 2'400 and sure loss of € 7'500)
>
> (B) **1A** and **2B** (sure gain of € 2'400 and 75% chance to loose € 10'000 and 25% chance to loose nothing)
>
> (C) **1B** and **2A** (25% chance to win € 10'000 and 75% chance to win nothing and sure loss of € 7'500)
>
> (D) **1B** and **2B** (25% chance to win € 10'000 and 75% chance to win nothing and 75% chance to loose € 10'000 and 25% chance to loose nothing)

Framing

Below are the observed probabilities for the question "Suppose that you are participating in a game that consists out to two gambles: A and B, so choose an option in question A and B".

1 Choose an option.

   (A) a sure gain of € 2'400 [84%]

   (B) 25% chance to win € 10'000 and 75% chance to win nothing [16%]

2 Choose an option.

   (A) a sure loss of € 7'500 [13%]

   (B) 75% chance to loose € 10'000 and 25% chance to loose nothing [87%]

⟶ risk aversion when profits are involved and loss aversion when losses are involved

the results:

A. (1A + 2A) = 100% sure € 5'100 loss

B. (1A + 2B) = 75% chance to loose € 7'600 and 25% to win € 2'400

C. (1B + 2A) = 25% chance to win € 2'500 and 75% chance to loose € 7'500

D. (1B + 2B) = 37.50% chance on zero, 6.25% chance to win € 10'000, 56.25% chance to loose 10'000

⟶ In order to solve a problem, people break it down to small units and solve each of them overlooking correlations and interconnections – Tversky and Kahneman, 1981

Framing is a strong heuristic and leads to different other biases

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- mental accounting

- consider gains and losses in stead of total wealth (consider each gamble separate)

- (and as a consequence) **loss aversion** (in stead of volatility aversion)

- labelling

- sunk cost fallacy

- loss aversion

- anchoring

Framing

Figure 7: The pyramids are in the middle of the desert, isn't it? Pictures pixabay.com and twitter.com.

> ### Discussion – Framing
>
> Here are some examples of framing:
>
> - Sunk costs.
>
> - Replace a fixed premium/bonus of \$1000 with a variable one (even if the expected average is equal or higher).
>
> - Loss aversion (not seeing the bigger frame: total wealth).
>
> -
>
> Give an example about framing from your experience

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3.4   Beliefs

3.4.1   Forming Beliefs

> **Question: Linda is thirty-one years, single, outspoken and very bright. She majored in Phylosophy. As a student, she was deeply concerned with issues of discrimination and social justice, and also participated in anti nuclear demonstrations."**
>
> What is most probable:
>
> (A) Linda is a bank teller
>
> (B) Linda is a bank teller and is active in the feminist movement

Representativeness

- People tend to confuse "sounds like" with "is proof for". Generally people act here in contradiction with Bayes' law.

- Related to:
    - sample size neglect
    - hot-hand fallacy – Gilovich, Vallone, and Tversky, 1985
    - the Law of Small Numbers – Rabin, 2002
    - gamblers' fallacy

3.4.2   Changing Beliefs

Belief Perseverance

- Once people have formed their opinion, they stick to it too tightly and too long – Lord, Ross, and Lepper, 1979

- Two effects:
    - (A) people do not search for disconfirming evidence
    - (B) if they find it anyhow, they treat it with excessive scepticism (i.e. they underreact to it)

- Related to:
    - Confirmation bias: people misinterpret disconfirming evidence as if it would support their beliefs
    - overconfidence
    - self-serving bias

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Your and Your Parent's Worldview

> **Question: Compare your religious beliefs or the lack thereof with your parents.**
>
> (A) I am less religious (same religion) or have no religion
>
> (B) I have the same religion, similar level
>
> (C) I am more religious (same religion)
>
> (D) I have a different religion

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Confirmation Bias / Conservatism Bias / Information Bias

