Upcoming Seminars

Monday, 28.11.2022   **Departmental Internal Seminar**

13.30-14.30   Katrin Goedker, University of Bocconi

AWI room 00.010   "Disposed to Be Overconfident"

                                              (Host: Sebastian Ebert)

Wednesday, 30.11.2022   **Internal Seminar**

12.15-13.15   David Canning, Harvard School of Public Health

AWI room 00.010   "Cognitive ability over the Life course: Evidence from chess tournaments"

                                              (Host: Till Bärnighausen)

Wednesday, 30.11.2022   **Macro and Econometrics Seminar**

15.00-16.00   Dobrislav Dobrev, Federal Reserve Board of Governors

AWI room 01.030   "A Randomized Missing Data Approach to Robust Filtering and Forecasting"

                                              (Host: Christian Conrad)

Departmental Seminar

Katrin Goedker

"Disposed to Be Overconfident"

Most studies in financial economics treat investor overconfidence as a static personal trait; they do not examine the processes through which investors become more—or less—overconfident. In this paper we show that the disposition effect, a well documented pattern in investor behavior, can be a source of investor overconfidence. We identify a biased learning process through which the disposition effect leads to investor overconfidence. Our experimental results show that investors update beliefs about their own investment ability based on realized gains and losses rather than the overall performance of their portfolio. We formalize this learning process in a theoretical model in which the disposition effect leads to overconfidence, excessive trading, and lower investment performance.

Internal Seminar

David Canning

"Cognitive ability over the Life course: Evidence from chess tournaments"

We use data on chess tournament performance in the United States over the period 2004-2018 to assess how performance varies over the life course. We have data on performance 369,481 players in over 16 million games. We use data on players aged 1 to 100 years of age. We find very rapid increases in performance with age for children and a peak for adults at age 55 with a slow decline with age after the peak. We find strong experience effects with performance improving with chess playing experience, with fast learning for children but a decline in the slope of the performance-experience relationship with age. We also adjust for selection effects using a Heckman selection model based on incentives to play from rating title boundaries. We recruited a sample of 154 chess players and compared their chess performance against a standard battery of cognitive tests. We find a moderate positive correlation for average players but less relationship for elite players. We also examine the effect of exposure to air pollution (PM2.5) in the players home address ZIP codes on tournament performance.   We find that exposure to PM2.5 in the year prior to play has a significant negative effect on performance for all age groups, with significant performance effects even below current recommended exposure thresholds.

Macro and Econometrics Seminar

Dobrislav Dobrev

"A Randomized Missing Data Approach to Robust Filtering and Forecasting"

We put forward a simple new randomized missing data (RMD) approach to robust filtering of state-space models, motivated by the idea that the inclusion of only a small fraction of available highly precise measurements can still extract most of the attainable efficiency gains for filtering latent states, estimating model parameters, and producing out-of-sample forecasts. In our general RMD framework we develop two alternative implementations: endogenous (RMD-N) and exogenous (RMD-X) randomization of missing data. A degree of robustness to outliers and model misspecification is achieved by purposely randomizing over the utilized subset of data

measurements in their original time series order, while treating the rest as if missing. The arising robustness-efficiency trade-off is controlled by varying the fraction of randomly utilized measurements. Our RMD framework thus relates to but is different from a wide range of machine learning methods trading off bias against variance. It also provides a time-series extension of bootstrap aggregation (bagging). As an empirical illustration, we show consistently attractive performance of RMD filtering and forecasting in popular state space models for extracting inflation trends known to be hindered by measurement outliers.

Talks and Research Visits

Marco Lambrecht, Hanken School of Economics, Helsinki, is staying at the AWI for a research visit with Jörg Oechssler for a few weeks.

Sebastian Ebert stayed for a research visit with Paul Karehnke at the ESCP in Paris, November 14-17. He gave a talk on "Pi-CAPM: A Capital Asset Pricing Model with Probability Weighting and Skewed Assets" at the *ESSEC*, November 15 and presented this paper as well at the University of Bonn, November 24.

Ferdinand Rauch presented his paper "Identity in Trade – Evidence from the Legacy of the Hanseatic League" (joint with Max Marczinek and Stephan Maurer) at the GEM/GGDC Seminar of the Faculty of Economics and Business, University of Groningen, November 22.

New Publications

Sengupta, Arjun and Christoph Vanberg: "Promise Keeping and Reliance Damage," European Economic Review, forthcoming.