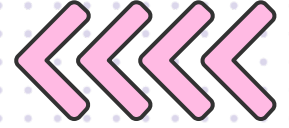




# EMOTION <<<<

& *The force of emotion*





"Only when you combine sound intellect with emotional discipline do you get rational behavior."

- Warren Buffet

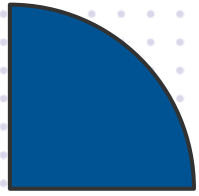




# Outline

- What is emotion?
- Emotion & Decision-making
- The force of emotion

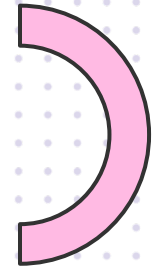




What



is



EMOTION ?



# What is emotion?

- Psychologists generally agree that such states as: sadness, anger, hatred, guilt, disgust, pride, fear, regret, contempt, interest, happiness, content, surprise, joy, love, and elation, are emotions.
- Lack of a unified theory of emotion



## *Emotions about emotions*

- Agents may make decisions because they have emotions about possible future emotions.
- Specifically, fear of a negative emotion, or hope for a positive emotion, may influence behaviors.
- Fear of regret is argued to drive certain financial decisions. An investor might regret having made a bad investment.



# What is emotion?

Jon Elster argues that six observable features allow us to define an emotion:

## 1. Cognitive antecedents:

Emotions are triggered by beliefs.

For example, you become angry when another driver runs a red light and almost causes a collision because you believe the other driver is driving carelessly and has endangered your life.



# What is emotion?

Jon Elster argues that six observable features allow us to define an emotion:

## 2. Intentional objects:

Emotions are about **something** like a person or situation.

For example, you are angry with the driver who ran the light.

In most cases, the object of the emotion is closely related to the belief that triggered the emotion.

You are angry with the driver of the other car because he is reckless.



# What is emotion?

Jon Elster argues that six observable features allow us to define an emotion:

## 2. Intentional objects:

Emotions are about **something**, whereas a **mood** is a general feeling that does not focus on anything in particular.

Moods tend to persist for long periods of time.



# What is emotion?

Jon Elster argues that six observable features allow us to define an emotion:

## 3. Physiological arousal:

Emotional states are characterized by hormonal changes and by changes in the autonomic nervous system, experienced as burns, stabs, pangs, hot flashes, sinking feelings, and the like.



# What is emotion?

Jon Elster argues that six observable features allow us to define an emotion:

## 4. Physiological expressions:

Emotions have characteristic observable expressions such as bodily posture, voice pitch, blushing&flushing, laughing, frowning, weeping and crying.

You may express your anger at the other driver by raising your voice or shaking your fist in his direction.



# What is emotion?

Jon Elster argues that six observable features allow us to define an emotion:

## 5. Valence:

Emotions can be rated on a scale with a neutral point in the center and positive and negative feelings on the endpoints.

In many cases, emotions that are highly stimulating are also at the positive or negative endpoints for feelings.



# What is emotion?

Jon Elster argues that six observable features allow us to define an emotion:

## 6. Action tendencies:

Emotions are linked to action tendencies.

When you experience an emotion, you often feel an urge to act a certain way. In some cases, you might even feel compelled to take action.

Together, the six features just described help us define what an emotion is.



# What is emotion?

From an evolutionary perspective, not only do emotions serve as communicating mechanisms, they also serve as infectious mechanisms, that is, emotions can create analogous emotions in the observer.

The ability of emotions to be “transmitted” is potentially important in the context of social forces—a snowball effect occurs, with many people feeling the same way at the time.

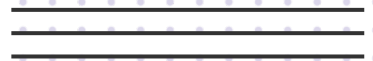
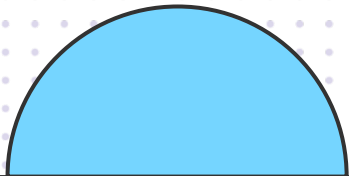




**EMOTION**



**& DECISION - MAKING**



# Emotion & Decision-making

Emotion enhances decision-making in two ways.

- **First**, when making a decision is critical, emotion pushes us to make one.

Sometimes there are so many options to consider that if we evaluated each one we would spend absurd amounts of time making a decision, that is when the cost of processing all information is overly burdensome.



# Emotion & Decision-making

Emotion enhances decision-making in two ways.

➤ **Second**, our emotions can help us make better decisions.

Although **suboptimal decisions** are often attributed to emotions, **poor decisions** can result when emotions are missing.

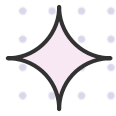
Positive emotions may actually facilitate access to information in the brain, creativity, problem solving, and negotiation, thus building a better decision-making process.





*The force of emotion*  
**& Individual investors**





# The force of emotion

In Prospect theory, the inverse-S shape of the weighting function may arise from emotion.

In prospect theory, the PWF explains the purchase of lottery tickets and insurance.

Buying lotteries may be driven by **hope&dream** (or greed?)

Buying insurances might be because of **the fear of catastrophe and ruin.**

Disposition effect, House-money effect, Break-even effect, Loss-aversion, Ambiguity aversion






Fear of regret, Fear of loss, Fear of the unknown

+





**THANKS!**



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