

Self-Serving Beliefs and Moderate Pessimism

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Abstract

I wish to explore an apparently common behavior—moderate pessimism—and whether it can derive from loss aversion. Using a Kőszegi and Rabin's (2009) model of news utility, I consider a modified theoretical framework in which agents choose beliefs in order to maximize news utility. While still work in progress, my model tends to yield corner or semi-corner solutions, depending on the characteristics of the agent and the situation. I discuss further theoretical directions and possible experimental designs.