Wolfgang Luhan (University of Portsmouth)

“Perceptions and optimization in a macroeconomic experiment with model uncertainty”

Abstract
We conduct a macroeconomic experiment to answer the following research questions: (1) How well does a full information model describe subjects' behavior in a macroeconomic environment with incomplete information? (2) How do subjects perceive their economic environment? (3) Is behavior consistent with stated beliefs in that subjects' decisions maximize their objective functions for the expressed beliefs? We find that the full information model's predictive capacity is limited under incomplete and complete information. Subjects' perceptions of an unknown deterministic relationship are fairly accurate, but perceptions of other subjects' behavior are biased. Subjects do not optimize for given expectations.