

FORGETTING WE FORGET: OVERCONFIDENCE AND MEMORY

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Abstract

Do individuals have unbiased beliefs, or are they over- or underconfident? Overconfident individuals may fail to prepare optimally for the future, and economists who infer preferences from behavior under the assumption of unbiased beliefs will make mistaken inferences. This paper documents overconfidence in a new domain, prospective memory, using an experimental design that is more robust to potential confounds than previous research. Subjects chose between smaller automatic payments and larger payments they had to remember to claim at a six-month delay. In a large sample of college and MBA students at two different universities, subjects make choices that imply a forecast of a 76% claim rate, but only 53% of subjects actually claimed the payment. (JEL: C91, D81, D83, D84)