

Economic Theory, Decision Theory and Experimental Economics
Seminar

Correlation Capacity, Ambiguity and Group Shifts

Gilat Levy

London School of Economics

Tuesday, 4th October 2016

12:30pm Room 3-E4-SR03 Via Röntgen 1 Milano

Abstract

We suggest a framework to analyse how individuals update their beliefs following group communication, when they know their own information source but might face ambiguity about its relation to others'. Our model is based on the assumption that

individuals have a "correlation capacity", i.e., a capacity to entertain the possibility of correlation across information sources to some degree. We show how communication in the presence of correlation capacity induces endogenous ambiguity over the state of the world, and fully characterize the set of possible inferences that individuals can make for different correlation capacity levels. We show that our notion of correlation capacity is comparative, whereby a lower capacity for correlation is associated with a lower ambiguity over the state of the world. We study the behavioral implications of the model to risky and cautious shifts in groups and jury deliberation.

Joint with Ronny Razin, LSE