Upon an introductory part (Chapter 1), this dissertation reports three individual experimental studies under the overarching topic of cognitive biases in expectation formation.

Chapter 2 brings existing inequality in South Africa (high) and Switzerland (low) to the lab to study how people’s preferences for redistribution change with the level of income inequality, income mobility, uncertainty of initial income positions, and source of income (random or real-effort based). It is found that uncertainty and overconfidence about one’s income position undermine demand for redistribution. The effect magnifies with larger income disparity. It further induces a reverse POUM effect: since wealth ambitions of rich aspirants are better preserved under low than under high mobility, demand for redistribution grows with the degree of mobility. These results combined propose an inequality trap: greater inequality today favors personal income overestimation. Demand for redistribution reduces, in particular with low mobility, which propels advanced inequality tomorrow.

Chapter 3 reports a series of Learning-to-Forecast experiments, which are found to replicate price volatility of demand-driven asset markets quite accurately. Yet, the scope of prior work rarely exceeded 50 decision periods or limited decision time substantially, and thereby neglected two central features of financial markets: long runtime and time pressure. This study investigates whether “bubble and crash” dynamics persist in the long run (150 periods) and how decision time (6 vs. 25 sec per decision) influences market volatility. For the treatment with low time pressure, it reports a tendency of prices converging to their fundamental value in the long run. Parallel to this change in dynamics, it identifies a switch from trend-extrapolating strategies to forecasting strategies that are more adaptive. In contrast, increasing time pressure limits trend-chasing behavior and coordination right from the beginning. Consequently, there is less price volatility and faster convergence to the fundamental value.

Chapter 4 explores a novel menu effect in the context of subscriptions that vi-
olates the transitivity principle of rational choice theory. Providers typically capital-ize on arranging offers such that a longer, but costlier option is chosen over the cheaper, but shorter alternative. It is found that sizing the shorter subscription down to single-use raises its attraction. This suspects that the presence of a single-use option prompts rational evaluation based on a realistic estimate to use the subscription again. Instead, when both alternatives represent time spans, an irrational mind may discern them along the same category - referred to as pigeonholing - with the consequence that other comparative criteria come to the fore. Two-dimensional models, present in most behavioral theories, fail to explain this type of preference reversal. Inspired by the intuition of transaction utility and the availability heuristic the study proposes a generalization of salience theory to capture the effect of pigeonholing.