

Misinterpreting Yourself

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Abstract :

We model an agent who stubbornly underestimates how much his behavior is driven by undesirable motives, and, attributing his behavior to other considerations, updates his views about those considerations. We study general properties of the model, and then apply the framework to identify novel implications of partially naive present bias. In many stable situations, the agent appears realistic in that he eventually predicts his behavior well. His unrealistic self-view does, however, manifest itself in several other ways. First, in basic settings he always comes to act in a more present-biased manner than a sophisticated agent. Second, he systematically mispredicts how he will react when circumstances change, such as when incentives for forwardlooking behavior increase or he is placed in a new, ex-ante identical environment. Third, even for physically non-addictive products, he follows empirically realistic addiction-like consumption dynamics that he does not anticipate. Fourth, he holds beliefs that — when compared to those of other agents — display puzzling correlations between logically unrelated issues. Our model implies that existing empirical tests of sophistication in intertemporal choice can reach incorrect conclusions. Indeed, we argue that some previous findings are more consistent with our model than with a model of correctly specified learning.