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Why We Make the Choices We Do

Why do people sometimes make decisions that don't serve them well? Dr. Ye Li, Associate Professor of Management at UC Riverside and Director of the Behavioral Economics and Decision-making Lab (BEDLab), joins us to discuss the factors that shape our choices. He also shares how he integrates AI tools into his teaching practices and how library resources support his research and instruction. Finally, Dr. Li offers recommendations for those interested in exploring the field of behavioral economics.

Jing - Welcome to the Reference Desk, a biweekly podcast exploring the frontiers of academic research here at UC Riverside. I'm Jing Han, your host and digital scholarship librarian at UCR Library's Division of Research Services and Technology. In each episode, I sit down with UCR's leading researchers or emerging student scholars to explore the questions driving their work, how they use library resources and services to shape their discoveries, and today we are talking about decision making, behavioral economics, and how time shapes our choices. Our guest is Dr. Ye Li, Associate Professor of Management at UC Riverside and the Director of the Behavioral Economics and Decision Making Lab. BEDLab. His research examines why people sometimes make suboptimal decisions with a particular focus on the role of time in decision making. Dr. Li, welcome to the Reference Desk. Thanks for joining us.

Dr. Li - I'm so excited to be here and excited that this exists for UCR.

Jing - Yes. So we just got this started. This is our third episode. So I would like to ask, how did you find your research interest and how did you get started?

Dr. Li - You know, there's a common saying that the research that we do is really more of me-search. And the way that I really got into this field is a little bit convoluted, but it really does come back to the fact that I'm a very introspective person, but I don't necessarily have a very good way of understanding other people. And in high school, I made a lot of social gaps. I was not good at social interactions. And part of that is not understanding other people. So I took AP psychology, and I immediately fell in love, because it finally gave me a way to better understand other people, myself, and the differences in which we process things and we make decisions. I then went to Caltech for my undergrad, and I ended up studying economics because, guess what? There's no psychology department there. Luckily, I took an intro cognitive psychology class with a guy called Colin Cameron, and he

happens to be a really big name in behavioral economics. And I was able to get started doing research with him as an undergrad. That's something you can do here at UCR as well, doing research as an undergrad. Now, he showed me that using psychological methods to study economic behaviors and decisions was a fantastic way to understand what makes humans tick, especially in marketplaces and workplaces. I ended up going to the University of Chicago's Center for Decision Research to get my PhD. And from there, I brought in my interest from just behavioral economics to the more broad field of judgment and decision making. Basically, the psychology for how people make choices.

Jing - Okay. So what are the options within the behavioral economics? So what kind of actions can people make?

Dr. Li - Yeah, so behavioral economics is a shockingly broad field. We study everything from the financial choices that you make, to health choices, or choices like what kind of partner do you choose in life, right? These are all within the bounds of economics, broadly speaking. And obviously, the decision making process for all of those contexts is very different. And yet, there are common themes if you look at the standard economics. Now, what behavioral economics does is, it injects some psychology into it. It assumes maybe people aren't just purely selfish economic actors, like you might see in a microeconomics class. And instead, they make mistakes. And how judgment decision broadens that is, it becomes even more psychological. It doesn't assume anything about the underlying economic models. And it really goes in at the, well, how do we really do this? What is the process by which these decisions truly get made in the real world?

Jing - So you mentioned this is a study of the process of the decision making. So do you study after this decision is being made? What about the prediction of the future? Is it also part of the topic?

Dr. Li - Yes. So the whole reason to study decision making is to understand that process, in order to then be able to predict what people do in the real world. So I am a professor in the business school, and my research touches on both management and marketing. Now, how my research on decision making applies to management and marketing is that if you're a human, well, sometimes you buy stuff. Sometimes you're an employee, and you might manage people, right? So you're making these decisions in the real world. But the underlying processes by which we make those decisions, if we understand those better than we know how you as a consumer may

behave in a marketplace, how you as an employee might respond to different scenarios. And that's where the prediction comes in.

Jing - Yeah, I feel like I've read it, or maybe I've heard it from somewhere that like, at the market, the most popular products, they always place it at the eye level. So I always know that and I always go for those. So although I know that, but that, you know, deep down, I still want to give some chances of the other products. But because I feel like the market has told me, you know, like, this is the best popular products, I have to go for those.

Dr. Li - That's such a funny observation. There, in fact, is a lot of research on that. And yeah, eye level is important. In fact, my very first research when I was an undergrad wasn't in behavioral economics, but it was in neural vision. And it was really about what do you look at? What is gaze? How does your gaze get drawn to certain parts of a scene? And that would have led me down a very different path, but maybe investigating some of these exact questions.

