Decision Processes Colloquia

Monday, October 7, 2013
Where: JMHH 255
When: 12:00 noon to 1:20 PM

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Systematic Differences in Beliefs about Others in Strategic Interactions

Extended Abstract: Strategic choices are determined jointly by individuals' preferences for outcomes and their expectations about other players' choices that influence the outcome. Therefore, observed choices are insufficient for learning about preferences. Traditionally, preference inference from strategic choices relies on the assumption that beliefs are mutually consistent. This paper examines the extent to which beliefs about others' choices systematically depart from this assumption and explores consequences for inference and theory.

In the context of social preferences, three experiments provide robust evidence of correlation between a person's (implicit and explicit) beliefs regarding others' choices among alternatives and the difference between how much utility she would derive from the same alternatives herself. This relationship is congruent with the false consensus evidence, but further suggests that people's mental models of others are influenced by their own preferences, not just their own choice. I find that utility differences strongly predict belief differences across people who made the same choice. I replicate this finding across different incentives for belief accuracy, elicitation methods and contexts with varying degrees of experience with the decision. I also rule out the possibility of spurious correlation between altruism and optimism by studying within-person differences in the sensitivity to others' outcomes across different contexts.

Preference projection not only plays a large role in shaping beliefs but also translates to large differences in strategic choices. I examine the impact of projection on players' strategic actions in a trust-dictator game and demonstrate substantial deviations from, and reversals of, the behavioral patterns predicted by best responses to mutually consistent beliefs. I demonstrate large biases in the estimated distribution of altruism parameters under the assumption of mutually consistent beliefs. The robustness and exact nature of projection documented in this paper clarifies how the relationship between preferences and beliefs should be incorporated into models of strategic interactions and inference.