> **Discussion – Confirmation Bias**
>
> People tend to listen only to news that corroborates their beliefs or pre-conceptions. Examples:
>
> - Political and religious views.
>
> - Flat Earthers.
>
> - Information Bias: If you are convinced of something, then you will search for confirming information.
>
> - Conservatism Bias: slow to accept new evidence that does not corroborate one's preconceptions.
>
> - Ostrich Effect: Ignoring disconfirming evidence.
>
> - Outcome Bias: judging a decision based on its outcome.
>
> - Attribution bias: my investments performed well so I'm a good investor; last month it was not good because the Fed raised the interest rates.
>
> - Placebo Effect: e.g. in medicine
>
> -
>
> Can you find other examples of the belief and preconception related biases?

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3.5   Choice Supportive Bias

Choice Supportive Bias

> **Discussion – Choice Supportive Bias**
>
> People tend to support a choice once made or an opinion once formed and overlook its weaknesses.
> Examples:
>
> - My child, beautiful child.
>
> - My dog is the best, even if it bites from time to time
>
> - I have chosen for SAS/IBM/xxx, it is *my* project, I support it
>
> -
>
> Can you find other examples of the Choice Supportive Bias?

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3.6   Selective Perception

Discussion - Selective Perception

> **Discussion – Selective Perception**
>
> Our expectations and point of view influence what we see.
>
> - Football players see more mistakes of the other team when the movie is played.
>
> - We judge ourselves on our intentions and others on the outcome of their intent.
>
> -
>
> Can you find other examples of the selective perception bias?
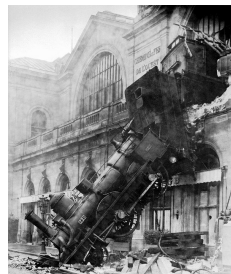
Figure 8: Train accident in Gare de l'Ouest (22/10/1895) – source: pixabay.com.

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3.7 Heuristics

> **Question**: Assume that you're hungry and find two restaurants that only differ in name and in the number of guests: one is empty and the other is half full.
>
> Which restaurant would you choose?
>
> (A) the empty restaurant
>
> (B) the half full restaurant

Herding Behaviour

- How hard is it to be the first to stand up and applaud after an opera that you particularly liked, or to remain seated when all are standing?

Herding

Humans feel safe in bigger crowds. We tend to see it as the natural choice to follow the herd.

Availability Bias

> **Question:**
>
> Who kills most people per year?
>
> (A) dogs
>
> (B) crocodiles, sharks, tsetse fly (carries malaria virus), and hippopotamus combined

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see: Tversky and Kahneman, 1973

Availability Bias – II

> **Question:**
>
> Were there more man or more women in the picture? (not counting Harambe, the gorilla)
>
> (A) more women
>
> (B) more men

3.7.1 Anchoring

Anchoring

> **Question**: Paul is told by the car dealer that the car is \$20'000 and next week the price is \$25'000
> Peter is told that the car costs 30'000 and a week later it is \$25'000.
>
> Who is most happy?
>
> (A) Paul
>
> (B) Peter

Anchoring

- When forming an estimate, people start from an initial (possibly) arbitrary value and then adjust ... but not enough – Kahneman and Tversky, 1974

- Related to:

    - Availability Bias: people overestimate the value of the available information – ibid. Tversky and Kahneman, 1973

Anchoring

Discussion – Anchoring

Give an example of your personal experience that illustrates the anchoring bias.

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Figure 9: People are over-reliant on the first piece of information they get. For example in salary negotiations, the first person to speak sets a range of possibilities in the other person's mind.

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3.7.2 Availability Heuristic

Availability Heuristic

Discussion – Availability

People overestimate the probability of something based on anecdotal evidence (e.g. waiving climate change after one cold winter).

- The pictures with Harambe, men and women.

- Recency Bias: annual performance review in your company: does it really cover one year or just one month?

