

Overconfidence in Search*

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September 14, 1999

Abstract

In a standard search model I relax the assumption that agents know the distribution of offers and characterize the behavioral and welfare consequences of overconfidence. Optimistic individuals search longer if they are equally stubborn and high offers are good news. Otherwise, the pessimists search longer. The welfare of unbiased individuals is larger than that of overconfident decision makers if the latter's biases are large and searchers stubborn. Otherwise, the overconfident may be better off. Finally, I give a testable implication of overconfidence and discuss applications and policy issues.

*I am indebted to Charles Wilson for his guidance. I am grateful to Jean Pierre Benoît, Alberto Bisin, Federico Echenique, Néstor Gandelman and Efe Ok for helpful comments.

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