Jing - Yeah, and also, I guess now I try to be more health conscious. But sometimes I also want to trust, you know, the market's decision, not like, you know, the most popular should be the best for me. But then sometimes if I give the chance to read ingredients, and it's actually not the best, I almost feel like there's a disbelief, like, why would you sell me this stuff that's not good for me and then place it at the most populous place?

Dr. Li - You know, your decision making reveals a lot of sophistication. And it also goes into one of the core tenets of decision making, which is that sometimes we have rational choices that are hard to make, and they fight with our intuitive choices, right? You think, you know, everyone else is buying this, or I saw a commercial for this, so it must be good. But in fact, that's part of the marketing and you have to make a rational choice of decision making yourself. But that's not always easy. Even if you know what's right, you may still choose incorrectly.

Jing - I know, I definitely struggle with that a lot. So sometimes I'd rather like, maybe my partner to go shopping for me. So I don't need to make those choices. And also I read one of your article about, like, if there's a new packaging, and if there's no new stuff in it, people still like the new packaging, that's definitely me. So I definitely choose the same products. If there's a new packaging, I will go for that. My thinking is like, so the new thing must have a later expiration date. So whatever they have used in the past, so the new thing should be better than the stuff they're using the past. So

I feel like the, I guess in my mind, the later expiration date somehow just elevates this product to be better. Otherwise, the same thing, just different packaging.

Dr. Li - Yeah, so you're referring to my paper on how people put a premium on what is new, regardless of whether there's something functional or not. Now, the example you said, your inference is that because it's a newer packaging, it must have a later expiration date, that is, this product is fresher. But what we actually show in our research, and I keep saying we, this is research with my former PhD student **Yun Jie**, he and I discovered that even when you go out of your way to make it explicitly clear, or transparent, that there's absolutely no functional difference, or not about the newer product versus the older product, people still tend to choose the newer product, something like 70% prefer that newer product. And it's because we have this over generalized belief that newer is better. We can show this through implicit association tests. And we see it across lots of different product ranges, even ones in which time just doesn't matter. Like a stapler that was manufactured a year ago, versus now, there's no expiration date on that stapler. But people still prefer the newer one.

Jing - So marketing really matters in this case.

Dr. Li - It does.

Jing - So what are some other projects you're working on right now that are kind of really exciting to you?

Dr. Li - That's always the million dollar question. But fortunately, I have a very good answer. A lot of my more recent research is on the role that AI plays as part of the decision making process. You would have to be hiding under a rock to not know that AI is greatly impacting everyone's lives. And one of the ways that we've been thinking about this is the fact that AI tends to think in a different way than humans. And artificial intelligence, just broadly speaking, we're not just talking about chat GPT. But computers tend to process information differently than humans do. And because of that, it will tend to have different strengths and weaknesses. Now, if you think about this, this can actually be a good thing. If it has different strengths than you, then it forms a very good collaboration partner. But what our recent research on this shows is that when selecting collaboration partners, we don't necessarily understand this row of complementarity. And we tend to err on this side of choosing someone with similar strengths as us. Now, the reasoning behind this is that when you see someone, and it doesn't have to be AI, just someone else, perform well on tasks that

you're not so strong at, it sometimes doesn't make sense to you, it's hard to comprehend how it could have done so well. Now, on the other hand, when that same someone else performs poorly on a task that you can do well yourself, you think, well, that person is an idiot, they're not competent. And so it's actually really hard to choose complementary partners. And this is exactly what we show in our research. Now, this is not just about AI, but it applies a lot to AI exactly because it tends to have these differences in strengths and weaknesses from humans.

Jing - So what are some differences between? So when I choose AI as a collaborator, for example, in writing, so what are some complementary things AI can make for me just in general?