- Salience Bias: focus on the most easily recognizable features (e.g. crocodiles/dogs)

- Survivorship Bias: belief that starting a new company is easy because only the people that succeeded talk about it.

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Can you find other examples of the availability heuristic?

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Example of Availability Heuristic

Donald J. Trump ✔
@realDonaldTrump

Brutal and Extended Cold Blast could shatter ALL RECORDS - Whatever happened to Global Warming?

1:23 AM · Nov 22, 2018 · Twitter for iPhone

Figure 10: D. Trump on climate change – Source: `twitter.com` .

Availability Heuristic: Consequences

70 Years Later, Florida Posthumously Pardons the "Groveland Four"

On January 11, 2019, the Florida Clemency Board unanimously granted posthumous pardons to the "Groveland Four," four young African-American men falsely accused of raping a young white woman in Lake County, Florida in 1949. During the racist hysteria following the accusation, white mobs burned down black residences, a massive white posse lynched a black suspect, all-white juries condemned two innocent men to death and an innocent teen to a life sentence, and a racist sheriff murdered one of the men and attempted to kill another.

Figure 11: From www.deathpenaltyinfo.org.

3.7.3 Herd effect and Groupthink

Herd effect in thinking
The Bandwagon Effect or Group-think

Discussion – Group-think

People feel safe in the group. In a meeting, the first speaker sets the frame in which others will form their beliefs ... often corroborating. Examples:

- People hold generally similar belief frameworks as their parents.

- The influence of polls on elections

- Did you foresee the global meltdown in 2008?

- Did you expect D. Trump to win the election in 2016?

- Did you expect Russia to attach Ukraine in February 2022?

- Pro-innovation bias (e.g. Bitcoin)

- -

Can you find other examples of Group-think?

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3.7.4 Hot Hand Fallacy

Hot Hand Fallacy
Clustering Illusion

Figure 12: People tend to "see" patterns, even where there are none. Image from pixabay.com

> **Discussion – Hot Hand Fallacy**
>
> Examples:
>
> - The Makapangsat pebble, washing machine, and Mary's cheese.
>
> - The "Hyperactive Causal Agent" and belief.
>
> - Madoff, Enron, etc.
>
> -
>
> Can you find other examples of the Hot Hand Fallacy?

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Choice Supportive Bias
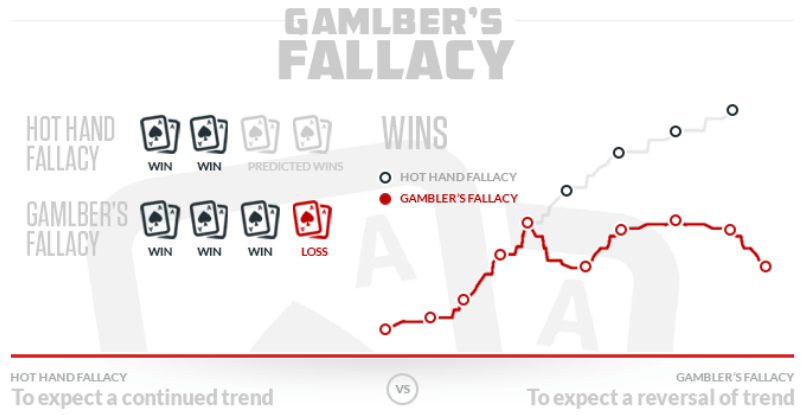
Figure 13: Image from https://cdn.sportsbettingdime.com

3.8   Stereotyping

Stereotyping

> **Discussion – Stereotyping**
>
> Our capability to recognise fast friend or foe (other tribes), creates the tendency to be able to attribute characteritics to an individual based on the group to which he or she belongs.
>
> Examples:
>
> - Racism (crime, good at math)
>
> - The differences in gender and the MBTI profiles.
>
> -
>
> Can you find other examples of stereotyping?

