Chapter 2
Overconfidence
The Mother of All Biases

- Overconfidence is considered robust
- Some consequences of overconfidence:
  - Wars
  - Stock market bubbles
  - Strikes
  - Unnecessary lawsuits
  - High rates of entrepreneurial failure
  - Failure of mergers and acquisitions
### Three Forms of Overconfidence

<table>
<thead>
<tr>
<th>Overprecision</th>
<th>Overestimation</th>
<th>Overplacement</th>
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<tbody>
<tr>
<td><strong>Being too certain that you know the truth.</strong></td>
<td><strong>Thinking you are better than you really are.</strong></td>
<td><strong>Falsely thinking that you are better than others.</strong></td>
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<td>• Excessive certainty in our accuracy</td>
<td>• Overestimating your productivity</td>
<td>• Negotiating with superior others</td>
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<td>• Lack of interest in testing assumptions</td>
<td>• Overestimating your control</td>
<td>• Representing yourself in court</td>
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<td>• Dismissing evidence suggesting we’re incorrect</td>
<td>• Overestimating your test scores</td>
<td>• Entering a prestigious competition</td>
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<td>• Overly narrow confidence intervals</td>
<td>• Overestimating your attractiveness</td>
<td>• Founding a start-up</td>
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What Causes Overprecision?

• Lacking knowledge about a topic
• We are rewarded for overprecision
• We don’t seek contradictory evidence
Consequences of Overprecision

- Ignoring feedback from others
- Active portfolio management
- Spending hours interviewing job candidates
Consequences of Overestimation

- Self-enhancement
- The illusion of control
- The planning fallacy
- Optimistic biases
Consequences of Overplacement

- Inflated expectations of success
- Excessive legal costs
- Over-entry into markets
- Mergers and acquisitions
- Choosing the wrong occupations
Well-Calibrated Decision-Making

• Do positive illusions have benefits?
• Adverse effects of positive illusions:
  – Conflict
  – Over-claiming credit
  – Inability to learn from mistakes
  – Dishonest behavior
  – Hits to our credibility
  – Less effort on tasks