

Naive advice and observational learning in an experimental beauty-contest game

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Abstract

Many of our real-life decisions are driven not only by personal reasoning, but by advice we have sought prior to the decisions or by our observations of persons who faced a similar situation before us. We do not necessarily observe or ask experts, but our friends and neighbors who themselves have only little experience. This paper analyzes whether seeking such naive advice or observing data influences the quality of decisions by introducing those features in an experimental beauty contest game: The participants of the baseline treatment give advice on how to successfully behave in the game after having played it for four periods in groups of three persons. In the follow-up treatments, we show the average guesses and target values (history) or randomly selected advices drawn from the baseline treatment to either one or all three members of the groups. In the treatments with only one player receiving additional information, those with advice perform significantly better than those observing the history, especially in the last periods. Also, the players with advice take significantly more time to submit guesses than those observing history. Although advice is more flexible and qualitative compared to history, the guesses of the advisees vary much less than the guesses of the players observing history. People do not take into account whether one or all players receive history or advice. The average guesses of those receiving additional information is the same regardless of the number of players receiving it.

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