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Newsletter 23/2023

ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
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Upcoming Seminars

Monday, 23.10.2023	**Departmental Seminar**
13.30-14.30 AWI room 00.010	Mats Koster, Central European University Vienna "Updating Priors: The Dynamics of Chosen Beliefs" (Host: Sebastian Ebert)
Wednesday, 25.10.2023	**Internal Seminar**
12.15-13.15 AWI room 00.010	Arnaud Dellis, Université du Quebec à Montréal "How Do People Vote Under Instant Runoff Voting? An Experiment on Complexity and Voting Behavior" (Host: Christoph Vanberg)

Abstracts

Departmental Seminar

Mats Koster, Central European University Vienna

"Updating Priors: The Dynamics of Chosen Beliefs"*

We develop a tractable model of learning for an agent who derives anticipatory utility from beliefs that she can choose. Every period she first chooses her "prior," then acts on this chosen belief, and finally experiences belief and consumption utility. Brunnermeier and Parker (2005) study an agent who chooses her prior once and for all, optimally trading off more pleasant beliefs with less accurate actions. We instead study an agent who repeatedly chooses her prior while naively assuming that this is the first and only time she does so. Despite otherwise updating like a Bayesian, by treating her past beliefs as truth, such an agent misinterprets new information.

Each period the agent biases her belief "upward." For a small enough bias, the agent chooses overly precise beliefs to reduce anxiety about future outcomes. For larger biases, she chooses overly imprecise beliefs: this way she limits costs from poor

decisions in the future (by "overreacting" to future signals) while enjoying her momentary optimism. An anxious agent becomes "dogmatic" over time and stops learning. But since the agent keeps re-choosing her priors, she also becomes arbitrarily overoptimistic, resulting in extremely bad decisions in the long run. A less anxious agent biases her beliefs more initially, and stays uncertain forever, despite observing infinitely many signals. Such an agent eventually reaches a stable level of overoptimism: by re-choosing her prior, she offsets the (average) change in beliefs implied by observing yet another signal.

*joint with Marc Kaufmann and Botond Köszegi

Internal Seminar

Arnaud Dellis

"How Do People Vote Under Instant Runoff Voting? An Experiment on Complexity and Voting Behavior"*

Instant Runoff Voting is a voting procedure that allows voters to rank candidates. It is currently used in several countries, and various places worldwide are debating its adoption for political elections. A primary argument in support of its adoption is that it is so complex a voting procedure that people would be unable to vote strategically and, instead, would resort to voting sincerely. We conducted a laboratory experiment to assess the validity of this claim. More generally, we investigate how complexity affects voters' behavior. Our findings confirm that the complexity of Instant Runoff Voting does impede strategic voting. However, we also observe that rather than resorting to sincere voting, voters tend to respond to complexity by adopting a voting heuristic that consists of reversing the ranks of their two most preferred candidates. Additionally, we find that the complexity of Instant Runoff Voting adversely affects voters and impairs their capacity to learn from experience.

*with Sabine Kröger

Miscellaneous

Axel Dreher, Teresa Hailer and Charlotte Robert received the 2023 Best Paper Award of the Political Economy of Aid Society (PEAS), for their paper "Wedded to Prosperity: Informal Influence and Regional Favoritism" (co-authored with Pietro Bomprezzi, Andreas Fuchs, Andreas Kammerlander, Lennart Kaplan, Silvia Marchesi, Tania Masi, Kerstin Unfried).

Editorial deadline for issue 24/2023 of the newsletter:
Wednesday, October 25, 2023, 12 p.m.
newsletter@awi.uni-heidelberg.de