

How We Really Make Decisions

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For centuries, philosophers, economists, and social scientists assumed that human beings are generally rational. Daniel Kahneman upended that assumption with findings that continue to reverberate through several scientific disciplines and have enormous implications for public policy. In his groundbreaking work with the late Amos Tversky, Kahneman, one of the most influential psychologists of our time, showed that when we face uncertain situations, we don't examine the information in ways that are characterized as rational. Instead, we take mental shortcuts that can lead to seemingly illogical decisions. Kahneman and Tversky published a series of seminal articles on judgment and decision-making that led to their *prospect theory*. That theory explained how we avoid risk when making decisions that offer a potential gain, and take risks when making decisions that could lead to a certain loss. Among other things, it explains why investors hold onto losing stocks too long and sell winning stocks too soon. Kahneman and Tversky's research led to the field of behavioral economics, the study of the effects of social, cognitive, and emotional factors on economic decisions. In the 1990s, Kahneman shifted the focus of his research to hedonic psychology—the study of what makes life and experiences pleasant or unpleasant. In 2002, Kahneman was awarded the Nobel Prize in Economics for his work with Tversky, and in 2013 he received the Presidential Medal of Freedom, the highest civilian honor in the United States. His best-selling book *Thinking Fast and Slow* summarized his research over the decades and was selected by the *New York Times Book Review* as one of the best books of 2011. He is a member of the National Academy of Sciences and the American Academy of Arts and Sciences. Kahneman is also the recipient of the [APS William James Fellow Award](#) for his outstanding contributions to scientific psychology.

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