

Workshop

Qantal Response Equilibrium

Monday June 16, 2003

13.00 tot 17.00 hours

room E0.03

followed by a Cocktail Party

Program

13.00-13.45 Urs Fischbacher
Fairness, Randomness and the Power of Competition

Abstract

One of the most basic questions in economics concerns the effects of competition on market prices. We conduct experiments that demonstrate that introducing even a very small amount of competition to a bilateral exchange situation by adding just one competing buyer or seller induces large behavioral changes among buyers and sellers, causing dramatic changes in market prices. Standard theory assuming rationality and selfishness fails to explain these changes. Fairness alone as or the assumption of noisy behavior can only explain a part of the empirical puzzle. Yet, by combining the fairness approach with a model of noisy best reply behavior we can predict the entire distribution of prices in many different competitive situations remarkably well.

13.45-14.30 Jacob Goeree
Social Learning with Private and Common Values
(with Tom Palfrey and Brian Rogers)

Abstract

We consider an environment where individuals sequentially choose between two alternatives. One of the alternatives has a feature that is better for all, i.e. it is of higher quality. In addition, individuals have private tastes for the alternatives. We show that, as the size of the economy grows, individuals' choices perfectly reveal the higher quality alternative. This contrasts with the familiar result for pure common-value environments where the true state is never revealed. In our model, the higher quality alternative becomes known even when (i) the proportion of individuals selecting that alternative is arbitrarily small and (ii) the proportion of choices individuals can learn from is arbitrarily small. Moreover, we prove that our results are robust to various forms of errors in beliefs or decision-making. Finally, our convergence results do not imply trivial or monotone dynamics: posterior beliefs may be concentrated around the wrong alternative for a long time, shifting suddenly to the superior alternative.

14.30-15.00 coffee break

15.00-15.45 Georg Weiszacker
Stated beliefs and play in normal form games

Abstract

We report experiments that elicit subjects' initial responses to 14 two-person normal-form games. Subjects played a set of normal-form games, and were asked to state their beliefs about their opponents' actions. In several treatments, the order of these tasks was varied. The data are used to examine the consistency of stated beliefs and observed actions, and the effects that asking for such belief statements may have on subsequent actions. The sets of responses in the two tasks are inconsistent in most games. Rather, we find evidence that the underlying beliefs that correspond to subjects' actions and subjects' stated first-order beliefs stem from different reasoning processes. Effects of the belief elicitation procedure on subsequent actions are mostly insignificant.

15.45-16.30 Charlie Holt
A Model of Noisy Introspection
(with Jacob Goeree)

Abstract

We present a theoretical model of noisy introspection designed to explain behavior in games played only once. The model determines layers of beliefs about others' beliefs about ..., etc., but allows for surprises by relaxing the equilibrium requirement that belief distributions coincide with decision distributions. Noise is injected into iterated conjectures about others' decisions and beliefs, which causes the predictions to differ from those of deterministic models of iterated thinking, e.g. rationalizability. The paper contains a convergence proof that implies existence and uniqueness of the outcome of the iterated thought process. In addition, estimated introspection and noise parameters for data from 37 one-shot matrix games are reported. The accuracy of the model is compared with that of several alternatives.

16.30-17.00 Closing discussion

17.00-18.30 Cocktail Party

Participation is free

If you would like to participate please send an e-mail to k.breen@uva.nl.