

The bubble game: An experimental study of speculation

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Abstract

We propose a bubble game that involves sequential trading of an asset commonly known to be valueless. Because some traders do not know where they stand in the market sequence, the game allows for a bubble at the Nash equilibrium when there is no cap on the maximum price. We run experiments both with and without a price cap. Structural estimation of behavioral game theory models suggests that quantal responses and analogy-based expectations are important drivers of speculation.