This document presents a summary of various things discussed in the lecture. Before we started our presentation on "Heuristics and Bias in Judgements and Choices", the professor talked about how rational theory is fundamental theory on which the science of economics is based upon. He talked about why it is ok that even if people are irrational, we can assume rationality in our models as end is more important than means. Although he brought up the argument of Richard Thaler who disagrees with rationality model by the example of a person selling the stock(then all the folks should sell the stock as all of them have same info as others - an assumption of rational theory - but which would result in bringing down the price of stocks, thus making selling the share unprofitable). This serves as a preamble to our presentation.

During the presentation of anchoring heuristic, the professor gave another real world example in which we could use this fact to our advantage, mainly during salary negotiation. He discussed the importance of the presence of inflection in the loss side in the gain/loss vs value graph presented during prospect theory discussion. It is significant as it clearly shows the flaw in rational theory which does not capture loss aversion behaviour seen in people. Similarly, he highlighted the importance of framing effects in showing the flaws in rational theory as the theory strongly argues that decision made by the people depends entirely on expected utility but framing effects shows the results to contrary. He also explained about the doubts we had in prototype heuristics by explaining the example of donating to a society which saves birds. Mainly, he pointed out that no matter the number of birds which the cause eluded that their donation will save, the average charitable contributions were mostly the same as people replaced the number of birds(extensional attribute) with a prototypical single bird. He also corrected our insurance example in which he explained that choosing the option with higher deduction is always best choice as probability of loss happening less which offsets higher deductible with low monthly payments.

Finally after the presentation, the professor discussed people accepting the gamble after rejecting it a few times. The reason was as it reduces the variability of loss (if we consider each trial as bernoulli experiment). Professor also presented a counter argument to it by explaining the reasoning of Paul Samuelson - if a person has rejected 99 gambles, then the next gamble is like a one-shot gamble(as they are independent), which one would reject like one did 99 times before. This reasoning can be traced backward and it can be shown that he will not accept all the previous gambles too. Thus a person will either accept the gamble in his first attempt or he will never accept the gamble. Author later pointed out that the flaw in Samuleson's argument was the implicit assumption that people are rational which from our presentation we know that it's not correct. Thus, in a repeated gamble scenario, probability of people rejecting the future gambles decreases.