



The Public Defense
of the Doctoral Thesis in Economics

by

Balázs Krusper

on

The effect of choice on beliefs and markets

will be held on

Friday, February 18, 2022 at 2:00 p.m.

online via Zoom (registration: szimlerk@ceu.edu)

Central European University
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The doctoral thesis is available for inspection
at the CEU Department of Economics and Business.

Abstract

The thesis consists of three chapters on the effect of choice on beliefs and markets. The first two chapters, co-authored with Gergely Hajdu, employ online experiments to study how choosing a product affects current beliefs and subsequent learning about the value of the products in the choice set. The third, single authored chapter analyzes the effect of optimistic belief distortions on competition between firms.

Chapter 1

People tend to think more favourably about a product when they own it compared to when they do not own it. Going beyond the effect of ownership, we study in the lab how choosing a product affects beliefs about the values of products in the choice set. Using a between-subject design, we compare a person who chooses a product from a binary choice set to a person who receives the same product exogenously. To deal with the endogeneity in choices, we construct information that is both sufficiently clear to make choices predictable and sufficiently unclear to leave room for belief distortion. We find that making a choice increases the difference in beliefs between the two alternatives, and the effect is driven by pessimism about non-chosen products: participants who do not choose a product believe it is worse than participants who do not receive it, while beliefs about chosen and received products are similar. When participants choose a product but their attention is shifted towards product evaluation, pessimism disappears, suggesting that the effect of choice is driven by attention. As choices are often made under uncertainty, the mechanism we identify may play a role in a potentially wide range of settings. Our findings also have policy implications: active choice policies may be more effective tools than opt-out defaults.

Chapter 2

After purchasing a product, people usually receive information and update their beliefs about both chosen and non-chosen products. This, in turn, can affect future buying and selling decisions. In this paper, we study how choosing a product – as opposed to simply receiving it – affect learning about products after the choice has been made. We design an experiment where participants learn about the fundamental quality of financial

investments by observing price changes in multiple rounds. Using a between-subject design, we compare beliefs of participants who choose some of the investments themselves (Choice condition) to participants who receive investments exogenously (Allocation condition). We find that learning is stickier after making a choice: participants respond less to price changes in the Choice condition than in the Allocation condition. This result holds for both own and non-owned investments and for both good news and bad news. We also show that participants in the Choice condition do not pay more attention to the investments; neither when they choose, nor after they have made the choice. We estimate a structural model and demonstrate that learning is not significantly different from the Bayesian benchmark after exogenous product allocation, while it is too sticky after making a choice.

Chapter 3

People tend to hold optimistic beliefs about their own future outcomes. In this paper I analyze the effect of optimistic belief distortions on competition between firms. I extend the standard Hotelling model by allowing consumers to distort their beliefs about the quality of products. As consumers subjective utility is affected only by their beliefs about the product they end up purchasing, belief distortion is asymmetric: consumers become more optimistic about products that they are more likely to buy. The asymmetry in beliefs increases perceived product differentiation and results in weaker competition and higher equilibrium prices. This result is consistent with the observation that high prices and markups can persist in markets with many sellers and fairly homogeneous products. The model identifies a novel channel through which product heterogeneity influences competition. If the products are similar then mistakes in product choice are less costly. Thus, consumers can pick any of the products and become very optimistic about its quality. As a result, belief distortion is more asymmetric that leads to weaker competition. The model predicts prices to be high when the products are similar (because belief distortion is asymmetric) or when products are highly differentiated (standard effect), while prices are lowest for intermediate levels of product heterogeneity.

CURRICULUM VITAE

PERSONAL INFORMATION

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EDUCATION

2014 - Central European University (CEU)
PhD Candidate at the Department of Economics and Business

2019 Harvard University
Visiting PhD student at the Department of Economics.

2011 - 2012 Barcelona Graduate School of Economics (BGSE)
Master's Degree in Specialized Economic Analysis jointly awarded by
Universitat Autònoma de Barcelona and Universitat Pompeu Fabra

2003 - 2009 Corvinus University of Budapest (CUB)
Master's Degree in Economics

PROFESSIONAL EXPERIENCE

2021 - Datapolis
Data Scientist

2015 - 2021 CEU Microdata
Research Assistant.

2008 - 2014 Central Bank of Hungary
Economist at the Directorate of Economic Forecast and Analysis

AWARDS AND FELLOWSHIPS

2021 Young Researcher ASFEE 2021 Prize

2020 Russel Sage Foundation's Small Grant in Behavioral Economics

2020 CEU Award for Advanced Doctoral Students

2019 REStud Fellowship
2018 CEU Doctoral Research Support Grant
2016 CEU Academic Achievement Awards for First-Year Doctoral Students
2006, 2007 Hungarian Republic Fellowship

RESEARCH IN PROGRESS

How does choice affect beliefs? (joint with Gergely Hajdu)
How does choice affect learning? (joint with Gergely Hajdu)
Wishful thinking and market outcomes
Performance evaluation in football: outcomes vs underlying performance

WORKING PAPERS

Balázs Krusper, Gábor Pellényi (2010): Impacts of Fiscal Adjustments in Western European Countries on the Hungarian Economy, *MNB Bulletin*, 5(4), December, 17-23.

Balázs Krusper (2012): The role of external and country specific factors in Hungarian inflation developments, *MNB Working Papers*, 2012/5

Balázs Krusper, Katalin Szilágyi (2013): How can an interest rate rule reflect real economic considerations?, *MNB Bulletin*, 8(2), May, 43-50.

Dániel Baksa, Dániel Felcser, Ágnes Horváth, Norbert Kiss M., Csaba Köber, Balázs Krusper, Gábor Dániel Soós and Katalin Szilágyi (2013): Neutral interest rate in Hungary, *MNB Bulletin*, 8 (Special), October, 7-13.

LANGUAGES

Hungarian (native), English (fluent)

COMPUTER SKILLS

Stata, Python, MATLAB, LATEX

February 2022