

Naïve Advice and observational learning in economic decision making

Oldenburg, November 1, 2007

We examine the effects of observational learning and naïve advice on i) the quality of decision-making in interactive tasks and ii) decisions with ethical aspects. Although many everyday decisions are influenced by receiving advice or by observing others, little is known about the comparative impact of these types of information.

i) We report the results of an experimental beauty-contest game in which either one or all subjects receive advice or observe others' past behavior. Both sources of information trigger faster convergence to the equilibrium. Yet, we find that subjects receiving naïve advice outperform uninformed subjects permanently, whereas subjects who observe others' past behavior before making their decision do only have a temporary advantage over uninformed subjects.

ii) We run a tax-evasion experiment and distinguish between advice of subjects and observing statistics about subjects that show either high or low compliance. Presenting such information increases evasion, even if it comes from the sample showing relatively high compliance. Apparently, being informed even about a small share of evaders morally justifies tax evasion. Advice has a bigger impact than observing others and subjects focus on selfish payoff maximization rather than morale when giving advice.