Figure 14: Stereotypes. Source: Isaac Cruikshank, Wikimedia, A Man-Mid-Wife, or a newly discovered animal not Known in Buffon's time" – Coloured etching by I. Cruikshank, 1793. A literalistic visual interpretation of the phrase "man mid-wife" used to criticize male participation in childbirth.

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3.9   Blind Spot Bias

Blind Spot Bias

Failing to Recognise our Own Biases

People tend to see themselves as unbiased, leaving massive room for judgement error and inferior decisions.

Bible

> 'You hypocrite! First, remove the beam out of your own eye, and then you can see clearly to remove the speck out of your brother's eye.'   Matthew 7:5

3.10   Preferences

> **Question:**
>
> Assume that you have bought a bond for your portfolio. Which one would be the most acceptable for your boss?
>
> (A) a junk-bond
>
> (B) a high-yield bond

Preferences – Labelling
   Which do you prefer?

(A) a junk bond

(B) a high-yield bond

   Other biases:

- hyperbolic discounting

- money illusion

4   Forms of Bias Hindering Inclusion

It is a well understood and commonly accepted fact that the human mind is biased. For example **russo1989decision** argue that the main barrier good decision making are biased heuristics in the mind. Some of the most disturbing and clear forms of bias are related to:

Forms of Bias Indirectly Hindering Inclusion

- **Overcondidence on own ability and own judgement**: we systematically over-estimate our own abilities (e.g. After the failure of LTCM the owners tried many more hedge funds that equally failed) – typically people use the wording "to be sure" when they are actually 85% sure — See: Camerer and Lovallo, 1999; Daniel, Hirshleifer, and Subrahmanyam, 2001.

- **Framing** we systematically fail to consider problem from multiple points of view (frames), more in particular we tend to focus on a small frame (e.g. profit and loss of an investment) and fail to see the bigger frame (total wealth) — See e.g. Tversky and Kahneman, 1981

- **Confirmation Bias**: we tend to neglect information that dis-confirms our beliefs and overweight information that confirms our beliefs —

- **Information Bias**: the more information we have, the more confident we get; however, in reality too much information is basis for a weaker decision process. This overconfidence translates in believing that we can "win it" and we fail to follow a process —

Bias Directly Influencing Inclusion

- **Groupthink**: we have the innate need to conform (e.g. notice how hard it is to remain seated when everyone else is going for a standing ovation), this results in the belief that the majority is right —

- **Shortsighted Shortcuts**: this leads to underestimating the risk of a viral outbreak or interest rates. It also results in trusting that our brain has an unbiased view on the world. Instead our brain will typically use the most readily available information as an anchor and extrapolate from there (but not enough – aka Anchoring) —

- **Attribution Bias and Failure to Seek Feedback**: when a decision is successful then we tend to attribute the success to our own abilities (e.g. "I'm a good investor since the stock that I bought is up") and failures to external circumstances (e.g. "the stock that I bought is down, because of an unfortunate decision of the FED") —

- **Tribal Thinking**: we tend to use ourselves as the norm to judge others and tend to see what our tribe does as normal. An interesting example are the Latin words "dexter", and "barbarus"[1] Obvious examples are wars between tribes, nations, or within nations: almost without exception the rivalling party is portrayed as barbarian.

- **Failure to Learn**: even when we get the feedback, it seems hard to adjust our decision process or understand the biases and heuristics that govern our decision process —

- **Herd behaviour**: our innate drive to conform to the group to which we belong, to fit and to be part of a group (in a way, group-think is a special case of this bias) – Banerjee, 1992; Nosfinger and Sias, 1999

- **In-group favouritism**: related to the previous, and also known as in-group–out-group bias, in-group bias, intergroup bias, or in-group preference, is the bias to favour members of one's in-group over out-group members. This results in an automatic bias for own gender (Rudman and Goodwin, 2004) and race (Fershtman and Gneezy, 2001). We have the tendency to self-identify with groups and favourise members of them in

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[1]The word "dexter" means left, wrong, unfavorable, on the left hand, perverse, harmful: it was indeed the norm to write with the right hand. Also in English "right" revers to the direction on the right but is also the word to indicate what is fair according to the judicial system. "Barbarus" referred originally to foreigners but soon became a word that indicates uncultivated, savage, uncivilized, wild, cruel, etc.