Dr. Li - Yeah, so let me just tell you about the studies that we do. So we work in image classification. So imagine that you're a participant in our study, you're told we're going to give you a task in which you're looking at these images that have been blurred with noise. So it's really hard to see what they are, because they're specifically made to be noisy. Now, for humans, some of these images turn out to be pretty easy to see. The noise doesn't affect your ability to see that this is a bird, and this is a plane, and this is a bottle of wine. Now, for computers, their image, their visual system works in a very different way. And so, those pictures that are easy for you, aren't necessarily easy for the AI system. Now, on the other hand, there's going to be other types of noise that make it so that you have a very hard time understanding what the image is. But the AI is perfectly capable of that. And so if you think about it, if I give you the choice between working with a human who has the same visual system as you and therefore will tend to be able to recognize the same images as you, versus an AI that is able to recognize some of these really hard images for humans, but at the same time will screw up on some of these easy images for humans, who would you rather choose to work with? Now, if you were like one of the participants in our study, the majority tend to choose the one that behaves like them for exactly the reasons that I said earlier. It's hard to look at this AI's performance and say, well, the AI is somehow getting it lucky. Now, I said this is about AI, but we in fact don't need to label these as AI versus human. It's not like humans are just adversely working with AI. They just see another person or computer making a mistake that I find easy. Sorry, let's try that. So if I'm working with someone who makes mistakes on things that I find easy, it's just so easy to discredit them. Yeah, exactly. It's easy to discredit those people and hard to choose them. And this actually costs you, right? You would much rather work with someone complimentary to you. Whereas working with someone with the same skill set as you, someone who's not

complimentary to you, can't benefit you, because they have the same skills as you. Their additional input is not helpful at all.

Jing - Yeah, I think just from the description, I definitely agree with the research finding. But just thinking for myself, I almost feel like, if I have, you know, a complimentary partner who can do things not as good as me on certain tasks, but somehow so much faster, I would totally delegate that task to the AI partner in this case. But those are the same time. So for like image classification, I was also thinking if I were a participant, I might wonder, so can I get the answers that I do better, and I use it as data to train the AI to do better. So you know, since we are partners, so it's my job to make you better. And then after some training, you just get as good as me, then I can just let you go to do all image classifications for me. I just know, curious, how, you know, if I was when the participants would I, like, kind of muddy the water a little bit to influence their research findings?

Dr. Li - Well, again, Jing, you've shown your sophistication in thinking about this, you're not just staying within the context of the scenario, we're giving you, you're thinking about, well, even if it's not so good, it'll at least make things easier for me. And so this is why we have to very tightly constrain the types of tasks that we're dealing with. These are tasks in which you can't just delegate, you're the ultimate decision maker, you're just getting advice from your collaboration partner. Now, what you're referring to is something that's extremely important, the fact that sometimes we're now outsourcing our work to a partner. That's a very different task setup. And our results may not necessarily generalize to that. In fact, you may want someone who has similar abilities to you, because you don't want to have someone who's too different from you making your decisions for you.

Jing - Yeah, definitely makes sense. So um, you talk about researching AI. So what about your teaching? So have your students embraced, you know, using teaching, using AI as a teaching tool? Like, what is their response?

Dr. Li - So AI is one of the biggest impacts ever on the teaching world. And it's something that everyone is struggling with, both as a professor, but sometimes as a student as well. So obviously, I think many students are using AI. There's this great figure out there that shows how much chat GPT traffic dropped after finals season was over. It's something like a 70% drop. So 70% of all chat GPT traffic seems to have been driven by student usage. All right, that's terrifying for professors to think about. But I find that many professors respond to it in one of two ways. One is, I'm going to ignore it. I don't think that's a very good way forward. Or they try their best to ban AI

and to try to stick with the old methods as much as they can, which I think is also a little bit short sighted. So we at the business school, we've been thinking a lot about how can we incorporate AI into our teaching, and train the students to use AI ethically, responsibly, and more effectively. I'm one of the professors who's been leading the charge on this. And in my own class, which is called judgment and decision making, I also teach a MBA level version of that called Managerial Decision Making. In this class, it was all written assignments. And as you can imagine, chat GPT is very good at producing written outcomes. That was a huge problem for me. And initially, I also tried to just ignore it, I tried to just ban it. But last year, I spent a lot of time redesigning my entire class, such that all of my assignments were made to be done with AI. I'll give you a few examples. So one of the first assignments that students encounter is to try to convince a friend that they're being overconfident about a new business venture. Overconfidence is this idea that people think that they're more likely to succeed than they actually are, that they're better than they actually are at many different contexts. Now, it used to be that I just had people write a letter to a friend and try to explain to them using the concepts in our class, what are the potential sources of overconfidence. But this is a static task. What if we just have the AI play the role of their friend. So I wrote a custom prompt for students to put into any AI of their choice. And the AI would then roleplay the friend. Now, their job isn't just to write a static letter, but to have this conversation and really actively try to convince this AI who's been told to be stubborn, to be overconfident and to work kind of against you. And eventually, assuming you overcome the AI, or if even if you don't, you're asked to reflect, what are the sources of the AI's overconfidence? What are some ways that it was particularly stubborn? And what was particularly effective in how you approached it? Now, that's both a more interesting exercise, and also one in which the students actually learn more deeply, because they see a real interaction. Now, of course, we can't call the AI a real human being, we could also do this with another real human. But I think it makes for a really nice demonstration of what AI can be used to do.

