



*and*

# PCED

Philippine Center for  
Economic Development

*present a seminar on*

## “Debiasing Expectations”

By

Kim van Wilgenburg

**9 March, Wednesday**

4:00-5:00 p.m. – Room 303

### **Abstract**

Insight into the formation of expectations is essential to understand decisions taken in the context of uncertainty. For a long time, standard practice was to assume rational expectations. But this often generates predictions that are inconsistent with observed behaviour. The importance of measuring subjective expectations has been recognised and is now done in many household surveys. Psychological research has shown however that people have difficulty in reporting probabilities. Typically, unpacking an event into subevents and then summing the reported probabilities assigned to each of these subevents lead to a higher estimate than the reported probability of the event itself. This property is called *subadditivity*. We propose a simple model of subadditive reported probabilities and infer a method to debias (or decontaminate) them. We implement our method to correct reported probabilities of stock market returns elicited from a sample of alumni of an Economics faculty. We observe subadditivity and find a model for the beliefs with the correction for subadditivity better fits the data than a model that would neglect the problem. In addition, the estimates of the mean from the model with the correction factor are more associated with the ownership of risky assets than the estimates obtained without correcting for subadditivity.

### **About the speaker:**

Kim van Wilgenburg, MSc. is a PhD Candidate of the Economics faculty of the Erasmus University Rotterdam and Tinbergen Institute. Her main research interest lie in Behavioural Economics and Health Economics with a focus on health behaviour, healthcare systems and financial protection in low- and middle- income countries. Her current work is concerned with the measurement of subjective expectations of medical expenditure risk and the analysis of risk and time preferences in the context of voluntary health insurance enrolment. Before starting her PhD she worked for the healthcare department of a consultancy company advising governments and healthcare providers on policy, strategy and operations both in the Netherlands and abroad. She completed an MSc in Health Economics from the Erasmus University Rotterdam, an MSc in International Health from the Queen Margaret University in Edinburgh and a BSc. in Psychology from the University of Amsterdam.



**Free and open to the public**

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