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Question 1

Coalitions are a gathering of participants/actors that join together to fulfill their individual preferences and identities. When multiple actors are involved in a decision process, problems arise because of the inconsistency in preferences among the actors. To actually make a decision could require a coalition to be built. If for example a proposition needs the support of more than 50% of the involved participants, a coalition would be likely. Rational actors would want to join the winning coalition, so they gather members until they have enough power or influence to almost guarantee success. The members of such a coalition will have to divide the profit among themselves, so they will try not to bring in more members than necessary.

Some actors who apply rule-based decisionmaking will join coalitions that are deemed appropriate. Example: a pastor will join the Christian political party, even if his political views might differ.

When a coalition makes a decision it does so to the benefit of all its members, usually. The coalition will try to gain as much profit as possible, then divide it to its members by way of distributive bargaining (squabbling). Another possibility is that the coalition is

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brought together to create something, like for example a policy. In that case there will be no dividing of spoils, but a wish by each actor to get his/hers personally important issue integrated into the policy. If all the members share the same preferences a mutually supportive deal can be struck. Another possibility is mutual indifference, when members agree to support other's ~~see~~ propositions (who they are indifferent about) as long as they do the same in return. In this way decision makers may make decisions they would never do without the coalition, just to fulfill their own preferences.

Question 2

A frame (in decision theory) is a collection of knowledge and experiences about events and what brings those events about. When a decision maker is faced with a situation he will embed that situation in a frame to give it context and meaning. A connection can be made with belief conservation, that new information is interpreted in a way that is consistent with old beliefs. Since a frame is built on the experiences of the decision maker there will be major differences.

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between peoples frames. A persons occupation will play a big part in framing, after years of working in a particular way and solving problems in a specific manner, a frame that is typical for that occupation is likely to emerge. People will also develop shared frames through social interaction with colleagues, so a conformity of frames is to be expected.

If we imagine a situation where a smallish town is seperated by a wide river. An economist would look at the situation and through his frame would figure out that the problem was one of funding. He would go on to investigate what level of tolls could be sustained, if taxes had to be raised, how much would the town need to borrow etc.

Information that was connected to the funding issue would be emphasized, and other information would be disregarded when put in the economists frame.

An engineer would look at the situation as a construction problem. He would go on to make measurements, geological surveys, calculate the amount of materials and man-hours needed. He would emphasize information connected ~~to~~ to engineering.

If there was a geological problem that would prevent construction of a bridge, the economist would not discover this untill late in the decision process. Similarly, a lack of financial resources would not be recognized by the

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engineer before some time had passed.

Question 3

Regression towards the mean is a flaw exhibited by people when they subjectively try to assign probabilities to future events. People have a tendency to assign a too high probability to a low probability event and too low probability to a high probability event. Perception of probabilities is dependent on our understanding of the event. If the event is familiar we downplay the probability of it occurring, but if it is incomprehensible and unknown we overestimate the probability of the event occurring (terrorist attacks, S.A.R.S. etc). Unfamiliarity and fear gives us the perception of high probability.

~~the~~ Decision makers also overestimate their own influence, so an event they are personally involved in is judged to be more probable to succeed than is warranted.

A central part of much decision making is to estimate or predict future consequences of actions, to help find the best course of action. When decision makers are so poor at estimating probability, the prediction of future consequences will suffer. For example,

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an innovative course of action with great potential might be disregarded because the decision maker does not understand it and assigns a low probability to it. On the other hand, a course of action that was employed last year ~~that~~, which the decision maker was directly involved with, will be judged highly probable of working this year. In this way will the decision maker make a biased decision.

Question 4

Escalation of irrational commitment is the action of committing further resources to a project when it makes no sense to do so.

One example could be tunnel engineers, who after a few months of drilling find out the rock is so bad it would save them a lot of money ~~to~~ to construct a whole new tunnel. ~~Instead~~ Instead, they choose to continue escalation of irrational commitment.

There are four different types of determinants that can cause escalation of irrational commitment
Project determinants: when negative results are detected, the project must be evaluated, especially with regards to future earnings. signals

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The decision maker must judge if the negative signals ~~to~~ are just signs of a small slump in an otherwise positive trend curve, or if it isn't.