Jing - Yes, yes. So I see that AI learned everything from us. So they kind of know our decision making. So when we ask AI to impersonate someone, and so we are actually trying to learn how we make decisions through AI decision making.

Dr. Li - Yeah, you might put it that way. And I think what's really cool about these tasks is that despite the fact that I'm asking students to use AI, it's also designed so that we start to see some of AI's weaknesses. So let me tell you another task. We teach this class, this concept called mental accounting. Mental accounting is the way in which we process our spending, our budgets in a way that kind of makes us

psychologically happy, as opposed to is actually what you should be doing from a true accounting perspective. Now, for this assignment, I asked students to come up with a budget for a vacation. So I give them a \$1,000 budget for a weekend vacation. And they use the mental accounting principles that they understand to make this not necessarily the most optimal, from a spending perspective, but from a will just make me happy perspective. And then I have them use AI to critique them. Now, it turns out that AI is not very good at understanding mental accounting. And so it will tend to say things that aren't quite right. Maybe it sounds right. And it turns out that this, and then students come in and they will have to critique the AI's critiques. What do I accept? What do I not like? And say why it's right or wrong. So this process is actually very hard. It's even hard for me to do, because you need a really deep understanding of AI, or sorry, of mental accounting, in order to make the decision of if this is a correct usage, and if this is an incorrect usage. And it's not an assignment that you can just bring in a second AI to evaluate the first AI, because they will tend to make the same mistakes. And so in this process, you learn more about mental accounting, and you're really forced to understand what is mental accounting and what is not.

Jing - So kind of understand as like mental accounting is that I spent money, whatever that makes me happy, but probably it's a sub optimal decision. When it comes to money management, like I don't want to go broke right after the vacation, right? So then can I just understand this as like AI somehow is like hard- It's really hard for AI to understand our sub optimal decisions, because it's thinking in a rational way. I tried to like, so any kind of like contradictions, you have to find a way to resolve it. But it's hard for AI to actually resolve all our contradictions. But somehow, like we humans, we can just, you know, live with many contradictions and have no problem. Do you think that might be the reason?

Dr. Li - I think that's definitely part of it. Although, because of the way that we prompt AI, I think what it's trying to do isn't to be as rational as possible. But to really apply the concepts, I think the problem where AI makes these mistakes is that the concepts are actually really quite sophisticated. And other people have written about them online incorrectly. And so the lay understanding of mental accounting isn't quite right. Another aspect is that AI tends to be very acquiescent, it tends to agree with you. So even if your idea is not very good, it'll say, great idea, and not necessarily disagree with you on the important stuff. It might find some other small things to disagree on. And so even if we have a very careful prompt about AI, it may have a very different knowledge set than you expect, or it may have a core instruction that causes it to behave in ways that you don't expect.

Jing - Do you find your students constantly trying to find the new best AI tools to use in your class, or they're kind of always using chat GP and other popular tools?

Dr. Li - I think by far the most popular tool is chat GPT. I think Gemini is maybe the second or third. I have some Chinese students and they'll tend to use Chinese AI, since they're more familiar with those. But I'm not sure if there is much of a race for the newest tools, because the market leaders right now have such a huge advantage. It's really hard to catch up.

Jing - Yeah, like before all the AI things became very popular, I was interested in actually learning behind the scenes stuff. And then at the same time, I was like, you know, keeping track of all the tech new status. So there's always like, you know, this tool and that tool. At a certain point, I really feel like I lost interest in keeping track of it. And then right now, after two years, when I came back 20k dropped this scene, I feel like other leading runners at those products, they're still there. It's just from a personal perspective, it's interesting to see, you know, the evolution of those products, and then somehow they're still here.

Dr. Li - Well, this is a product which you require a huge amount of initial capital investment. And so it's really one in which the rich get richer. And I think ultimately, many of the new AI tools that are cropping up, they're not truly new, many of them are just built on using ChatGPT, or Gemini as the core. And it's just a packaging of an existing product already.

Jing - Yes. So, um, actually, the library is hiring two AI research librarians. So we're in the hiring process. Maybe in the fall, we will interview candidates. So that's like one of the new updates we have from the library. So talking about libraries, have you or your students have used library in a way that's, you know, really helpful? Has libraries, services and resources that's really helpful in your research or in your teaching?

