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Internal Seminar on Wednesday, 29 October, 12.15 – 13.15

Host: Sebastian Ebert

Belief-Based Utility and Signal Interpretation

Do people update their beliefs differently after positive versus negative feedback? The existing literature disagrees on the magnitude and direction of the bias. In this paper, I propose a new experiment guided by a simple model of belief choice. One novelty lies in designing a control condition that allows a clear identification of belief manipulation and provides robust evidence on the underlying mechanism. Second, the experimental design allows me to examine learning after “unexpected” signals (indicating states to which subjects assigned a prior probability of zero). The analysis sheds light on heterogeneity in beliefs, in particular, why we observe not only people with overconfident or unbiased beliefs but also underconfident individuals. The results demonstrate that the process of belief formation is more complex than previously thought, and the manifestations of belief-based utility—more diverse.