

Preferences and Beliefs in Strategic Interactions.

A. Yeşim Orhun

The University of Chicago,
Booth School of Business

Abstract.

Strategic interactions among agents are governed by agents' preferences over outcomes and their beliefs about the likelihood of other players' choices that shape the outcome. Beliefs across agents are often assumed to be mutually consistent, as this assumption allows the inference of preferences from observed strategic decisions. In this paper I show how beliefs systematically depart from this assumption and the consequences regarding estimation of preferences from strategic choices.

The particular application of the paper is the domain of altruism. I document a relationship between an individual's own preferences for altruism and the (implicit or explicit) expectations of others' actions in modified dictator games. This relationship is beyond what either false consensus or a simple correlation between beliefs and preferences can account for, and is consistent with a more fundamental account of projection of preferences.

I then examine the impact of systematic deviations in beliefs on decisions in a modified lost-wallet game. In this game, trust in the other person's altruism plays an important role in decision-making, along with an individual's own preference for altruism. Considering the impact of systematically different beliefs resolves alleged preference-intransitivities in the actions of the same person across modified dictator games and lost-wallet games. I then demonstrate the biases in the estimation of preferences from decisions in this strategic game under the assumption of mutually consistent beliefs.