Representativeness and Beliefs

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Abstract

We present a psychologically founded model of belief formation that incorporates Kahneman and Tverky's representativeness heuristic in an otherwise Bayesian model. We show that this formulation can offer a unified account of laboratory puzzles, of social stereotypes (about politics and gender), and of major sources of belief distortions in finance. We apply the model to shed light on an anomaly on the cross section of returns, according to which the firms with most optimistic earnings growth forecasts by analysts deliver drastically lower stock returns than firms with less optimistic analyst forecasts.

To Bribe or not to Bribe?
An Experimental Analysis of Corruption

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Abstract

We investigate the phenomenon of corruption in an experimental setting. The first treatment studies the role of reciprocity in establishing corrupt relationships between two agents. Corruption occurs when public officials accept bribes and reward the briber at the expenses of others. The second treatment introduces two features that negatively affect bribery: increasing the cost of bribery and introducing the monitoring agents. In this case, corruption occurs when the monitoring agent conceals the observed bribe-exchange. We find that reciprocity can establish and sustain corruption between agents although it causes a negative externality on the others. Additional control treatments show that high bribery cost and the presence of monitoring agents curb corrupt behaviors mildly.

JEL Classification: C92, D73, H41, Z13.

Keywords: Corruption, Reciprocity, Experiments.

Auction Theory and Representativeness Heuristic

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Abstract

This work aims at modeling a non-rational independent private values model (IPV) for a sealed-bid first price auction. In particular we shall exploit a representativeness based discounting model for a local thinker so as to emphasize the heuristic of representativeness for a bidder who has to figure out which kind of type better describes the behavior of his opponets: relaxed or aggressive, in order to define his best equilibrium strategy under diagnostic expectations (expectations driven by representativeness heuristic).