(c) Philippe De Brouwer

many ways – Oklahoma. Institute of Group Relations and Sherif, 1961; Sumner, 2007

There is indeed ample evidence that we all are biased. Even the manager who honestly tries to forge strong and diverse teams, and fosters an inclusive atmosphere has many psychological biases that hinder rational decision making. Nobody is free from bias and we are influenced by who we are as well as by our environment. Our brain is evolved to do pattern recognition, and just as machine learning that will pick up patterns that might be true (or true in our distorted perception of the world) on average, but forego the right of everyone to be treated as an individual. Even with the best intentions, each one of us will have certain biases: both active and passive. Active bias is where one holds an explicit or implicit bias and hence will automatically value people more based on that bias.

Places to Start Understanding Own Bias

- tolerance.org

- Harvard University

Besides being conscious or unconscious, bias can also be active or passive. Active bias would be that you believe that a certain group is better in a certain job and hence you pay them more. Passive bias occurs where a person makes biased decision while the intend was to be unbiased. This is because other people will push your decision making in a certain direction.

For example of you have two employees and a small budget for salary increase. Whom would you give the money to? To the person that complains or to the person that expresses concern about your difficult task as a manager. Who on average would be these people? Well women score on average higher in agreeableness and are more "feeling" – in MBTI terminology – so you can expect on average men to be more vocal about their salary expectations and women to be more inclined to express compassion. This mechanism will push you to give salary increases –on average– more to men then women.

5 Deep Dive: Gender Bias

EU Definition

'Any discrimination based on any ground such as sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation shall be prohibited.'   article 21 of the Charter of Fundamental Rights

Gender stereotypes and bias

	doctor	nurse	police officer
female	45%	90%	17%
male	55%	10%	83%

The data behind car accidents

> multiple sources: Hailemariam et al., n.d., Eustace and Wei, 2010, Kouabenan et al., 2001, Obeng, 2011, Szumska, Frej, Grabski, et al., 2020, EU, IIHS, NHSA, Insurance information institute, etc.

All agree:

- men cause around 70% of car accidents in the EU

- 20,000 male fatalities p.a. vs. 6,000 female in the EU (3 times more men die on the road – 76% of road fatalities are men)[2]

- men are more in fatal accidents (speed and misjudgement), women in minor accidents (distraction, information failure)

- In USA: Men drive ca. 30% more miles than females, and cause 6.1 mln accidents vs females 4.4. (IIHS)

The Gender of Personality: MBTI

The Gender Differences in the MBTI Dimensions

Table 2: Gender differences in personality. Data from www.statisticbrain.com/myers-briggs-statistics and https://personalitymax.com/personality-types/population-gender/.

Dimension	Male	Female	Δ
Introversion/Extrav.	5% more Introvert	3% more Extravert	8%
iNtuition/Sensing	22% more Sensing	25% more Sensing	3%
Thinking/Feeling	7% more Thinking	26% more Feeling	33%
Judging/Perceiving	2% more Judging	7% more Judging	4%

