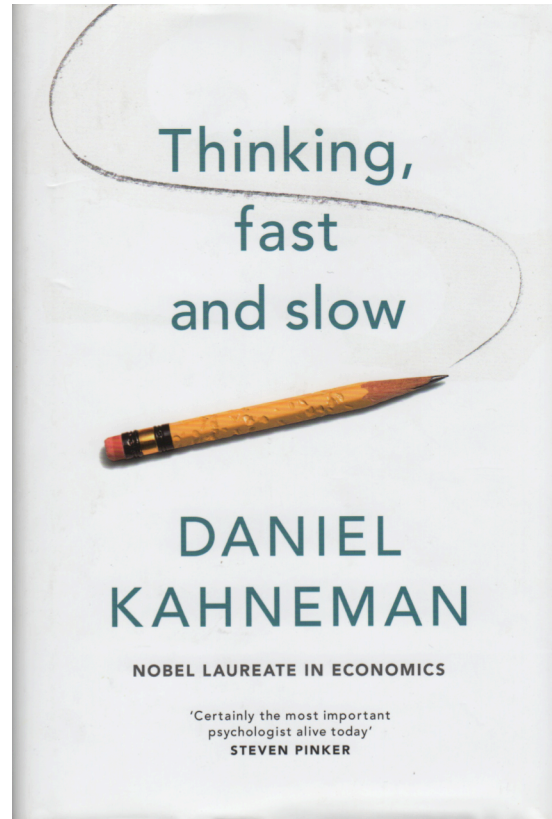

BOOK REVIEW

"Thinking, Fast and Slow" by Daniel Kahneman

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Daniel Kahneman is Eugene Higgins Professor of Psychology Emeritus at Princeton University and Professor of Psychology and Public Affairs Emeritus at Princeton's Woodrow Wilson School of Public and International Affairs. He received the 2002 Nobel Prize in Economic Sciences for his pioneering work on decision-making with cognitive and mathematical psychologist Amos Tversky.

So what's a psychologist doing winning the Nobel in Economics? It's kind of a long story. Kahneman met Tversky in 1969 when they were both in their early thirties and he asked him to speak at a seminar at the University of Jerusalem. Tversky's focus at the time was how we make decisions, and he was known to be brilliant, voluble, and

charismatic. They hit it off and especially enjoyed each other's senses of humor – Tversky had an uncanny ability to remember jokes and use them in clarifying discussion points. Kahneman credits Tversky with greater powers of perception, direction, and logic than himself.

They began their collaboration by studying whether people are good intuitive statisticians, in other words, do we have an innate understanding of the basic principles of statistics in the same way that we have an innate understanding of grammar that enables us to learn language effortlessly at a young age. They considered themselves too willing to believe research based on inadequate evidence, so they wanted to see whether sophisticated researchers suffered from the same lack of intuition about statistics. They found that even an author of two textbooks about statistics exaggerated the robustness of data, and that indeed statistics are far from intuitive for most of us.

They studied the effects of intuition on judgment together over the next fourteen years and collaborated on its effects on economics until Tversky's death in 1996. Tversky would surely have shared the Nobel with Kahneman if he had not been deceased when the prize was awarded.

In 1994, Massimo Piattelli-Palmarini wrote a book about common cognitive distortions called *Inevitable Illusions*, the first book to explain behavioral economics for a general audience, in which he predicted that Kahneman and Tversky would win the Nobel Prize. But there is no Nobel Prize in psychology. The fact that they won the prize in the field of Economic Sciences says a lot about how they were able to revolutionize economic thinking by relating behavioral studies to the practical world. (As you can probably tell, I find the story behind Daniel Kahneman's career as fascinating as his book!)

Thinking, Fast and Slow, written in 2011, brings their studies to life through an enticing tour of the human mind. It is already a classic, having won the National Academy of Sciences Best Book Award and the Los Angeles Times Book Prize and being selected by The New York Times Book Review as one of the ten best books of 2011.

It describes how the fast, intuitive, and emotional system of thinking (System 1 in psychology) works with the slow, deliberate, logical system (System 2) to shape our thinking. Kahneman provides insight about when to trust your intuition and when to tap the benefits of careful, deliberate reasoning. He provides detailed examples of how our thoughts are influenced and the psychology behind feeling confident that we know something which we actually do not know. He also explores the psychology behind our

judgments, choices, biases, and reactions, and relates them to our investment behaviors – hence the link to economics.

The writing has been described as "exquisite," "beautiful," "gentle," "rich," and "precise," so even someone not versed in psychology can understand his very detailed treatment of the topic. In chapter one he introduces fast thinking and slow thinking as "the characters of the story," and the book as a psychodrama cast with these two characters. Kahneman says, "You have been invited to think of the two systems as agents within the mind, with their individual personalities, abilities, and limitations. I will often use sentences in which the systems are the subjects, such as, 'system 2 calculates products.' "

With chapter titles such as "Taming Intuitive Predictions," "The Illusion of Validity," "The Endowment Effect," and "Risk Policies," you get a feel for how Kahneman explains economics using psychology's premises. If you're familiar with the eighteenth century Swiss mathematician and physicist Daniel Bernoulli's *utility theory*, you might be interested in Kahneman's treatment of Bernoulli's theories of risk-taking in the chapter called "Bernoulli's Error." If you've heard of the What You See Is All There Is concept (WYSIATI) that contributes to human decision-making, you might want to read about it from its creator in *Thinking, Fast and Slow*.

Janice Gross Stein of Canada's The Globe and Mail said Kahneman stands among giants like Darwin and Freud: "Arguably the most important psychologist in history, Kahneman has reshaped cognitive psychology, the analysis of rationality and reason, the understanding of risk and the study of happiness and well-being." New York Times' David Brooks said the book "will be remembered hundreds of years from now."

Thinking, Fast and Slow is entertaining as well as brilliant, and has enormous "self-help value," with revelations that will surprise and delight you, but without buzzwords, formulas or pop psychology. It condenses five decades of keen scientific research into a readable format that will change the way you think about thinking.

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