Why do we follow the crowd?

Why a room, a queue or a market can pull us the wrong way: conformity, the two reasons to follow, information cascades, social norms, bubbles, and how to check who led the crowd.

1 Self-tests

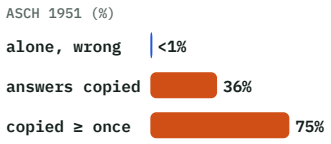
lines · towel sign

- Which line is as long as X? · 7 people before you said **B** → C matches · B is longer
- Hotel sign: “Most guests here reuse their towels” → hang it up or take a fresh one?
- No right answer · nothing stored or sent · real results below

2 Evidence: Asch

Solomon Asch, 1951

- **Solomon Asch** (US psychologist) · 1 real volunteer + 7 actors · same wrong answer on 12 of 18 rounds
- Alone: errors **< 1%** · with the 7: **36%** of answers copied · **75%** of people (3 in 4) copied at least once
- **One ally** (1 actor gives the right answer) → far fewer copy the group
- **Conformity**: “changing what you say or do to match the group”



3 Two reasons

why we follow

- **Information** → they may know something · full restaurant, long queue, best seller, 2 million downloads · often sensible
- **Approval** → going against the group feels risky · agree in public, disagree in private (Asch’s volunteers, laughing at a joke you did not get)
- **Own judgment** → your own information is stronger (you know both cafés) → the crowd does not change your choice

4 Information cascade

everybody follows nobody

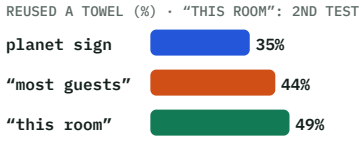
- Game (made-up): 2 restaurants · each person: private hint, right **2 of 3** · sees earlier **picks**, not hints
- Rule: one side leads by **≥ 2** picks → choose it · else follow your hint
- Persons 1, 2: hints Blue → Blue · Person 3: hint Orange, counts 2 vs 1 → Blue · then lead ≥ 2 → **all 10 at Blue**, though **7 of 10** hints said Orange (the better one)
- **Information cascade**: “a chain of people copying the earlier picks, so later picks carry no new information” · nobody foolish
- Food trucks: `12 × 2 ÷ 3 = 8` hints right · 2 wrong ones first → **0 of 12** at the better truck · bank run (many savers withdraw at once): rumor → first savers → queue as hint → cascade → healthy bank short of cash



5 Social norms

Goldstein · Cialdini · Griskevicius (US psychologists), 2008

- **Social norm**: “what most people around you do, or approve of”
- Hotel towels: planet sign **35%** → “most guests reuse” **44%** (+9) · “most guests in **this room**” **49%** vs 37% (+12) → closer group pulls harder
- Germany, 2014: ≈ **8 in 10** already reused → crowd sign added **nothing** · a norm helps when minds are not made up
- Cafeteria, 50 of 100 return trays → “most students at **this table** return their tray” → ≈ **10 more**, not 40 · school at 85 of 100 → little change



6 Herding · defense

bubbles · ask who led

- **Asset**: bought hoping to sell for more · **herding**: buyers move as one herd · rising price → more buyers → price up (Macro Lesson 4: demand shocks)
- **Bubble**: “a price far above what the thing is worth, held up only by the hope that others will keep buying” · new buyers peak first → price rises more slowly → buyers run out → price falls
- Toy cases: trading card, new buyers peak week 6 · sneaker, new buyers peak **week 3** (100), price peak **week 6** ($46), then $36, $24
- Defense: **what did the first few people know?** did the rest just copy? · find **one ally**



Watch out: a big crowd is **not** many opinions · if most copied the first few, it is **one opinion repeated** · and following is often rational: the cascade happens with nobody being foolish