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### **The Winner's Curse: Contingent Reasoning and Belief Formation**

#### **Abstract**

Based on experiments with computerized opponents, it has been argued that the winner's curse in auctions is due to the cognitive difficulty of conditioning on future events which might hamper the formation of beliefs (Charness and Levin, 2009; Ivanov, Levin and Niederle, 2010). Our study compares experimental results from a very simple auction game with results from an equivalent game that does not require any conditioning on future events. This experimental design allows us to study the importance of this cognitive activity and the role of belief formation in a human subject setting. We observe significant differences in behavior across the two games, supporting the above-mentioned view on conditioning. In both settings, when facing naïve computerized opponents, subjects' play changes strongly. Overall, the results suggest that both the difficulty of conditioning on future events as well as the need to form or evaluate own beliefs alter behavior significantly.