

Why the Most Important Idea in Behavioral Decision-Making Is a Fallacy

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Loss aversion, the idea that losses are more psychologically impactful than gains, is widely considered the most important idea of behavioral decision-making and its sister field of behavioral economics. To illustrate the importance loss aversion is accorded, Daniel Kahneman, winner of the 2002 Nobel Prize in economics, wrote in his 2011 best-selling book, *Thinking Fast and Slow*, that “the concept of loss aversion is certainly the most significant contribution of psychology to behavioral economics.” As another illustration, when Richard Thaler was awarded the 2017 Nobel Prize in economics the phrase “loss aversion” appeared 24 times in the Nobel Committee’s description of his contributions to science.

Why has such profound importance been attributed to loss aversion? Largely, it is because it is thought to reflect a fundamental truth about human beings—that we are more motivated by our fears than by our aspirations. This conclusion, it is thought, has implications for almost every aspect of how we live our lives.