



UvA-DARE (Digital Academic Repository)

Experiments on heterogeneous expectations and switching behavior

Bao, T.

[Link to publication](#)

Citation for published version (APA):

Bao, T. (2012). *Experiments on heterogeneous expectations and switching behavior*.

General rights

It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations

If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: <https://uba.uva.nl/en/contact>, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.

Contents

Contents	iii
1 Introduction	1
1.1 Outline of the Thesis	5
2 Individual Expectations, Limited Rationality and Aggregate Outcomes	9
2.1 Introduction	9
2.2 Experimental Design	14
2.2.1 Treatments	14
2.2.2 Expectation Feedback	15
2.2.3 Individual Earnings	16
2.3 Experimental Results	16
2.3.1 Aggregate Price Behavior	16
2.3.2 Individual Prediction Rules	21
2.3.3 Benchmark Homogeneous Expectation Models	24
2.4 Heuristic Switching Models (HSM)	26
2.5 Conclusion and Discussion	32
2.A Appendix	34
2.A.1 Experimental instructions (for negative feedback)	34
2.A.2 Experimental instructions (for positive feedback)	36

2.A.3	Control Questions	38
2.A.4	Results of Estimation of Individual Prediction Rules	39
3	Learning, Forecasting and Optimizing: An Experimental Study	47
3.1	Introduction	47
3.2	Related Literature	51
3.3	Experimental Design	53
3.3.1	Treatments	53
3.3.2	Number of Observations	55
3.3.3	Theoretical Model	56
3.3.4	Computer Interface	57
3.3.5	Payoffs	60
3.4	Experimental Results	61
3.4.1	Aggregate Market Price	61
3.4.2	Individual-Level Decisions	65
3.4.3	Variance of the Market Price and M.S.D. from REE	69
3.4.4	Individual Forecasts	71
3.4.5	Individual Supply Decisions	72
3.5	Conclusion	77
3.A	Appendix	79
3.A.1	Experimental Instructions	79
3.B	Testing Convergence using Linear Estimation	85
3.C	Identified Forecasting Rules	86
3.D	Estimated Supply Strategies	89
3.E	Payoff Tables	90
3.E.1	Payoff Table for Forecasters	90
3.E.2	Payoff Table for Production Managers	91

4	Switching Behavior in the Lab: Estimation of the Intensity of Choice	95
4.1	Introduction	95
4.2	Experimental Design	98
4.2.1	Subjects' Task	99
4.2.2	Treatments	99
4.3	Experimental Results	105
4.3.1	Fraction of Choice	105
4.3.2	Frequency of Switches	108
4.3.3	Learning Effect	109
4.3.4	Estimation of β	112
4.3.5	Binary Choice	113
4.3.6	Multiple choice	115
4.4	Conclusion	119
4.A	Appendix	120
4.A.1	Experimental Instructions	120
4.A.2	Estimation Result of Discrete Choice Models	121
5	A Simple Experiment on Fee Structure and Mutual Fund Choice	123
5.1	Introduction	123
5.2	Experimental Design	127
5.2.1	Summary Information	127
5.2.2	Task Design	127
5.2.3	The Mutual Funds: Returns	128
5.2.4	Treatments Based on the Fee Structure	130
5.3	Experimental Result	133
5.3.1	Summary Statistics	133
5.3.2	Heterogeneity in Individual Choice	135
5.3.3	Frequency of Switching	137

5.3.4	Earnings	139
5.3.5	Influence of Past Performance	141
5.4	Conclusion	145
5.A	Appendix	148
5.A.1	An Example of Translated Experimental Instructions	148
5.A.2	Control Questions with Answers	151
6	Summary	153
	Bibliography	157
	Samenvatting	167