

A case study of expert judgment: Economists' probabilities versus base-rate model forecasts

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Abstract

In this case study of economists' forecasts concerning economic downturn, we examine key issues concerning the psychology of prediction and the controversy surrounding the value of expertise in forecasting. We examine when experts' knowledge promotes forecast accuracy and whether biases found in psychological studies (including underutilization of relevant base rates and tendencies to extreme prediction) occur in these economic forecasts. Experts' forecasts were compared to forecasts derived from base-rate models that relied on the historical frequencies of economic downturns. The performance patterns of the experts and models crossed over the forecast horizon. Experts outperformed models in shorter-term forecasting, whereas models outperformed experts in longer-term forecasting. These results highlight the abilities and limits of experts and models in prediction and the sources of their inaccuracy.

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