

Social Distance Reduces Biases in Risky Decision Making

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We did not foresee the coming of COVID-19, and we do not know when it will eventually be held under control. The stock market can enjoy a boom that makes people rich, while it can also suffer a crash that evaporates wealth. A couple are excited to have a baby, but they are concerned that the new-born might suffer from some genetic disorder. No one can say for sure that they will not run into a car accident during the next year, and many people purchase a lottery in order to get a chance of becoming rich overnight.

The above-mentioned events may appear to be random and unrelated to many people, but they do have something in common – they are all plagued by risk and uncertainty. Indeed, life is full of risk and uncertainty: hardly any big decision in our life leads to a sure outcome, neither does the strategy set by a firm or the policy set by the government. Because risk and uncertainty are so prevalent in our social and economic lives, it is important to understand how to cope with them. However, individuals, firms, and governments often exhibit judgment biases in the presence of risk and uncertainty, leading to suboptimal decisions. People are found to have the tendency to overweight the probability that a rare event can happen while underweight the probability that a likely event can occur. These biases prevent people from maximizing their payoff from investment decisions, and hold people back from best enjoying their lives in decisions related to health and lifestyles.

Using lab experiments, my coauthors and I aim to understand why biases arise in risky decision making and how to reduce them. When we make decisions under risk, our thinking and reasoning are clouded by our emotions; the anticipated elation or disappointment related to an outcome can lead to biases and irrational decisions. For example, many people constantly purchase lotteries because of the anticipated elation of winning a lottery. This anticipated elation may be even stronger when the chance of winning is small because winning an unlikely gain makes people extraordinarily happy, especially when they can vividly picture their winning. This anticipated elation makes people attached to the outcome and overweight the chance that a rare event would happen.

Given that emotion is the key to causing decision biases, the quality of decision making can potentially be improved by reducing the intensity of emotion. One factor that is related to the intensity of emotions is the social distance between the decision-maker and the beneficiaries of the decision. We therefore conjecture that increasing the social distance would reduce the biases and help people make better decisions. This conjecture seems to be supported by conventional wisdom. In the medical profession, for example, the Code of Medical Ethics of the American Medical Association suggests that “physicians must not treat themselves or members of their immediate families because their personal feelings may unduly influence their professional medical judgment, thereby interfering with the care being delivered.”

Our experiments confirm this conventional wisdom. In one study, we manipulate social distance by asking the participants to make decisions either for themselves or for another person (Experiment 1), either for a known person or for an unknown person (Experiment 2), and either for a close friend or for a distant friend (Experiment 3). The results of Experiments 1 and 3 showed that increased social distance leads to better

decisions. Such effect, however, was not observed in Experiment 2: decision-makers' perceived distances are found to differ differently in Experiments 1 and 3, but not in Experiment 2.

We confirm the link between emotional intensity and judgment biases in two other studies. We measure the emotional intensity experienced by the decision-makers for various social distances, and the reduction in bias is accompanied by a decreased emotional intensity. In a fourth study, we discover an effective cognitive reappraisal strategy—self-distancing—to decrease the intensity of emotion attached to the outcome and in turn reduce biases in risky decision making. The self-distancing strategy involves mentally changing one's construal of emotional events by increasing or decreasing one's psychological distance from it.

These studies all confirm the importance of emotion in risky decision making and suggest strategies to reduce biases. If you find yourself getting emotional when you think about a risky decision, it is wise to use delegation and ask a trustworthy agent to make decisions for you. If delegation is not available, you still have the self-distancing strategy that can improve the quality of your decision – simply *consider* yourself as an outsider trying to make a decision for someone else. Sometimes a simple strategy like this can have a great effect.

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