

## Q3: Week 1 - Cognitive Biases

A cognitive bias is a filter through which we process incoming information, which can get in the way of our ability to analyze the information on its own merit.

Although there is some overlap and similarity between cognitive biases and logical fallacies, there is a fundamental difference. A cognitive bias affects how we interpret information we hear or read; a logical fallacy is a mistake in reasoning when we present an argument.

Cognitive bias - incoming information

Logical fallacy - outgoing arguments

 <h3>anchoring</h3> <p><b>The first thing you judge influences your judgment of all that follows.</b></p> <p>Human minds are associative in nature, so the order in which we receive information helps determine the course of our judgments and perceptions.</p> <p>Be especially mindful of this bias during financial negotiations such as houses, cars, and salaries. The initial price offered is proven to have a significant effect.</p>	 <h3>sunk cost fallacy</h3> <p><b>You irrationally cling to things that have already cost you something.</b></p> <p>When we've invested our time, money, or emotion into something, it hurts us to let it go. This aversion to pain can distort our better judgment and cause us to make unwise investments.</p> <p>To regain objectivity, ask yourself: had I not already invested something, would I still do so now? What would I counsel a friend to do if they were in the same situation?</p>
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Example: the first price offered for a used car sets an 'anchor' price which will influence how reasonable or unreasonable a counter-offer might seem.

Even if we feel like an initial price is far too high, it can make a slightly less-than-reasonable offer seem entirely reasonable in contrast to the anchor price.



Example: if you've spent money on a meal but you only feel like eating half of it, it's irrational to continue to stuff your face just because 'you've already paid for it'; especially considering the fact that there are costs associated with finishing that meal.



What is it about human nature that attracts us to a deal when we know the "savings" are imaginary?

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What is the cost of finishing a meal after you've had enough, just because you already paid for it?

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