

Speculation rather than enterprise? Keynes' beauty contest revisited in theory and experiment*

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Abstract

In Keynes' beauty contest, agents make evaluations reflecting both an expected fundamental value and the conventional value expected to be set by the market. They thus respond to fundamental and coordination motives, respectively, the prevalence of either being set exogenously. Our contribution is twofold. First, we propose a valuation game in which agents strategically choose how to weight each motive. This game emphasises how public information leads agents to favour the coordination motive. Second, we test the game through a laboratory experiment. Subjects tend to conform to theoretical predictions, except when fundamental uncertainty is low relative to strategic uncertainty.

Keywords: dispersed information, public information, beauty contest, coordination, experiment.

JEL codes: D84 - C92 - E12.

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