~~Bye~~

Psychological determinants: People tend to look for evidence that confirms their beliefs, rather than disconfirming evidence. Also, a decision maker has a limited ability to gather and process information. The limited, biased information available to the decision maker might give him or her an overconfidence in the plan or project that is currently being pursued.

Social determinants: Stopping commitment is an admittance of an error in judgment, and people don't want to lose face in front of their peers. There is also a need to be perceived as a hero, the one who fought through all the odds and came out on top. People who do this and become heroes are glorified by media and society and their personal experiences are available at your closest bookstore. Little mention is made of the large majority who did not make it.

Structural determinants: A typical structural determinant is a contract that cannot be broken. The decision maker would be forced to continue because of the agreement with a customer or partner. Resources that are immobile and of little alternative value could also contribute to escalation of irrational

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commitment.

Perhaps the biggest flaw in decision makers is the inability to view previous investments as sunk cost. The unwillingness to admit waste and wrong decisions drives this behavior.

Rational decision makers should ask themselves to justify why a project should be continued rather than why it should be discontinued.

Question 5

The decision model based on a logic of consequences is a rational type model. Decisions are made based on expected consequences and the valuing of these consequences. Decision makers who use this approach must ask themselves four questions ~~that~~ ~~should~~

The question of alternatives: what different options, choices and alternatives are available in this situation?

The question of expectations: what is likely to be the outcome or the consequence of each choice? what is the probability of the outcome occurring?

The question of preferences: what value would I assign to the different outcomes? what would I prefer? Preferences are assumed to adhere to the axioms of connectivity (choice possible),

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transitivity (ranking possible) and summation (more is better).

The question of the decision rule: How should I pick the best option / make the best decision. Usually this is done by comparing the expected utility of all the options and picking the option with the highest utility. Expected utility is defined as the subjective worth of an outcome multiplied by the probability of it occurring.

The decision model based on logic of appropriateness is of a wholly different nature. Decision makers make decisions based on rules. In this model there are three questions to ask oneself:

Situation: what kind of situation is this?

The decision maker must recognize the situation based on previous experience and knowledge (link with framing).

Identity: what kind of a person / organization am I / are we? An identity is a concept of self linked with connecting actions to problems. People ~~often~~ develop identities with background in their group, occupation and religious affiliation, to mention some.

Rule: what does a person such as I / organization such as us do in a situation like this. The rules are often given by outside influences, and decision makers follow the rules because

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it is deemed appropriate.

The logic of consequence model might seem like the best way of going about decision making because of its clear logic and appealing (to economists) computational application. This model is of a prescriptive type; it explicitly tells us what to do and how to do it. The model based on logic of appropriateness is of a descriptive type, instead of giving us a clear recipe for decision making it tells us a bit about how decision makers actually make decisions. It does have a prescriptive element to it; the three questions, but it leaves much up to the decision makers.

It could be tempting to ~~assume~~ say that the logic of appropriateness model is inferior because of the lack of rationality, and that it is suited for lazy decision makers. But there is rationality in the model, it comes into play when the rules are developed and changed. Rules can be made on the basis of analysis of future events, on bargaining among participants, by imitating successful rules, by survival of the fittest rule and through experiential learning.

In reality there are extensive limitations to a decision process following the logic of consequence. A decision maker has a limited cognitive ability and will seldom discover all available alternatives. Predicting outcomes is especially difficult because

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of ambiguity in causal relations and bias in subjective probability. Even preferences can be complicated because they can change over time. Research shows people rarely adhere to this rational decision process.

If the decision maker is faced with a situation where the risks are clear (perhaps based on statistics) and the preferences or goals of the decision maker are clear, then the model based on logic of consequence would most likely yield a better outcome. Clarity in risk and preferences allows for a computation to be made and ~~the~~ decision will be the option with highest expected utility.

If the risks and preferences were unclear, perhaps a better ~~outcome~~ ~~with~~ decision would be made by following the rules. One would have to trust that the rules for the particular situation have a sound origin. Either some other decision maker has faced the same situation before and added his ~~to~~ learning to the rules (we imitate) or maybe someone with better understanding than us has made an analysis earlier, of a similar situation.

There are some issues with rule change though. Rules have a tendency to be rigid, people and organizations resist change. Our learning capacity is also limited by our ability to recall the past and interpret the information.