

File ID 456107
Filename Cover

SOURCE (OR PART OF THE FOLLOWING SOURCE):

Type Dissertation
Title Experiments on heterogeneous expectations and switching behavior
Author T. Bao
Faculty Faculty of Economics and Business
Year 2012
Pages vi, 167
ISBN 978 90 361 0319 0

FULL BIBLIOGRAPHIC DETAILS:

<http://dare.uva.nl/record/429155>

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Experiments on Heterogeneous Expectations and Switching Behavior

Te Bao

Expectation formation plays a central role in dynamic models in modern macroeconomics and finance. This thesis studies expectation formation in dynamic market experiments. One feature that differentiates this thesis from the current mainstream literature is that we apply the heterogeneous expectations framework instead of the traditional representative agent framework assuming rational expectations. We study interaction of individual forecasting behavior in different types of expectations feedback systems, compare the situation where expectations are directly translated into computed optimal economic decisions with the situation where agents solve the optimization problem themselves and finally, we study switching behavior and apply the switching model to mutual fund choice, where people make dynamic choices between different mutual funds.

Te Bao received his bachelor degree in economics from Fudan University, Shanghai, China and graduated in Tinbergen Institute's MPhil program in 2009. He joined CeNDEF, University of Amsterdam in 2009 to pursue his PhD studies. His research interests include experimental economics, behavioral finance and economic dynamics. After completing his PhD, he is going to become a Postdoc researcher at CeNDEF for the INET project "Heterogeneous Expectations and Financial Crises".

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