

## CRITICAL THINKING ACTIVITY – COGNITION

Adapted from:

- Halonen, Jane, Gray, Cynthia. (2001). *The Critical Thinking Companion for Introduction of Psychology. Second Edition, 58-63*
- Stern, Tina. (2001). *Study Guide and Practice Tests. Sixth Edition, 268-269*

### **MONEY IN THE BANK: Practical Problem Solving**

Heuristics are strategies we use to organize our worlds and to help us make decisions. Although this approach allows for rapid processing of information and decision making, it is not always accurate. In fact, a heuristic can make you quite prone to errors. Heuristics are especially tempting when time is of the essence – when you think you don't have the time to extensively or exhaustively review all the available options.

The world of high finance demands the rapid processing of large amounts of information. Imagine that you are a consultant, hired to work with investors to help them make the wisest choices with their money. How could you use an understanding of the risk of using heuristics to help your investors make, rather than lose, money? How does the use of heuristics relate to confidence or overconfidence in decisions? If you need a suggestion to help you get started, focus on the availability heuristic. Identify what the availability heuristic is, how it might lead to errors that could cost investors money, and what strategies the investors might use instead of relying on this heuristic.

What would you tell investors about heuristics?

What could you tell them about overconfidence and the way it might affect their investing decisions?

What is availability heuristic and how does it specifically affect investment decisions?

What is representative heuristic and how does it specifically affect investment decisions?



3. Jane doesn't want to get married and John does. When discussing the issue, Jane brings up only troubled relationships she knows of and cannot think of any of the happy relationships.