Dr. Li - Yeah, definitely. I think the library offers some really critical resources for every researcher. So I'm sure all of your, the people you've interviewed, have to read papers as part of their research. And accessing those papers oftentimes would cost money if it weren't for the fact that the library already has paid for all of these subscriptions. So when I visit a publisher's website, I just click through to the UCR link through the library, and I can get free access to that. So that's obviously extremely important. Another part of the library services is I believe e-scholarship. That's where we upload our own research. And I think that's an extremely important way to

disseminate our research, to make it open access. And it also more recently has been paying for open access fees at journals. So that's obviously very helpful. That's usually like a thousand dollars for every paper you publish. And it's not like I published that many, but a thousand dollars is nothing to laugh at. And finally, for students, in addition to, of course, my student researchers needing to access journal articles as well, I think it's really important to provide easy access to books that they might need for classes. And in my judgment and decision making classes, I specifically don't use textbooks, because I think textbooks are extremely expensive, and I don't want to unnecessarily burden our students. And so I use a lot of different popular science books as my textbooks. And it turns out the library has these great reserve services, where they hold those books during the quarter in which you're teaching that class for those students to do short term loans on. Now, I have to say, my students haven't historically done a very good job of actually using that resource. But I'm very happy to say that it is there for them to use, because even those books still cost \$10, \$20 a pop. And that's not necessarily money they need to spend if the library has those resources already.

Jing - Yes, definitely. So the database is definitely like the core one of the core services we have. And then when you mentioned open access, so we actually have open access week coming up in October. So it's like four weeks of events, and then three workshops per day. And each day has a theme. So we'll cover open access publishing, open educational resources, and open data and open resource tools and projects. And then we also have a panel at the end of the week. And we have raffles and other fun events going on. So there's, you will see some flyers and other marketing stuff coming out soon. So just want to mention that to our listeners so they can check out events during the time. Yes. So I guess we are about to close the conversation. So the last question would be, you know, any reading recommendations or what about do you have upcoming classes that people who are interested in your research, they can like maybe take your classes. Just any kind of recommendations reading a podcast or even your class.

Dr. Li - Yeah, thank you for giving me a platform. For those who are interested in what you've heard, I teach again, this class that's just called judgment and decision making, it is a business elective, Business 143. But I really think that it's quite applicable to people from all over the university. And I've had people from majors, like CS, English, political science, biology, all come and take the class and get, I think, a lot out of it. I truly believe that it could be a core class that everyone takes because you don't usually think about how to make decisions, and learning about how we actually make those decisions, is a really helpful framework to have. And also a great

way to avoid making some optimal decisions. Now in terms of how to get into this field a little bit more or just to whet your curiosity, I would definitely recommend reading the book *Thinking Fast and Slow* by Daniel Kahneman. He is a Nobel Prize winner and the founder of our field. And that book, even though it looks long, is very accessible to all sorts of readers. And every chapter comes with takeaways. If you want to go even further and think about how to apply these behavioral science principles to the real world, Richard Thaler, who's also a Nobel Prize winner, both of these are in economics, by the way, Richard Thaler wrote a book called *Nudge* with Cass Sunstein in which you look at how to apply behavioral science principles to improving people's lives. So understanding that we do make decisions in a way that is sometimes suboptimal is influenced by, for example, what is popular, or what other people have chosen. How can we use these behavioral science principles to get people to make better decisions, whether it's health, designing a better system, or understanding human psychology, to overall help society? So that book is called *Nudge*. And if you don't like reading books, but like hearing podcasts, another great podcast I can recommend is *Choiceology* by Katie Milkman. And she has very short 20, 30 minute long conversations, in which she introduces basic behavioral science principles. And since that show is in its sixth or seventh season by now, they also go into some little bit more niche topics. And she's great. She's a lot of fun.

Jing - Yes, we'll definitely make sure to link those in the show notes. So thanks to our listeners for joining us on the Reference Desk. Again, our guest today is Dr. Yi Li, Associate Professor of Management at UC Riverside, and the Director of the Behavioral Economics and Decision Making Lab. You can find more about today's conversation, including links to Dr. Li's research, his lab, and reading recommendations in the show notes. This episode is produced by Elliot Fong at KUCR. Until next time, happy researching.

Show Notes:

- [Behavioral Economics and Decision Making Lab](#)
- [Nudge : The Final Edition](#)
- [Thinking, Fast and Slow](#)