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[2]EU data from: https://ec.europa.eu/transport/road_safety/sites/default/files/pdf/statistics/dacota/bfs2018_gender.pdf
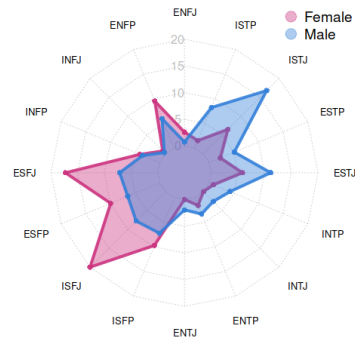
Figure 15: Gender differences in the MBTI profiles.
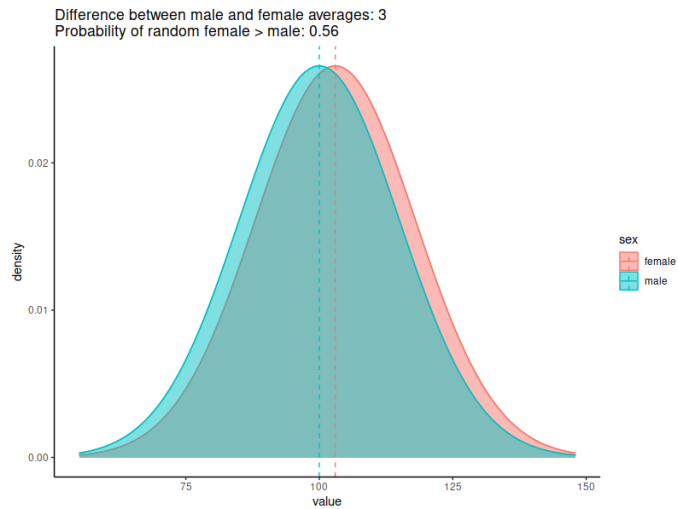
Sensing/iNtuition and Judging/Perceiving

Figure 16: When the differences are small (e.g. 3% or 4%, then the probability that in a random pair men score lower is roughly 50%.
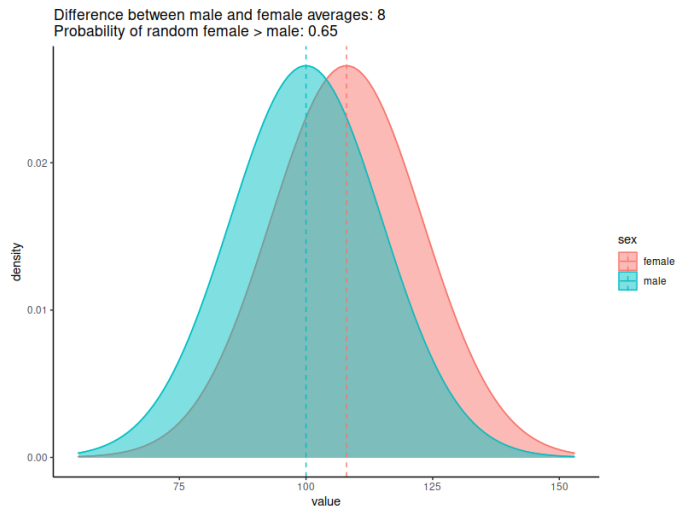
Introversion vs. Extroversion

Figure 17: With 8% difference, the probability that in a random pair the woman scores higher/lower is 65%.
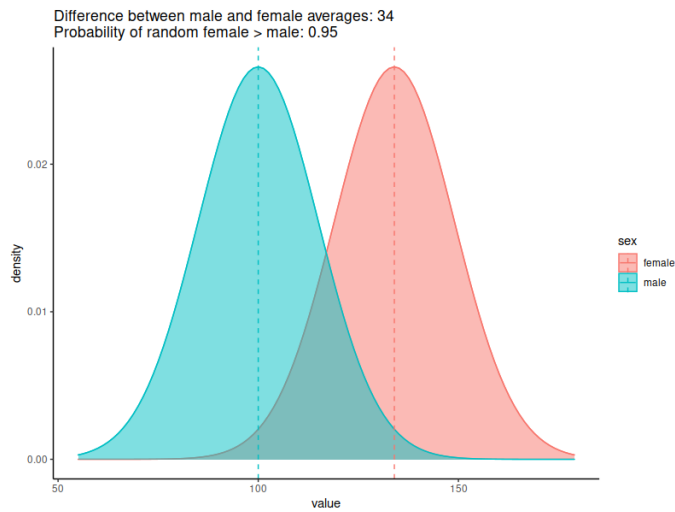
Thinking vs. Feeling

Figure 18: With 34% difference, the probability that in a random pair the woman scores higher is 95% – almost always.

