



SAID BUSINESS SCHOOL, University of Oxford

SEMINAR SERIES / Hilary 2013

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Seminar webpage:
www.cabdyn.ox.ac.uk/complexity_seminars.asp

Sandwiches and drinks will be provided

Please note: although the seminar programme detailed was correct at time of printing, seminar arrangements are subject to change - for the latest information, please check the seminar webpage.

'Expectation formation: inductive reasoning about novel opportunities, and reflexivity'

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Tuesday 5th February 2013, 12.30 -14.00
Andrew Cormack Seminar Room, Said Business School

ABSTRACT:

In this talk, I will explore how we (should) make decisions when we face novel opportunities, like Amazon in the perspective of 1998. Briefly, I will also give a taste of a new project (with J. Jost) in which we attempt to understand how agents read other agents' beliefs from prices and interest rates. Both projects are linked by the general attempt to understand expectation formation in a world of incomplete and sometimes inconsistent knowledge.

I will discuss how we (should) make decisions when probabilities are unavailable - how we (should) make use of induction. In particular, I will explore how expectations for novel opportunities -like Google in perspective of 2004- (should) come about.

To form such expectations deliberately, decision-makers need to make use of induction: In their reasoning, they derive plausible conclusions that go beyond the information in the premises, for instance, by using analogies.

Taking a normative perspective, I explain why asymmetric expectations among individuals can exist, even when information is symmetric:

Differences in the epistemic entrenchment of (defined as 'a preference ordering over') elementary inductive explanations of the novelty bring about heterogeneity in final expectations.

I identify the skills of decision-makers to generalize, and to detect and resolve inconsistencies as psychological sources of advantages in forming expectations.

At the end of the talk, I will give a brief taste of a new project (with Juergen Jost) in which we attempt to explain theoretically how beliefs about the beliefs of other market participants flow into, and are read from interest rates. This project is related to the work on induction, as we attempt to understand the consequences of inconsistent and fragmentary knowledge for market interactions.

Through the talk, I will illustrate the theoretical questions with examples from an ongoing empirical project with K. Katsikopoulos from the group of G. Gigerenzer - in this project, we go into actual investment banks and interview workers to find out how they reason inductively, and how they reason about other people in the market.