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Date: Monday, April 19 2021

Everyday econometricians: Selection neglect and overoptimism when learning from others

Abstract: In this paper, we design an investment game which allows us to study the influence of selected data when learning from others actions. Using the theoretical study of selection neglect in Jehiel (2018) as a guide, we (i) test for the presence of selection neglect in an investment context, and (ii) examine some comparative static predictions of the model. We find strong evidence that subjects naively extrapolate from the data they observe, thereby producing selection neglect—even though they are fully informed about the data generating process. As theoretically predicted, the degree of bias increases when other decision makers become more informed or become more rational. It decreases when signals are correlated.