The Big 5

- **Neuroticism** – experience negative emotion in response to perceived threat and punishment (e.g. anxiety, depression, anger, self-consciousness, and emotional lability) — women score higher (except anger)

- **Agreeableness** – cooperation, social harmony, and consideration of others — women score significantly higher

- **Conscientiousness** – self-discipline, organization, and control of impulses (linked to the ability to exert self-control in order to follow rules or maintain goal pursuit) — women score a little higher

- **Extraversion** – sociability, assertiveness, and positive emotionality (linked to sensitivity to rewards) — women score a little higher

- **Openness/Intellect** – imagination, creativity, intellectual curiosity, and appreciation of esthetic experiences — no diff.

First Impressions Matter (System 1)

Figure 19: System 1: First impressions matter

How to Tame System 1?

> **Discussion – Recruitment**
>
> How can we get System 1 under control for recruitment?

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Is this enough to get to equal chances

> **Question**: Assuming that our method is sufficient to tame System 1 in the recruitment process, are the previous rules enough to provide equal and fair chances to everyone?
>
> (A) Yes
>
> (B) No

....

....

....

....

6 Conclusion

Conclusions

- Behavioural biases are deeply rooted in the unconscious part of the brain ← it is not possible to get "unbiased", being aware of your bias is key on counteracting.

- Understanding Behavioural Biases is understanding yourself and others.

- . . . we can make better decisions by consciously engage our rational (aka. slow or System 2) thinking process.

- We all have multiple biases.

Can we learn to de-bias?
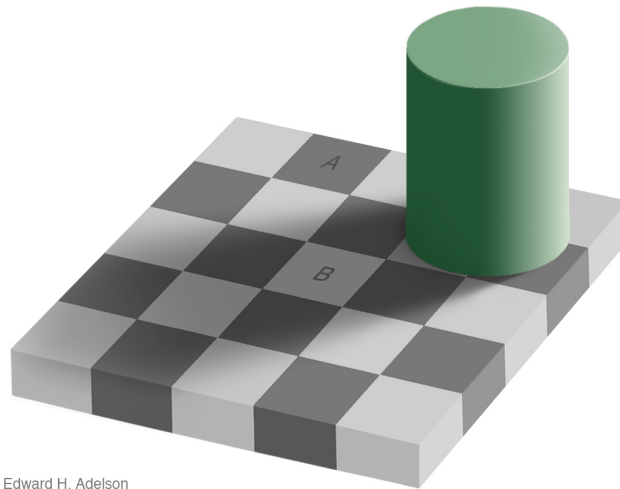
Edward H. Adelson

Figure 20: Are A and B of the same shade of grey? – Source: Edward H. Adelson http://web.mit.edu/persci/people/adelson/checkershadow_illusion.html

How do you see yourself?

Question: What describes you best?

(A) Impulsive, biased, judging, and jumping to conclusions

(B) Both A and C

(C) Logical, structured, open-minded, and conscious

Course assesment

Question: Please rate this presentation

(A) Not good – needs replacement

(B) mediocre – needs improvement

(C) good – is ok, but could be improved

(D) very good – difficult to find improvements

(E) top

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Nomenclature

$\wedge$ the logical "and" operator

$P(A)$ the probability that event A occurs in a given time frame

BF   Behavioural Finance

DLC   Dual Listed Company

EMH   Efficient Market Hypothesis

EUT   Expected Utility Theory

LSE   London Stock Exchange

LTCM   Long Term Capital Management (hedge fund)

NYSE   New York Stock Exchange

RDP   Royal Dutch Petroleum

SEUT   Subjective Expected Utility Theory

STT   Shell Transport and Trading