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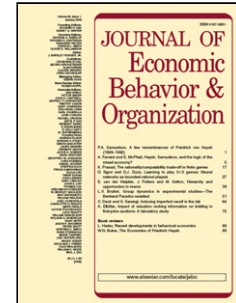
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Biased Beliefs and Imperfect Information

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Abstract: We perform an experiment designed to assess the accuracy of beliefs about characteristics and decisions. Subjects are asked to declare beliefs typically formed through *real world experiences*. They are then asked to report beliefs concerning other individuals from the same environment. We test two main hypotheses: (i) whether for items not perfectly observable, individuals suffer from some type of biased beliefs; (ii) whether this bias is reduced when information is more readily available. We find a powerful and ubiquitous bias in perceptions that is “self-centered” in the sense that those at extremes tend to perceive themselves as closer to the middle of the distribution than is the case. This bias does not completely disappear when the information is more readily available. We present evidence from our experiment that *limited attention* and *self-serving deception* can provide explanations for this bias and present important economic applications.

Keywords: biased beliefs, information, attitudes, characteristics, self-centered bias

JEL classification: D03, C83, D84.

“Let them eat cake.” (Commonly attributed to) Marie Antoinette (1755–1793), Archduchess of Austria and Queen of France.¹

1 Introduction

Early work attempting to address the question of whether individuals hold biased beliefs linked information imperfection with potentially heterogeneous priors.² Morris (1995) provides a survey of the considerable literature which followed. He argues that in order to avoid using subjective heterogeneous priors to justify any result *ex post* given the sensitivity of many economic models to assumptions over beliefs, it is important to identify systematic regularities in any observed biases to discipline the use of

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¹While this remark was certainly not actually made by Marie Antoinette, it has been used to epitomize the apparent inability of the ruling classes in pre-revolutionary France to appreciate the difficulties of those significantly poorer than themselves, possibly because of a lack of concern, empathy, or a self-centred set of perceptions.

²For example, Geanakoplos (1989) is a classic reference.

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