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Philippine Center for
Economic Development

present a seminar on

Correlation neglect and act separability in asset valuation: An experiment

by

Benjamin Radoc

(joint with Robert Sugden and Theodore L. Turocy)

9 October 2015, Friday

4:00-5:00 p.m. – Room 303

Abstract:

Gilboa and Schmeidler (1995) formalized case-based decision theory (CBDT) using the concept of similarity and utility from past experience to explain behavior. CBDT predicts that given a new problem, a decision-maker will act based on the memory of actions and associated outcomes in past similar situations. Each act is evaluated over a different set of cases so that, under act separability, decision-makers maintain disjoint memories of alternative actions taken in the past. In a two-part experiment, participants played two-armed bandits framed as coloured game boards (blue or yellow). If participants are Bayesian, decisions would correspond to the known game board correlations (positive, independent or negative). If act separability holds, participants may neglect correlation information and decisions are inconsistent with Bayesian reasoning. We find that participants' decisions in the positive and independent treatments are qualitatively Bayesian, but decisions in the negative treatment cannot be explained either by Bayesian reasoning or by CBDT. Evidence suggests that participants systematically used past outcomes in forming expectations, but judgment did not directly translate into the expected decision.

About the speaker:

Bing Radoc is currently on his writing up year as a PhD candidate (behavioural and experimental economics) at the [University of East Anglia](#) in the UK. He completed postgraduate programs at the Kiel Institute for the World Economy in Germany, and the UP School of Economics. He has several years of experience as a professional economist at NEDA, BPI Asset Management, and the Asian Development Bank.



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